FINANCIAL CONDUCT AUTHORITY

Pension transfer advice: feedback on CP19/25 and our final rules and guidance

Policy Statement
PS20/6

June 2020

This relates to

Consultation Paper CP19/25
which is available on our website at
www.fca.org.uk/publications

Email:
cp19-25@fca.org.uk

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1 Summary

1.1 In 2015, the Government's pension freedoms gave consumers with defined contribution (DC) pensions more flexibility in how and when they could access their savings. Since then, significant numbers of defined benefit (DB) scheme members have transferred to DC schemes so they can access their money flexibly. Our data show that nearly 235,000 members took advice from nearly 2,500 firms on a DB transfer between April 2015 and September 2018, on transfer values worth over £80bn in total. Over 170,000 of them then transferred, including over 9,500 who transferred against advice.

1.2 In our Business Plan, we said that protecting consumers making investment decisions was a key priority for us. We specifically noted the risk of harm where consumers have additional responsibility for complex investment decisions because of the shift to DC pensions. Our pensions strategy aims to reduce the risk of consumers not having adequate income, or the level of income they expect in retirement. We think most consumers are best advised to stay in their DB scheme.

1.3 In our view, given the advantages of DB pensions, the proportion of consumers that firms have advised to transfer appears too high. While a large proportion of the advice to transfer will have been suitable, our file reviews also show too many instances where transfers were not in consumers' best interests. We also know consumers are paying high charges, and a fee of close to £10,000 for advice on an average transfer value is not unusual.

1.4 Despite our previous interventions, both with individual firms and across the sector, we think the risk of harm from unsuitable advice remains unacceptably high. This Policy Statement (PS) and the accompanying Guidance Consultation aim to improve the quality of future advice on DB transfers, reduce the incidence of bad advice, and so reduce the harm to consumers losing their guaranteed lifetime pension income and paying high fees when doing so. We also think that reducing the incidence of bad advice, and the high redress and insurance costs that this leads to, is essential to making the pension transfer market more sustainable in the longer term.

1.5 In CP19/25, we consulted on a package of measures with 3 main elements. Firstly, we consulted on further measures to improve the quality of advice. We also proposed 2 measures to address the substantial conflicts of interest associated with adviser incentives. These incentives arise from the collection of ongoing charges for managing transferred funds, and the use of high 'contingent' transfer charges. To reduce firms' incentive to recommend products that incur their own high ongoing advice charges, we proposed that firms must consider and analyse a transfer to another workplace pension scheme, where consumers are less likely to need advice. To reduce firms' incentive to recommend a transfer, we proposed a ban on 'contingent charging', the prevalent charging model where firms only charge for transfer advice if a transfer proceeds.

1.6 We proposed new reporting requirements to help us supervise more effectively. We also consulted on the introduction of a new 'abridged advice' option to help firms give advice to consumers to remain in a DB scheme at lower cost.

1.7 Most respondents to this third consultation on improving pension transfer advice supported most elements of our proposals. Respondents were evenly split on whether to ban contingent charging. Authorised firms were most likely to object to a ban although there was some industry support for a ban too. Those opposed to a ban did not provide any compelling evidence that an alternative approach would be more effective.

1.8 We will implement our proposals largely as planned, with amendments where we agreed with the feedback's suggested improvements. This includes proceeding with a ban on contingent charging. We consider the ban will be an effective measure to address the obvious incentive to recommend a transfer that it creates. Currently, contingent charges may not be obvious to many consumers as they are only paid from the transferred funds. So we also think the ban will also improve the transparency of charges. This should create more competitive pressure to lower advice charges, and help consumers to consider whether taking advice will give them good value.

1.9 We think that unless a ban on contingent charging is a part of the overall package, our other measures – reducing conflicts of interests in ongoing charges, and improving the quality of advice through higher levels of adviser competence – will be significantly less effective. For example, we do not want firms to undermine the intent of our new measures which make it harder for advisers to take high ongoing charges by increasing the opaque transfer charge instead. Similarly, unless we require all firms to charge for advice, other than in the limited circumstances described further below, it will be harder for high quality advisers, who will rely in part on income from suitable advice to remain in a DB scheme, if other advisers – who are more likely to recommend a transfer – undercut them by offering supposedly free advice.

