

**CONDUCT OF BUSINESS SOURCEBOOK (PENSION TRANSFERS)
INSTRUMENT 2018**

Powers exercised

- A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137A (The FCA’s general rules);
 - (2) section 137T (General supplementary powers);
 - (3) section 138C (Evidential provisions); and
 - (4) section 139A (Power of the FCA to give guidance).
- B. The rule-making powers listed above are specified for the purpose of section 138G (Rule-making instruments) of the Act.

Commencement

- C. Part 1 of Annex A, Part 1 of Annex B and Annex C come into force on 1 April 2018.
- D. Part 2 of Annex A and Part 2 of Annex B come into force on 1 October 2018.
- E. Part 3 of Annex B comes into force on 6 April 2019.

Amendments to the Handbook

- F. The modules of the FCA Handbook 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 (COBS)	Annex B
Supervision manual (SUP)	Annex C

- G. The changes made by the Conduct of Business Sourcebook (Projections) (Amendment No 2) Instrument 2018 to COBS 19.1.4R cease to have effect as a result of the deletion of COBS 19.1.4R in this instrument. These changes have been consolidated into Part 3 of Annex B of this instrument.

Citation

- H. This instrument may be cited as the Conduct of Business Sourcebook (Pension Transfers) Instrument 2018.

By order of the Board
22 March 2018

Annex A

Amendments to the Glossary of definitions

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

Part 1: Comes into force 1 April 2018

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

<i>advising on pension transfers, pension conversions and pension opt-outs</i>	any of the following <i>regulated activities</i> :
	(a) <i>advising on investments (except P2P agreements) in respect of pension transfers and pension opt-outs (article 53(1) of the Regulated Activities Order);</i>
	(b) <i>advising on conversion or transfer of pension benefits (article 53E of the Regulated Activities Order).</i>

Amend the following definitions as shown.

<i>designated investment</i>	(1) a security or a contractually-based investment (other than a funeral plan contract and a right to or interest in a funeral plan contract), that is any of the following investments specified in Part III of the Regulated Activities Order (Specified Investments):
	...
	(ha) ...
	<u>(hab) pension scheme which provides safeguarded benefits (article 82(3)) (but only in relation to advising on conversion or transfer of pension benefits);</u>
	...
<i>security</i>	(1) (except in LR and CONC) (in accordance with article 3(1) of the Regulated Activities Order (Interpretation)) any of the following investments specified in that Order:
	...
	<u>(gab) pension scheme which provides safeguarded benefits (article 82(3)) (but only in relation to advising on conversion or transfer of pension benefits);</u>

...

<i>specified investment</i>	any of the following <i>investments</i> specified in Part III of the <i>Regulated Activities Order</i> (Specified Investments):
	...
	(iab) <u>pension scheme which provides <i>safeguarded benefits</i> (article 82(3)) (but only in relation to <i>advising on conversion or transfer of pension benefits</i>);</u>
	...
<i>pension transfer specialist</i>	an individual appointed by a <i>firm</i> to check the suitability of a <i>pension transfer, pension conversion or pension opt-out</i> who has passed the required examinations as specified in <i>TC</i>. <u>an individual who:</u>
	(1) <u>has passed the required examinations as specified in <i>TC</i>; and</u>
	(2) <u>is employed by a <i>firm</i> to give <i>advice on pension transfers, pension conversions and pension opt-outs</i> or to check such advice in accordance with the provisions of <i>COBS 19.1</i>.</u>

Part 2: Comes into force 1 October 2018

<i>limited price indexation</i>	in relation to transfer value <u>appropriate pension transfer analysis</u> , benefits which increase in line with a recognised index but subject to a minimum and/or maximum rate.
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Annex B

Amendments to the Conduct of Business sourcebook (COBS)

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

Part 1: Comes into force 1 April 2018

9 Suitability (including basic advice) (non-MiFID provisions)

...

9.3 Guidance on assessing suitability

...

Pension transfers, conversions and opt-outs

9.3.6 G Guidance on assessing suitability when a firm is making a personal recommendation for a retail client who is, or is eligible to be, a member of a pension scheme with safeguarded benefits and who is considering whether to transfer, convert or opt-out is contained in COBS 19.1.6G.

...

19 Pensions supplementary provisions

19.1 Pension transfers, conversions, and opt-outs

Application

19.1.-1 R (1) ~~This section applies to a firm that gives advice or a personal recommendation about a pension transfer, a pension conversion or a pension opt-out.~~

(2) ~~This section does not apply to a firm that gives advice or a personal recommendation in relation to:~~

(a) ~~a pension transfer, pension conversion or pension opt-out in relation to which the only safeguarded benefit is a guaranteed annuity rate;~~

(b) ~~a pension transfer in which the retail client proposes to transfer out of a defined contribution occupational pension scheme where that client has no safeguarded benefits under that scheme. [deleted]~~

19.1.-1A R This section applies to a firm which gives advice on pension transfers, pension conversions and pension opt-outs to a retail client in relation to:

- (1) a pension transfer from a scheme with *safeguarded benefits*;
- (2) a pension conversion; or
- (3) a pension opt-out from a scheme with *safeguarded benefits* or potential *safeguarded benefits*.

19.1.-1B G A firm should comply with this section in order to give appropriate independent advice for the purposes of section 48 of the Pension Schemes Act 2015.

Preparing and providing a transfer analysis

19.1.1 R If an individual who is not a *pension transfer specialist* gives advice or a *personal recommendation* about a *pension transfer*, a *pension conversion* or *pension opt out* on a *firm's* behalf, the *firm* must ensure that the recommendation or advice is checked by a *pension transfer specialist*.
[deleted]

Requirement for pension transfer specialist

- 19.1.1A R
- (1) A firm must ensure that *advice on pension transfers, pension conversions and pension opt-outs* is given or checked by a *pension transfer specialist*.
 - (2) The requirement in (1) does not apply where the only *safeguarded benefit* involved is a *guaranteed annuity rate*.

Role of the pension transfer specialist when checking

19.1.1B G When a *firm* uses a *pension transfer specialist* to check its proposed *advice on pension transfers, pension conversions and pension opt-outs*, it should ensure that the *pension transfer specialist* takes the following steps:

- (1) checks the entirety and completeness of the advice;
- (2) confirms that any *personal recommendation* is suitable for the *retail client* in accordance with the obligations in *COBS 9.2.1R to 9.2.3R* and including those matters set out at *COBS 19.1.6G*; and
- (3) confirms in writing that they agree with the proposed advice before it is provided to the *retail client*, including any *personal recommendation*.

Personal recommendation for pension transfers and conversions

- 19.1.1C R
- (1) A firm must make a *personal recommendation* when it provides *advice on conversion or transfer of pension benefits*.
 - (2) Before making the *personal recommendation* the *firm* must:

- (a) determine the proposed arrangement with *flexible benefits* to which the *retail client* would move; and
- (b) carry out the comparison in COBS 19.1.2R.
- (3) The requirement in (2)(b) does not apply if either:
 - (a) the only *safeguarded benefit* involved is a *guaranteed annuity rate*; or
 - (b) the *retail client* is at normal retirement age under the rules of the ceding arrangement and wishes to crystallise benefits immediately after the *pension transfer* or *pension conversion*.

19.1.1D G COBS 9 contains suitability requirements which apply if a *firm* makes a *personal recommendation* in relation to *advice on conversion or transfer of pension benefits*.

The comparison

- 19.1.2 R A To prepare a comparison, a *firm* must:
- (1) compare the benefits likely (on reasonable assumptions) to be paid under a ~~*defined benefits pension scheme* or other pension scheme with *safeguarded benefits*~~ the ceding arrangement with the benefits afforded by a ~~*personal pension scheme, stakeholder pension scheme* or other pension scheme with *flexible benefits*~~ the proposed arrangement, before it advises a *retail client* to transfer out of a ~~*defined benefits pension scheme* or other pension scheme with *safeguarded benefits*~~;
 - (2) ensure that the comparison includes enough information for the *retail client* to be able to make an informed decision;
 - (3) give the *retail client* a copy of the comparison, drawing the *retail client's* attention to the factors that do and do not support the *firm's* ~~*advice*~~ *personal recommendation*, in good time, and in any case no later than when the *key features document* is provided; and
 - (4) take reasonable steps to ensure that the *retail client* understands the *firm's* comparison and how it contributes towards the *its advice personal recommendation*.
- 19.1.2A R ~~A *firm* need not carry out the comparison described in COBS 19.1.2R if:~~
- (1) ~~the *retail client* wishes to crystallise benefits immediately after the *pension transfer* or *pension conversion*; and~~
 - (2) ~~the *retail client* is at normal retirement age under the rules of the ceding scheme. [deleted]~~

19.1.3 G In particular, the comparison should:

- (1) ...
- (2) have regard to the benefits and options available under the ceding ~~scheme~~ arrangement and the effect of replacing them with the benefits and options under the proposed ~~scheme~~ arrangement;
- (3) ...
- ...
- (5) where an immediate crystallisation of benefits is sought by the *retail client* prior to the ceding ~~scheme's~~ arrangement's normal retirement age, compare the benefits available from crystallisation at normal retirement age under that ~~scheme~~ arrangement.

19.1.4 R When a *firm* compares the benefits likely to be paid under a *defined benefits pension scheme* or other *pension scheme with safeguarded benefits* with the benefits afforded by a *personal pension scheme, stakeholder pension scheme* or other *pension scheme with flexible benefits* carries out the comparison (*COBS 19.1.2R(1)*), it must:

(1)	...		
	(c)	the average earnings index and the rate for section 21 148 orders is:	4.0%
	...		
	(j)	...	
	or use more cautious assumptions;		
	<p>[Note: section 148 orders are orders made by the Secretary of State under section 148 of the Social Security Administration Act 1992. Section 148(7) of this Act provides that orders made previously under section 21 of the Social Security Pensions Act 1975 will be treated as orders made under section 148.]</p>		
(2)	...		

...