1.10 We are also publishing a Guidance Consultation and a statement on our latest Supervision work alongside this PS. The Supervision statement gives an update on the results of our most recent file review work. The Guidance Consultation seeks to help firms by setting out in detail how we expect firms to apply our existing rules, as well as the new rules made in this PS, through practical explanations and examples. This goes beyond guidance we would normally publish. But where advisers are seeking to act in their clients' best interest, we want to give them more certainty on how they can identify situations where we think a transfer would be suitable.

1.11 We have opened a number of Enforcement investigations as a result of our various phases of supervisory work. We will continue to take action where firms do not give suitable advice. Our new rules impose new reporting requirements on firms which will make it easier for us to supervise the pension transfer advice market going forward. Before these new rules come into effect, we will be monitoring the market for any signs of an increase in transfer activity.

1.12 This PS summarises the feedback we have received to CP19/25. It sets out our final rules and guidance, including a package of measures to:

- require firms to consider a workplace pension scheme as a destination for a transfer
- ban contingent charging for advice on pension transfers and conversions, except in specific circumstances where a consumer is more likely to benefit from advice and may be unable to afford non-contingent advice charges
- enable firms to give a short form of advice ('abridged advice')

- empower consumers to make better decisions by improving how advisers disclose charges and requiring checks on consumers' understanding during the advice process
- enable advisers to give better quality advice and improve professionalism by introducing specific continuing professional development for pension transfer specialists (PTSs)
- require advice firms to submit new data to improve our ability to supervise the sector
- amend technical areas of our rules and guidance to clarify and extend existing requirements

Who this affects

1.13 This PS will be of interest to firms giving advice on pension transfers from DB to DC schemes. It will also be relevant to stakeholders with an interest in pensions and retirement income, including:

- individuals and firms providing advice and information on safeguarded benefits more widely
- managers and operators of contract-based pension schemes and trust-based occupational schemes
- trade bodies representing financial services firms
- professional indemnity insurers
- administrators of pension schemes
- members of pension schemes
- consumer representative groups
- charities and other organisations with an interest in the ageing population and financial services

1.14 As we are making changes to the data we collect on professional indemnity insurance (PII), all firms that are required to complete Form E (PII self-certification) in the Retail Mediation Activities Return (RMA-M), or forms FSA031, FSA032 or FIN-APF, should read Chapter 6.

1.15 Members of DB pension schemes who are considering a transfer may be affected by our final rules and guidance. In most circumstances, they will now have to pay for advice, whether or not that advice is to proceed with a transfer. Before taking advice, we encourage scheme members to seek guidance from the Money and Pensions Service (MaPS) on their retirement options and to watch the video on pension transfer advice on our website.

The wider context of this policy statement

Our consultation

1.16 In CP19/25, we explained that we had carried out thematic reviews of pension transfer advice in firms we considered to be potentially high-impact, ie those we consider pose the greatest risk of harm mainly due to the volumes of advice they give. We found that only around 50% of this advice was suitable. We also explained that our market-wide

data collection showed that 69% of all advice resulted in a recommendation to transfer. This is significantly higher than we would expect, given our view that transferring is not in most consumers' best interests.

1.17 We said we consider that the current situation is unsustainable. Too many consumers are being given unsuitable advice, resulting in too many of them transferring against their best interests. We pointed out that our thematic work showed that some advice firms were failing to demonstrate competence. We also know that most firms use charging models that create conflicts between the advisers' interests and those of a client.

How it links to our objectives

1.18 CP19/25 sets out how our package of remedies helps to meet our operational objectives of protecting consumers, ensuring market integrity and promoting competition, and how they link to the harms we have identified.

What we are changing

1.19 As set out in CP19/25, we are introducing a package of remedies primarily to reduce the harm from unsuitable pension transfer advice.

1.20 Our new rules and guidance cover the following areas:

- To address initial conflicts of interest, advisers must charge the same monetary amount for advice to transfer as for advice not to transfer. There is an exception – the 'carve-outs' – for specific groups of consumers with certain identifiable circumstances. We are requiring that the amount these consumers, who are excepted from the ban, pay for a transfer, and for ongoing services, should be no greater than it is for those consumers whose transfer advice is charged on a non-contingent basis.
- Advisers will be able to provide abridged advice that can only result in:
  - A personal recommendation to the client not to transfer or convert their pension, or
  - Informing the client that it is unclear whether or not they would benefit from a transfer or conversion based on the information collected. The adviser would then ask the client whether they wish to proceed to full advice.

  The availability of abridged advice should help consumers to access initial advice at a more affordable cost, even if they may be unable or unwilling to pay for full advice. Further information is in Chapter 2.
- To address ongoing conflicts of interest, advisers must consider an available workplace pension as a receiving scheme for a transfer and demonstrate why any alternative is more suitable. Transferring to the default arrangement of a workplace pension scheme reduces the need for, and costs of, ongoing advice. It should also reduce the level of transfers involving unnecessarily complex products and high product charges. Further information is available in Chapter 3.
- We have found a high level of disclosures which do not comply with our rules. So advisers will be required to improve disclosure of advice charges by providing personalised charges information before the advice process starts. This will encourage consumers to consider whether they want to pay the costs of advice

and be more aware of potential adviser conflicts. Improved advice and disclosures about product charges in suitability reports will give consumers more information about the potential consequences of transferring or converting their pension. Before concluding the advice process, advisers must get evidence showing that consumers have understood the benefits and risks of their proposed action. See Chapter 4 for information on the rules and guidance.

- Pension transfer specialists require specific knowledge and must demonstrate ongoing competence. We are making rules to require them to complete 15 hours of continuing professional development (CPD) each year in addition to any other CPD they undertake (see Chapter 5).
- All personal investment firms who submit data on PII will need to review and submit new information on any policy exclusions in their contract. This will enable us to better monitor whether firms are complying with their prudential requirements. Where relevant, they will also need to prepare for the new data collection on pension transfer advice which will improve our ability to supervise effectively (see Chapter 6).
- Advisers, and providers submitting Product Sales Data (PSD), should note the various technical changes (see Chapter 7).

1.21 We recognise that the ban on contingent charging may result in some consumers finding it more difficult to access advice. This will include a minority who would benefit from a transfer. Respondents did not disagree with our view, in CP19/25, that many of the cases where transfers are suitable are for wealthier consumers who transfer for wealth management and inheritance planning reasons, and so can generally afford to pay for advice on a non-contingent basis. We have introduced carve-outs from the ban for the other main cases where a transfer may be beneficial and the consumer is unlikely to be able to pay for advice unless they can draw on pension to be transferred to do so. For consumers falling outside a carve-out, as most are best advised to keep their existing scheme benefits, our remedies should mean fewer consumers get expensive advice to transfer that is not in their interests.

1.22 In response to the feedback, we have made some changes to the proposals in CP19/25. We have revised our cost benefit analysis (CBA) to take account of the latest evidence available to us and the changes we have made following consultation (see Chapter 8).

Outcome we are seeking

1.23 We are aiming to protect consumers from poor outcomes when they consider transferring from safeguarded benefits to flexible benefits to access pension freedoms. Our remedies are directly linked to our operational objectives:

- Consumer protection: we are reinforcing the concept that the focus of suitable advice should be consumers' best interests, by limiting firms' incentives to give advice that benefits firms more than consumers, reducing the chances of consumers getting bad advice and increasing the standards expected of firms.
- Market integrity: reducing the scope for conflicts of interest and requiring advisers to complete ongoing learning should improve confidence in the pension transfer advice sector.

- Competition: we expect our remedies to ensure that competition works in the interests of consumers by ensuring firms compete on the fee being charged and the quality of advice.

Measuring success

1.24 Taken together with our previous work, the remedies we are now putting in place should contribute to higher rates of suitable advice and a lower proportion of consumers giving up income from DB schemes where it is not in their interests. We also want to ensure that consumers that need access to advice are still able to get it.

Summary of feedback and our response

1.25 We received 169 responses to the consultation. These came from firms operating in the pensions and retirement income industry, trade bodies and individuals, as well as consumer groups and charities. We have included a list of non-confidential respondents in Annex 1.