19.1.5 R If a *firm* arranges a *pension transfer* or *pension opt-out* for a *retail client* as an *execution-only transaction*, the *firm* must make, and retain indefinitely, a clear record of the fact that no *personal recommendation* was given to that *client*. ~~[deleted]~~

Suitability Guidance on assessing suitability

- 19.1.6 G (1) The *guidance* in this section relates to the obligations to assess suitability in COBS 9.2.1R to 9.2.3R.
- (2) When a *firm* is making a *personal recommendation* for ~~advising~~ a *retail client* who is, or is eligible to be, a member of a *defined benefits occupational pension scheme* or ~~other scheme~~ *pension scheme* with *safeguarded benefits* and who is considering whether to transfer, convert or opt-out, a *firm* should start by assuming that a transfer, conversion or opt-out will not be suitable.
- (3) A *firm* should only ~~then~~ consider a transfer, conversion or opt-out to be suitable if it can clearly demonstrate, on contemporary evidence, that the transfer, conversion or opt-out is in the *retail client's* best interests.
- (4) To demonstrate (3), the factors a *firm* should take into account include:
- (a) the *retail client's* intentions for accessing pension benefits;
 - (b) the *retail client's* attitude to, and understanding of the risk of ~~giving up~~ *safeguarded benefits* (or potential *safeguarded benefits*) for *flexible benefits*;
 - (c) the *retail client's* attitude to, and understanding of investment risk;
 - (d) the *retail client's* realistic retirement income needs including:
 - (i) how they can be achieved;
 - (ii) the role played by *safeguarded benefits* (or potential *safeguarded benefits*) in achieving them; and
 - (iii) the consequent impact on those needs of a transfer, conversion or opt-out, including any trade-offs; and
 - (e) alternative ways to achieve the *retail client's* objectives instead of the transfer, conversion or opt-out.
- 19.1.7 G ~~When a *firm* advises a *retail client* on a *pension transfer*, *pension conversion* or *pension opt out*, it should consider the *client's* attitude to risk including, where relevant, in relation to the rate of investment growth that would have to be achieved to replicate the benefits being given up. [deleted]~~
- 19.1.7A G ~~When giving a *personal recommendation* about a *pension transfer* or *pension conversion*, a *firm* should clearly inform the *retail client* about the loss of the *safeguarded benefits* and the consequent transfer of risk from the *defined benefits pension scheme* or other scheme with *safeguarded benefits* to the *retail client*, including:~~

- (1) ~~the extent to which benefits may fall short of replicating those in the *defined benefits pension scheme* or other scheme with *safeguarded benefits*;~~
- (2) ~~the uncertainty of the level of benefit that can be obtained from the purchase of a future annuity and the prior investment risk to which the *retail client* is exposed until an annuity is purchased with the proceeds of the proposed *personal pension scheme* or *stakeholder pension scheme*; and~~
- (3) ~~the potential lack of availability of annuity types (for instance, annuity increases linked to different indices) to replicate the benefits being given up in the *defined benefits pension scheme*. [deleted]~~

19.1.7B G ~~In considering whether to make a *personal recommendation*, a *firm* should not regard If a *firm* has carried out the comparison in COBS 19.1.2R and it has indicated a rate of return which may replicate the benefits being given up from the *defined benefits pension scheme* or other scheme with *safeguarded benefits* arrangement with *safeguarded benefits*, the *firm* should not regard this as sufficient in itself to ensure a *personal recommendation* is suitable.~~

Record keeping and suitability reports

19.1.7C R If a *firm* arranges a *pension transfer* or *pension opt-out* for a *retail client* without making a *personal recommendation* it must:

- (1) make a clear record of the fact that no *personal recommendation* was given to that *client*; and
- (2) retain this record indefinitely.

19.1.8 G When a *firm* prepares a *suitability report* If a *firm* provides a *suitability report* to a *retail client* in accordance with COBS 9.4.1R it should include:

...

...

The statutory advice requirement

19.1.10 G Where a *firm* has advised a *retail client* in relation to a *pension transfer*; or *pension conversion* or *pension opt-out*, and the *firm* is asked to confirm this for the purposes of section 48 of the Pension Schemes Act 2015, then the *firm* should provide such confirmation as soon as reasonably practicable.

...

TP 2 Other Transitional Provisions

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional provision	Transitional provision: dates in force	Handbook provisions: coming into force
...					
<u>2.29</u>	<u>COBS 19.1.2R to COBS 19.1.4BR</u>		<p><u>A firm will comply with the provisions in column (2) if it chooses to comply with the following amendments made by Part 2 of the Conduct of Business Sourcebook (Pension Transfers) Instrument 2018 as if those amendments were already in force: COBS 19.1.1-A; COBS 19.1.2BR; COBS 19.1.2CR; COBS 19.1.2DG; COBS 19.1.2EG; COBS 19.1.3AR; COBS 19.1.3BG; COBS 19 Annex 4A; COBS 19 Annex 4B; COBS 19 Annex 4C; COBS 19 Annex 5.</u></p> <p><u>If a firm does so, the reference to “comparison” in COBS 19.1.7BG must be read as a reference to “appropriate pension transfer analysis”.</u></p>	<u>1 April 2018 to 30 September 2018</u>	<u>1 October 2018</u>

Sch 1 Record keeping requirements

...

Sch 1.3 G

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
...				
<i>COBS</i> 19.1.5R <u>19.1.7CR</u>	Execution only pension transfer or opt out	That no <i>personal recommendation</i> was given to the <i>client</i>	Date of transaction	5 years <u>Indefinitely</u>

Part 2: Comes into force 1 October 2018

19.1 Pension transfers, conversions, and opt-outs

...

Definitions

19.1.1-A R In this section and in *COBS* 19 Annex 4A, 4B and 4C:

- (a) “appropriate pension transfer analysis” refers to the analysis prepared in accordance with *COBS* 19.1.2BR;
- (b) “ceding arrangement” refers to the *retail client’s* existing pension arrangement with *safeguarded benefits*;
- (c) “future income benefits” refers to the full value of the pension income that would have been paid by the ceding arrangement (that is, before any commutation for a lump sum);
- (d) “proposed arrangement” refers to the arrangement with *flexible benefits* to which the *retail client* would move and takes into account the subsequent intended pattern of decumulation;
- (e) “transfer value comparator” refers to a comparison prepared in accordance with *COBS* 19.1.3AR.

...

19.1.1C R (1) ...

- (2) Before making the *personal recommendation* the *firm* must:

...

- (b) carry out the ~~comparison in *COBS* 19.1.2R~~ appropriate pension transfer analysis and produce the transfer value

comparator.

- (3) The requirement in (2)(b) does not apply if ~~either:~~
- ~~(a) the only *safeguarded benefit* involved is a *guaranteed annuity rate*; or,~~
 - ~~(b) the *retail client* is at normal retirement age under the rules of the ceding scheme and wishes to crystallise benefits immediately after the *pension transfer* or *pension conversion*.~~
- (4) The *firm* must take reasonable steps to ensure that the *retail client* understands how the key outcomes from the appropriate pension transfer analysis and the transfer value comparator contribute towards the *personal recommendation*.

~~The comparison~~ Appropriate pension transfer analysis

- 19.1.2 R To prepare a comparison, a *firm* must:
- ~~(1) compare the benefits likely (on reasonable assumptions) to be paid under the ceding arrangement with the benefits afforded by the proposed arrangement;~~
 - ~~(2) ensure that that comparison includes enough information for the *retail client* to be able to make an informed decision;~~
 - ~~(3) give the *retail client* a copy of the comparison, drawing the *retail client's* attention to the factors that do and do not support the *firm's* advice, in good time, and in any case no later than when the *key features document* is provided; and~~
 - ~~(4) take reasonable steps to ensure that the *retail client* understands the *firm's* comparison and how it contributes towards the *personal recommendation*. [deleted]~~

...

- 19.1.2B R To prepare an appropriate transfer analysis a *firm* must:
- (1) assess the benefits likely to be paid and options available under the ceding arrangement;
 - (2) compare (1) with those benefits and options available under the proposed arrangement; and
 - (3) undertake the analysis in (1) and (2) in accordance with COBS 19 Annex 4A and COBS 19 Annex 4C.

- 19.1.2C R COBS 19.1.1-AR and COBS 19.1.2BR do not preclude a *firm* from preparing other forms of the analysis (for example, stochastic cashflow modelling) which are relevant to making a *personal recommendation* to the

retail client, as long as projected outcomes at the 50th percentile are no less conservative than if the analysis had been prepared in accordance with COBS 19 Annex 4A and COBS 19 Annex 4C.

- 19.1.2D G (1) This guidance applies if a firm presents information in the appropriate pension transfer analysis which considers the impact of:
- (a) the Pension Protection Fund and the FSCS; or
 - (b) scheme funding or employer covenants.
- (2) If a firm presents the information in (1) it should, in accordance with Principle 7 and the fair, clear and not misleading rule, do so in a way that is balanced and objective.
- (3) If a firm does not have specialist knowledge in assessing the impact of (1)(a) or 1(b), it should consider not including the information.
- 19.1.2E G (1) This guidance applies if a firm presents information in the appropriate pension transfer analysis:
- (a) that contains an indication of future performance; and
 - (b) is produced by a financial planning tool or cash flow model that uses different assumptions to those shown in the key features illustration for the proposed arrangement.
- (2) A firm presenting the information in (1) should explain to the retail client why different assumptions produce different illustrative financial outcomes.
- 19.1.3 G ~~In particular, the comparison should:~~
- (1) ~~take into account all of the retail client's relevant circumstances;~~
 - (2) ~~have regard to the benefits and options available under the ceding arrangement and the effect of replacing them with the benefits and options under the proposed arrangement;~~
 - (3) ~~explain the assumptions on which it is based and the rates of return that would have to be achieved to replicate the benefits being given up;~~
 - (4) ~~be illustrated on rates of return which take into account the likely expected returns of the assets in which the retail client's funds will be invested; and~~
 - (5) ~~where an immediate crystallisation of benefits is sought by the retail client before the ceding arrangement's normal retirement age, compare the benefits available from crystallisation at normal retirement age under that arrangement. [deleted]~~

Transfer value comparator

- 19.1.3A R (1) To prepare a transfer value comparator, a *firm* must compare the transfer value offered by the ceding arrangement with the estimated value needed today to purchase the future income benefits available under the ceding arrangement using a *pension annuity* (calculated in accordance with *COBS 19 Annex 4B* and *COBS 19 Annex 4C*).
- (2) The *firm* must provide the transfer value comparator to the *retail client* in a *durable medium* using the format and wording in *COBS 19 Annex 5* and:
- (a) where the *retail client* has *12 months* or more before reaching normal retirement age, use the notes set out at *COBS 19 Annex 5 1.2R*; or
- (b) where the *retail client* has less than *12 months* before reaching normal retirement age, use the notes set out at *COBS 19 Annex 5 1.3R*.