1.26 Not all respondents supported all our proposals. In particular, our proposals to ban contingent charging polarised the industry. Respondents also suggested reasons why the proposed carve-out from the ban on contingent charging might not work. In other areas, we received a lot of detailed feedback on the technical detail of our draft rules and guidance that we have addressed throughout this PS. We have made changes to reflect these comments where we agreed that it would improve the final rules and guidance. We thank all respondents for their feedback.

1.27 Both before and during this consultation, we have been asked to give the industry more guidance on how to give pension transfer advice or provide examples of good and poor practice. So, alongside this PS, we are also publishing a non-Handbook Guidance Consultation on 'Advising on pension transfers'.

Equality and diversity considerations

1.28 No respondents to CP19/25 commented on our equality impact assessment. However, we have considered the equality and diversity issues that may arise from the final rules and guidance. Overall, we do not consider that the proposals adversely impact any of the groups with protected characteristics under the Equality Act 2010.

Next steps

1.29 We set out the final rules and guidance in the Appendix. As well as the changes covered in this PS, we have made other minor technical changes to the instrument based on respondents' feedback. Firms affected by these changes will need to ensure that they comply by the relevant dates.

1.30 Based on the feedback and our response to the Covid-19 pandemic crisis, we have changed the implementation dates from those that we originally proposed. In doing so, we have considered the resources available to firms during the Covid-19 pandemic crisis. We have also considered the way our new rules work together as a package. We think our interventions to improve the quality of advice will be most effective if they are implemented at the same time as the ban on contingent charging. So most of our new rules and guidance will now be effective from 1 October 2020. Our guidance on triage services and estimated transfer values becomes effective from 15 June 2020. We encourage firms to comply with the new requirements as soon as they can to improve consumer outcomes.

2 Contingent charging, triage and abridged advice

2.1 In CP19/25, we proposed a ban on contingent charging, with exceptions for consumers with certain personal circumstances. In this chapter, we set out the feedback we received and why we are proceeding with the proposal.

2.2 Some consumers will no longer take full advice if they have to pay for it, whether or not they transfer. This chapter also covers the other ways advisers can help consumers, by setting out new rules on how advisers can deliver a short-form advice process ('abridged advice'), intended to be more affordable than full advice, and giving more guidance on triage services.

Contingent charging

Proposals

2.3 In CP19/25, we proposed to ban contingent charging for advice on both pension transfers and pension conversions where a pension transfer specialist must give or check the advice. We want the ban to be effective and not easily 'gamed'. So the way we set out the ban requires firms to charge the same amount for advice on pension transfers and conversions, whether or not the advice results in a recommendation to transfer. We said the requirement would cover all related and associated charges such as those on advice on where any transferred funds will be invested and implementation charges. Implementation charges will typically include arranging the transfer and setting up the new arrangement. We set out specific safeguards so that firms could not undermine the ban on contingent charging.

2.4 To manage the effect of the ban for groups of customers for whom a transfer or conversion may be more likely to be in their best interests, we proposed an exemption from the ban (the 'carve-outs') for these groups (see paragraphs 2.19-2.27).

2.5 We proposed that the ban on contingent charging should also apply to cases where an employer is paying for pension transfer advice or pension conversion advice for members. We proposed a new definition of 'employer funded pension advice charge' as part of this change.

Feedback received

General feedback

2.6 Not unexpectedly, we received polarised views on implementing a ban on contingent charging and the way in which we should implement it. Most respondents agreed the ban would be effective in reducing the number of consumers getting unsuitable advice. A substantial number said this would reduce the availability of advice, so fewer consumers overall would take advice.

2.7 Those who supported the ban felt that professional firms should always charge for their services. Some suggested that we should extend a ban beyond DB transfers. They also tended to agree with us that advice to do nothing can be as valuable as advice to transfer. While some thought a ban was a blunt instrument, they recognised that we cannot review the advice of every firm in the market. Respondents noted that even if firms were able to manage the conflicts of interest in practice, a ban would improve the public and stakeholder perception of the sector overall.