- 19.1.4 R When a *firm* carries out the comparison it must:

(1)	assume that:	
(a)	the annuity interest rate is the intermediate rate of return appropriate for a level or fixed rate of increase annuity in <i>COBS 13 Annex 2 3.1R(6)</i> unless <i>COBS 19.1.4BR</i> applies or the rate for annuities in payment (if less);	
(b)	the <i>RPI</i> is:	2.5%
(c)	the average earnings index and the rate for section 148 orders is:	4.0%
(d)	for benefits linked to the <i>RPI</i> , the pre-retirement limited price indexation revaluation is:	2.5%
(e)	the annuity interest rate for post retirement <i>limited price indexation</i> based on the <i>RPI</i> with maximum pension increases less than or equal to 3.5% or with minimum pension increases more than or equal to 3.5% is the rate in (a) above allowing for increases at the maximum rate of pension increase; otherwise it is the rate in (f) below;	
(f)	the index linked annuity interest rate for pension benefits linked to the <i>RPI</i> is the intermediate rate of return in <i>COBS 13 Annex 2 3.1 R(6)</i> for	

		annuities linked to the <i>RPI</i> unless <i>COBS</i> 19.1.4BR applies;	
	(g)	the mortality rate used to determine the annuity is based on the year of birth rate derived from each of the Institute and Faculty of Actuaries' Continuous Mortality Investigation tables PMA08 and PFA08 and including mortality improvements derived from each of the male and female annual mortality projections models, in equal parts;	
	(h)	for benefits linked to the <i>CPI</i> , the pre-retirement <i>limited price indexation</i> revaluation is:	2.0%
	(i)	the index linked annuity interest rate for pension benefits linked to the <i>CPI</i> is the intermediate rate of return in <i>COBS</i> 13 Annex 2 3.1R(6) for annuities linked to the <i>RPI</i> plus 0.5% unless <i>COBS</i> 19.1.4BR applies in which case it is the annuity rate in <i>COBS</i> 19.1.4BR plus 0.5%;	
	(j)	the annuity interest rate for post retirement <i>limited price indexation</i> based on the <i>CPI</i> with maximum pension increases less than or equal to 3.0% or with minimum pension increases more than or equal to 3.5% is the rate in (a) above allowing for increases at the maximum rate of pension increase; where minimum pension increases are more than or equal to 3% but less than 3.5% the annuity rate is the rate in (a) above allowing for increases at the minimum rate of pension increase otherwise it is the rate in (i) above;	
		or use more cautious assumptions;	
		[Note: section 148 orders are orders made by the Secretary of State under section 148 of the Social Security Administration Act 1992. Section 148(7) of this Act provides that orders made previously under section 21 of the Social Security Pensions Act 1975 will be treated as orders made under section 148.]	
	(2)	calculate the interest rate in deferment; and	
	(3)	have regard to benefits which commence at different times. [deleted]	

19.1.4A E For any year commencing 6 April, the use of the male and female annual CMI Mortality Projections Models in the series CMI(20YY 2_M_[1.25%]

and $CMI(20YY-2-F-[1.25\%])$, where YY-2 is the year of the Model used, will tend to show compliance with COBS 19.1.4R(1)(g). [deleted]

19.1.4B R ~~Firms must apply the annual provisions at COBS 13 Annex 2 3.1R(6) on a monthly basis in any month where the yields on the 15th of the relevant month would give a rolling 12 month average annuity rate that varies by at least 0.2% from the previous rate. [deleted]~~

...

19.1.7B G ~~If a firm has carried out the comparison in COBS 19.1.2R and it has indicated a rate of return which may replicate the benefits being given up from the arrangement with safeguarded benefits, the firm should not regard this as sufficient in itself to ensure a personal recommendation is suitable. [deleted]~~

19.1.8 G If a firm provides a *suitability report* to a *retail client* in accordance with COBS 9.4.1R it should include:

...

(2) an analysis of the financial implications (if the recommendation is to opt-out); ~~and~~

(2A) a summary of the key outcomes from the appropriate pension transfer analysis (if the recommendation is to transfer or convert); and

...

...

After COBS 19 Annex 3 (Format for annuity information), insert new COBS 19 Annex 4A. The text is not underlined.

**19 Appropriate pension transfer analysis
Annex
4A**

This annex belongs to COBS 19.1.2BR.

Appropriate pension transfer analysis		
R		
1	In preparing an appropriate pension transfer analysis, a <i>firm</i> must:	
	(1)	use rates of return which reflect the investment potential of the assets in which

		the <i>retail client's</i> funds would be invested under the proposed arrangement;
	(2)	where the proposed arrangement includes a UK lifetime <i>pension annuity</i> that is being purchased on normal terms, use the assumptions in <i>COBS 19 Annex 4C 1R(2)</i> to assess the benefits likely to be paid under the proposed arrangement;
	(3)	use the assumptions in <i>COBS 19 Annex 4C 1R(4)</i> to project the level of income likely to be paid under the ceding arrangement at the point of retirement;
	(4)	take into account:
	(a)	the impact of the proposed transfer on the tax position of the <i>retail client</i> , particularly where there would be a financial impact from crossing a tax threshold or entering a new tax band;
	(b)	the impact (if any) on the <i>retail client's</i> access to state benefits;
	(5)	have regard to the likely pattern of benefits that might be taken from both the ceding arrangement and the proposed arrangement;
	(6)	undertake any comparisons of benefits and options consistently;
	(7)	plan for a reasonable period beyond average life expectancy particularly where a longer period would better demonstrate the risk of funds not lasting throughout retirement;
	(8)	consider how each of the arrangements would play a role in:
	(a)	meeting the <i>retail client's</i> income needs throughout retirement (relative to other means available to meet those needs);
	(b)	the provision of death benefits, where relevant (including by providing comparisons on a fair and consistent basis between the ceding and proposed arrangements both at present and at various future points in time);
	(9)	consider the trade-offs that may occur by prioritising differing <i>client</i> objectives (e.g. prioritising income needs throughout retirement over the provision of death benefits and vice-versa); and
	(10)	use more cautious assumptions where appropriate.
G		
2	(1)	When making assumptions about the rate of return under <i>COBS 19 Annex 4A 1R(1)</i> , a <i>firm</i> should consider consistency with other assumptions (such as inflation and exchange rates).
	(2)	<i>COBS 19 Annex 4A 1R(1)</i> , <i>1R(2)</i> and <i>1R(3)</i> do not prevent a <i>firm</i> from preparing the appropriate pension transfer analysis on additional assumptions

		(such as to demonstrate variability of returns) as long as such analyses are not given more prominence than an analysis prepared in accordance with this Annex.
	(3)	When providing an indication of life expectancy or mortality which is not linked to an annuity, <i>firms</i> should use appropriate published population statistics which allow for future cohort mortality improvements, such as those published by the Office for National Statistics.
	(4)	When the proposed arrangement includes a <i>pension annuity</i> , the assumptions in COBS 19 Annex 4C 1R(2) may not always be relevant (for example, if the <i>retail client</i> is considering a transfer to access an impaired life annuity or an overseas annuity). In such circumstances the <i>firm</i> should assess the benefits likely to be paid under the proposed arrangement in an alternative way (for example by obtaining quotations).
Charges used for the appropriate pension transfer analysis		
R		
3		An appropriate pension transfer analysis must take account of all charges that may be incurred by the <i>retail client</i> as a result of a <i>pension transfer</i> or <i>pension conversion</i> and subsequent access to funds following such a transaction, other than:
	(1)	<i>adviser charges</i> paid by a third party (e.g. an employer); and
	(2)	<i>adviser charges</i> that would be payable whether the <i>pension transfer</i> or <i>pension conversion</i> happened or not.
G		
4		The charges in COBS 19 Annex 4A 3R include, but are not limited to, any of the following:
	(1)	product charges, including those on any investments within the product;
	(2)	<i>platform charges</i> ;
	(3)	<i>adviser charges</i> in relation to the <i>personal recommendation</i> and subsequently during the pre-retirement period as well as at benefit crystallisation and beyond, where likely to be relevant; and
	(4)	any other charges that may be incurred if amounts are subsequently withdrawn.

After COBS 19 Annex 4A (Appropriate pension transfer analysis), insert new COBS 19 Annex 4B. The text is not shown underlined.

19 Transfer value comparator

**Annex
4B**

This annex belongs to *COBS 19.1.3AR*.

Transfer value comparator	
R	
1	Where the <i>retail client</i> has 12 months or more before reaching normal retirement age under the rules of the ceding arrangement the <i>firm</i> must:
(1)	revalue the future income benefits in <i>COBS 19.1.3AR(1)</i> by projecting them to the date they would normally be paid in accordance with the assumptions in <i>COBS 19 Annex 4C 1R(4)</i> ;
(2)	determine the estimated future cost of the <i>pension annuity</i> in accordance with the assumptions in <i>COBS 19 Annex 4C 1R(2)</i> ; and
(3)	apply the rate of return and charges in <i>COBS 19 Annex 4C 2R</i> to the amount determined in (2) to determine the estimated value needed at the calculation date.
R	
2	Where the <i>retail client</i> has less than 12 months before reaching normal retirement age under the rules of the ceding arrangement, the estimated value needed today to purchase the future income benefits using a <i>pension annuity</i> must be determined as the amount in <i>COBS 19 Annex 4B 1R(2)</i> multiplied by the ratio of (1) and (2) where:
(1)	is the open market cost of purchasing a <i>pension annuity</i> which offers increases in payment which are the nearest match to those in the ceding arrangement; and
(2)	is the value of the <i>pension annuity</i> in (1) where the cost is determined in accordance with the assumptions in <i>COBS 19 Annex 4C 1R(2)</i> .
G	
3	(1) <i>COBS 19 Annex 4B 2R</i> requires <i>firms</i> to adjust the estimated cost of purchasing the future income benefits using a <i>pension annuity</i> to a market related rate by allowing for the ratio of current market pricing to the theoretical value of the annuity which is the nearest match.
(2)	The <i>pension annuity</i> which is the nearest match for the scheme benefits should usually be taken as an index-linked <i>pension annuity</i> unless it can be shown that the majority of the benefits are not index-linked in some way.

After COBS 19 Annex 4B (Transfer value comparator), insert new COBS 19 Annex 4C. The text is not shown underlined.

19 Assumptions
Annex
4C

This annex belongs to *COBS 19.1.2BR* and *COBS 19.1.3AR*.