2.8 Respondents who opposed a ban generally felt that it would not improve the quality of advice and/or there was not enough evidence to show a causal link between contingent charging and poor advice. They called for us to increase our supervision to identify firms giving unsuitable advice. These respondents often believed that the market-wide data quoted in CP19/25 understated the proportion of consumers withdrawing from advice following triage. They felt that a small number of firms are responsible for poor advice. Some respondents considered that our recently-introduced rules needed more time to be effective before we could draw conclusions about the quality of advice.

2.9 Many respondents agreed that a ban would reduce some of the high charges consumers currently pay for advice to transfer. Some respondents said that smaller advice firms were more likely to leave the market, leaving only larger firms which would result in significantly less competition. They also said it was inconsistent to continue to allow contingent charging for general investment advice.

Unintended consequences

2.10 Some respondents said that a ban would have unintended consequences, including:

- an increase in the proportion of recommended transfers, as advisers would be reluctant to give 'advice to do nothing' when having to charge significant amounts
- conversely, others felt there would be a growth in the proportion of recommendations not to transfer as it would be 'easy money'
- a potential growth in insistent clients who may feel they have the right to transfer, having paid for advice, resulting in more standalone advice firms and providers making these transfers for insistent clients

Anti-gaming provisions

2.11 Most respondents agreed the way we had set out the ban would be effective in preventing firms gaming our rules. But some respondents felt there was a risk of gaming by vertically integrated firms (VIFs). VIFs are a type of restricted firm that choose only to recommend products of a firm in their group, creating an additional conflict of interest. These respondents thought that VIFs might reduce charges for advice but charge more for products, effectively using their business model to cross-subsidise charges and undercut other advice firms.

2.12 Some respondents suggested that there should be a ban on both the use of unregulated investments for transferred funds and on payments received from or made to unauthorised introducers. Some respondents agreed with the need to include implementation charges in the overall price to prevent gaming, but others did not. Their reasons included the extra processing time, additional liability and consequential professional indemnity insurance (PII) costs associated with advice to transfer. Some respondents thought that advising on the destination for the funds was part of the implementation costs. Respondents also noted an inherent unfairness in consumers who do not transfer paying for services, given the risks an adviser takes on behalf of consumers that do transfer.

Practical implementation

2.13 Some respondents asked us to be clearer about what charging structures are allowed, and how to set charges in certain circumstances. They asked for clarifications on the use of hours-based charging as well as advising on overseas transfers, self-investors, 2-adviser models and multiple DB schemes. Respondents also asked whether the ban applied to pension sharing orders where, on divorce, a court awards a percentage of 1 party's pension value to the other party, which is then used to set up a separate pension. Some also asked about the use of different levels of charges for different clients and the potential for Value Added Tax (VAT) when levying non-contingent advice charges not to transfer. Respondents also asked for clarification on consumers' ability to continue to pay adviser charges out of either the transferred fund or a different DC product.

2.14 A few respondents asked us to review the definition of an 'Employer funded advice charge' in the rules for the purpose of the ban. They thought it might not be broad enough to incorporate advice-related payments made by a scheme's trustees out of a scheme's assets, such as set up costs before a scheme-led advice exercise. They said we should extend the definition to include payments by trustees.

Other suggestions

2.15 Some respondents suggested amended approaches to the ban such as:

- introducing a minimum transfer value, above which the ban would apply, to help ensure consumers with smaller pots could still access advice
- banning payment of adviser charges out of transferred funds
- allowing separate implementation charges for transfers that proceed, on top of a non-contingent advice charge, but capping them, with suggestions ranging from £200 to 25% of the advice charge
- allowing contingent charging to continue where firms could demonstrate that an adviser's individual remuneration was not affected by the outcome of a transfer, but was only based on quality measures
- limiting clients to getting transfer advice only at retirement so that, if the advice is not to transfer, charges can be paid from the pension commencement lump sum

2.16 Other respondents had suggestions for improving the quality of advice. These included preventing an adviser who is not qualified as a pension transfer specialist (PTS) from providing any part of the advice process. They also suggested restoring a separate customer dealing function for PTSs, within the controlled function, on the FCA Register. A considerable number of respondents said we should produce more guidance for firms on giving pension transfer advice, including good and poor practice examples.

2.17 Many respondents, whatever their views on contingent charging, identified ongoing advice as a greater conflict of interest than contingent charging for initial advice on a transfer. Some felt this would increase if a ban on contingent charging was introduced, effectively creating a more level playing field for initial advice.

Implementation period

2.18 Several firms said it was impractical to implement a ban within 1 week of the final rules being published. Respondents said firms needed more time to undertake analysis and research to set an appropriate level of charges or to decide to withdraw from the market if considered unviable. They also said firms would need time to change procedures, documents and websites, including sign-off time and printing time. Some

respondents wanted more clarity on transitional arrangements for those consumers already in the process and, particularly where the process takes longer than 3 months, requiring consumers to request a new transfer value.

Our response

General feedback

We are proceeding with a ban on contingent charging for both pension transfers and conversions that require a pension transfer specialist to give or check the advice. We recognise that respondents were divided in their views. Many opposed a ban, but many supported it. We also note that even those who opposed the ban considered it would be effective in reducing the proportion of unsuitable advice.

We have previously acknowledged that it is difficult to prove statistically a causal link between contingent charging and suitability. We have considered whether we could use the data we hold from our file reviews to prove such a link. But we consider that the data do not allow us to distinguish whether unsuitable advice was driven by the initial conflict of interest, from the transfer charge, or the ongoing conflict of interest, from ongoing advice charges. In addition, because contingent charging is so prevalent, the data do not allow us to make a robust comparison between outcomes where contingent charging is and is not present.

We think that proceeding with a ban is a proportionate response to the consumer harm in the market as:

- there is a clear conflict of interest in charging on a contingent basis for DB transfer advice where the only 2 outcomes are transfer or do not transfer
- there is a coincidence of advice to transfer and contingent charging: most advice results in a recommendation to transfer and most firms contingently charge
- most consumers will not be materially harmed by remaining in their existing DB scheme if they choose not to take advice, and the carve-outs mean there will only be a small number of consumers who are likely to benefit from a transfer but cannot afford advice
- as most consumers would not benefit from a transfer, we expect the ban to be effective in reducing both the number of consumers who proceed to a transfer following advice and the harm that unsuitable transfers cause
- a ban places a value on advice itself rather than on a transaction so helps to enhance market integrity
- a ban prevents cross-subsidies by those who transfer and pay excessive amounts, with up to £10,000 not being untypical, for advice which is free or low cost to those who do not transfer
- in the current charging model, consumers do not recognise or weigh up the cost of transferring as it is dwarfed by the transfer value on offer and only deducted after the transfer has taken place

We know that a ban on contingent charging will mean some consumers cannot take advice because they cannot afford to pay for it. We have designed the carve-outs from the ban to let most consumers who might benefit from a transfer, and who would otherwise find it difficult to afford advice, continue to pay for advice on a contingent basis. While we cannot be certain the carve-outs will cover all such cases, we consider that the potential harm to this smaller group of consumers is outweighed by the potential benefit to a much larger group of consumers of not being tempted into transfers based on poor, conflicted advice that is against their interests. In our cost benefit analysis (CBA) (see paragraph 8.32), we estimate that 2 out of 3 consumers who no longer take advice would not have been suited to a transfer. While 1 in 3 consumers may have been suited to a transfer and benefitted financially, they will not be materially harmed by remaining in their DB scheme.

It would not be an efficient use of our resources to rely on Supervision to review all advice across the market on an ongoing basis, as an alternative to addressing incentives that lead to poor advice. This would result in very high costs that would need to be passed back to firms, and ultimately, consumers. Instead, we use risk-based assessments to focus our supervision work on firms that pose the most potential harm to consumers. Although our recent findings show some improvements in the suitability of advice over time from firms within the sample, they also indicate that the level of unsuitable advice is still far too high. This remains the case even if half the files we could not assess due to material information gaps are assumed to be suitable. Our market-wide data collection shows that the same indicators of harm are likely to exist across a large population of firms. As we indicated in CP19/25, over 60% of firms recommended that at least 75% of their clients should transfer.

We have set out the potential market impact on firms, based on our cost benefit analysis, in Chapter 8.