Assumptions		
R		
1	(1)	A <i>firm</i> must use the assumptions in (2) when:
	(a)	the proposed arrangement includes a <i>pension annuity</i> and <i>COBS 19 Annex 4A 1R(2)</i> applies; or
	(b)	it determines the estimated cost of future income benefits as a <i>pension annuity</i> under <i>COBS 19 Annex 4B 1R(2)</i> or <i>COBS 19 Annex 4B 2R(2)</i> .
	(2)	The assumptions are:
	(a)	the index-linked annuity interest rate for pension benefits linked to the <i>RPI</i> is the average of the previous 3 <i>months'</i> intermediate rate of return in <i>COBS 13 Annex 2 3.1R(6)</i> for annuities linked to the <i>RPI</i> (using the 6th day of any <i>month</i> as the starting point for calculation purposes), but determined as if the annual provision applies on the 15th of each <i>month</i> ;
	(b)	the index-linked annuity interest rate for pension benefits linked to the <i>CPI</i> is the annuity rate in (a) plus 0.5%;
	(c)	the annuity interest rate is the average of the previous 3 <i>months'</i> <i>intermediate rate of return</i> in <i>COBS 13 Annex 2 3.1R(6)</i> for annuities with a level or fixed rate of increase (using the 6th day of any <i>month</i> as the starting point for calculation purposes), but determined as if the annual provision applies on the 15th of each <i>month</i> ;
	(d)	the annuity interest rate for post-retirement <i>limited price indexation</i> based on the <i>RPI</i> with maximum pension increases less than or equal to 3.5%, or with minimum pension increases more than or equal to 3.5%, is the rate in (c) allowing for increases at the maximum rate of pension increase; otherwise it is the rate in (a);
	(e)	the annuity interest rate for post-retirement <i>limited price indexation</i> based on the <i>CPI</i> with maximum pension increases less than or equal to 3.0%, or with minimum pension increases more than or equal to 3.5%, is the rate in (c) above allowing for increases at the maximum rate of pension increase; where minimum pension increases are more than or

			equal to 3% but less than 3.5% the annuity rate is the rate in (c) above allowing for increases at the minimum rate of pension increase; otherwise it is the rate in (b) above;
		(f)	the mortality rate used to determine the annuity is based on the year of birth rate derived from each of the Institute and Faculty of Actuaries' Continuous Mortality Investigation tables PMA08 and PFA08 and including mortality improvements derived from each of the male and female annual mortality projections models, in equal parts;
		(g)	the annuity expense allowance is: 4.0%
	(3)	A <i>firm</i> must use the assumptions in (4) when it:	
		(a)	projects the level of income likely to be paid under the ceding arrangement at the point of retirement under <i>COBS</i> 19 Annex 4A 1R(3); or
		(b)	revalues the future income benefits in <i>COBS</i> 19.1.3AR(1) by projecting them to the date they would normally be paid under <i>COBS</i> 19 Annex 4B 1R(1).
	(4)	The assumptions are:	
		(a)	the <i>RPI</i> is: 2.5%
		(b)	the average earnings index and the rate for section 148 orders is: 4.0%
		(c)	for benefits linked to the <i>RPI</i> , the pre-retirement <i>limited price indexation</i> revaluation is: 2.5%
		(d)	for benefits linked to the <i>CPI</i> , the pre-retirement <i>limited price indexation</i> revaluation is: 2.0%
		[Note: section 148 orders are orders made by the Secretary of State under section 148 of the Social Security Administration Act 1992. Section 148(7) of this Act provides that orders made previously under section 21 of the Social Security Pensions Act 1975 will be treated as orders made under section 148.]	
Rate of return and charges			
R			
2	(1)	This <i>rule</i> applies for the purposes of <i>COBS</i> 19 Annex 4B 1R(3).	
	(2)	The rates of return for valuing future income benefits between the date of calculation and the date when the future income benefits would normally come into payment must be based on the fixed coupon yield on the UK FTSE Actuaries Indices for the appropriate term.	

	(3)	The product charges prior to future income benefits coming into payment must be assumed to be:	0.75%
Mortality rate			
E			
3	(1)	This <i>rule</i> applies for the purposes of COBS 19 Annex 4C 1R(2)(f).	
	(2)	For any year commencing 6 April, the male and female annual CMI Mortality Projections Models in the series CMI (20YY-2)_M_[1.25%] and CMI (20YY-2)_F_[1.25%], where YY-2 is the year of the Model, should be used.	
	(3)	Contravention of (2) may be relied on as tending to establish contravention of the <i>rule</i> referred to in (1).	

After COBS 19 Annex 4C (Assumptions), insert the new COBS 19 Annex 5. The text is not shown underlined.

19 **Format for provision of transfer value comparator**

Annex

5R

This annex belongs to *COBS* 19.1.3AR.

1

- 1.1 The first page of the transfer value comparator must follow the format and wording shown in Table 1, except that alternative colours may be used in the chart and the scale of the charts may be changed (as long as the y-axis starts at £0). Note that the figures in Table 1 are used for illustration only.
- 1.2 Where *COBS* 19 Annex 4B 1R applies (where the *retail client* has 12 months or more before reaching normal retirement age), the second page of the transfer value comparator must contain the notes set out at Table 2.
- 1.3 Where *COBS* 19 Annex 4B 2R applies (where the *retail client* has less than 12 months before reaching normal retirement age), the second page of the transfer value comparator must contain the notes set out at Table 3.

Table 1

This table belongs to COBS 19 Annex 5 1.1R.

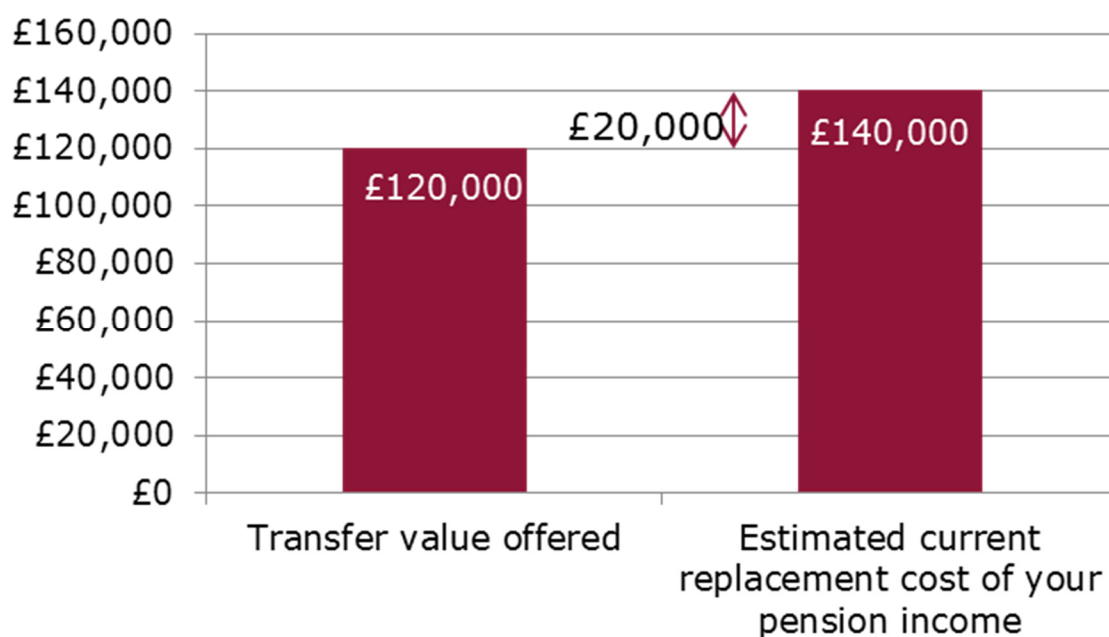
You have been offered a cash equivalent transfer value of £120,000 in exchange for you giving up any future claims to a pension from the scheme.

Will I be better or worse off by transferring?

- We are required by the Financial Conduct Authority to provide an indication of what it might cost to replace your scheme benefits.
- We have done this by looking at the amount you might need to buy the same benefits from an insurer.

It could cost you £140,000 to obtain a comparable level of income from an insurer.

This means the same retirement income could cost you £20,000 more by transferring.



See 'Notes' on the next page for a detailed explanation of this information.

Table 2

This table belongs to COBS 19 Annex 5 1.2R.

Notes

- 1. The estimated replacement cost of your pension income is based on assumptions about the level of your scheme income at normal retirement age and the cost of replacing that income (including spouse's benefits) for an average healthy person using today's costs.*
- 2. The estimated replacement value takes into account investment returns after any product charges that you might be expected to pay.*
- 3. No allowance has been made for taxation or adviser charges prior to benefits commencing.*

Table 3

This table belongs to COBS 19 Annex 5 1.3R.

Notes

- 1. The estimated replacement cost of your pension income is based on the current level of your scheme income and the approximate cost of replacing that income (including spouse's benefits) for an average healthy person from an insurer operating in the UK annuity market. The approximation recognises that it may not be possible to find an exact match for your benefits in the form of an annuity income.*
- 2. It may be possible to get a better deal for your particular circumstances by shopping around.*
- 3. The estimated replacement value takes into account any charges you might be expected to pay.*
- 4. No allowance has been made for taxation.*

Part 3: Comes into force 6 April 2019

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

19 Assumptions
Annex
4C

This annex belongs to *COBS* 19.1.

Assumptions			
R			
1	...		
	(2)	The assumptions are:	
		(a)	...
		(b)	the index linked annuity interest rate for pension benefits linked to the <i>CPI</i> is the annuity rate in (a) plus 0.5% <u>1.0%</u> ;
		...	
		(e)	the annuity interest rate for post-retirement <i>limited price indexation</i> based on the <i>CPI</i> with maximum pension increases less than or equal to 3.0% <u>2.5%</u> or with minimum pension increases more than or equal to 3.5% is the rate in (c) above allowing for increases at the maximum rate of pension increase; where minimum pension increases are more than or equal to 3.0% <u>2.5%</u> but less than 3.5% the annuity rate is the rate in (c) above allowing for increases at the minimum rate of pension increase, otherwise it is the rate in (b) above;
		...	
	(4)	The assumptions are:	
		(a)	the <i>RPI</i> is: 2.5% <u>3.0%</u>
		(b)	the average earnings index and the rate for section 148 orders is: 4.0% <u>3.5%</u>
		(c)	for benefits linked to the <i>RPI</i> , the pre-retirement <i>limited price indexation</i> revaluation is: 2.5% <u>3.0%</u>
		...	

Annex C

Amendments to the Supervision manual (SUP)

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

12 Appointed representatives

...

12.2 Introduction

...

Business for which an appointed representative is exempt

- 12.2.7 G (1) The *Appointed Representatives Regulations* are made by the Treasury under sections 39(1), (1C) and (1E) of the *Act*. These regulations describe, among other things, the business for which an *appointed representative* may be exempt or to which sections 20(1) and (1A) and 23(1A) of the *Act* may not apply, which is business which comprises any of:

...

(~~jab~~) advising on conversion or transfer of pension benefits (article 53E of the *Regulated Activities Order*);

...

...

12.5 Contracts: required terms

...

12.5.2 G ...

- (2) Under the *Appointed Representative Regulations*, an *appointed representative* is treated as representing other counterparties if, broadly, it:

...

(~~na~~) gives advice (within article 53E of the *Regulated Activities Order* (Advising on conversion or transfer of pension benefits)) on behalf of other counterparties;

...