Unintended consequences

We have considered the potential unintended consequences that respondents set out. We do not agree that firms will be incentivised to recommend a higher proportion of unsuitable transfers following a ban. The data we collect will let us monitor the recommendations that firms make, and take supervisory action if we have concerns. We also do not believe firms will deliberately make unsuitable recommendations to remain in a DB scheme. In both cases, firms could face claims for redress if they make recommendations they cannot demonstrate are in the client's best interest. While we recognise the possible increase in insistent clients, firms should already be following our Handbook guidance about insistent clients in COBS 9.5A. Firms could also face claims for redress and FCA action if they behave in a way that could be interpreted as having contributed to the client's decision to become insistent. We will be monitoring insistent client transactions through the data we collect.

Anti-gaming provisions

We agree that VIFs should not be allowed to cross-subsidise charges for pension transfer advice with product charges, and undercut other advice

firms due to their business model. We consider both our existing rules and the rules implementing the ban on contingent charging prevent this. Our existing rules on adviser charging also prevent firms receiving commission or other payments for a personal recommendation on a retail investment product, including pensions which hold unregulated investments. Our anti-gaming provisions will also prevent payments to third parties, such as introducers, if they are paid different amounts depending on whether or not the consumer transfers their pension.

We know firms think there is a greater risk of successful claims from a recommendation to transfer than not to transfer and some respondents said they should be able to charge to cover the cost of PII for this risk. But firms must hold PII to give advice to remain as well as to transfer, so at least part of the cost of PII is for advice to remain.

We recognise that there are genuine implementation costs and that these may result in small cross-subsidies between those who do or do not transfer. These genuine costs do not include advising on the destination for the funds which is regulated advice. But if we allow genuine implementation costs to fall outside the ban, there would be significant scope for firms to game the ban, eg by reducing genuine advice costs and increasing implementation charges. We consider that alternative suggestions for addressing gaming risks, such as writing and supervising additional rules on reasonable implementation costs, would introduce more costs than benefits. We consider our approach is not unreasonable given the overall benefit in reducing the number of consumers getting unsuitable advice.

We have also set out examples of unacceptable practices in the accompanying evidential provisions. For example, firms must not charge more for ongoing advice on investments that were funded by a pension transfer than they would if the funds came from another source. We consider this is necessary, both to prevent any gaming of the ban by firms and for us to supervise the ban effectively.

Practical implementation

In practice, the way the rules for our ban on contingent charging are designed means that firms will need to charge the same amount for advice, whether or not they then recommend a transfer. Some firms have previously charged less for a recommendation to remain in the DB scheme, compared with a recommendation to transfer, based on the number of hours of work. Our new rules mean they will need to set a total charge for their activities, eg based on the average number of hours it takes to give advice. But they also have the new option to give abridged advice (see paragraph 2.52-2.58).

A firm may set a different level of non-contingent charges if they are not undertaking the full range of advising and related services that are normally provided alongside DB transfer advice. For example, if a firm is not advising on the proposed destination for the funds, it could offer lower charges for the transfer advice to self-investors or on an overseas transfer. In each case, the firm must still charge the same whether or not

the advice is to transfer. It may also not charge less than it would charge for investment advice of the same value (but see below).

The ban applies across 2-adviser models used within the UK. So where 1 firm gives the transfer advice and another firm gives investment advice on where the funds may be invested if a transfer proceeds, both firms must levy charges that they collect whether or not the transfer goes ahead. It also covers 2 authorised firms that are connected by a common interest that could give rise to a conflict of interest when dealing with third parties, such as consumers. So where this arises and, for example, the second firm provides ongoing advice or services, then both firms are caught. Whether a second firm is caught will not depend on whether the arrangement between the firms is a one-off arrangement or a recurring arrangement.

Where investment advice on the proposed destination for the funds is given by an overseas firm, the ban applies to the charges levied by the UK firm giving the transfer advice and only to the overseas firm if it relies on FCA authorisation when it gives its advice. But firms must provide a statement about the possibility of any additional charges in relation to advice given outside of the UK regulatory regime in the personalised charges document (see Chapter 4). They must also explain any additional charges or other amounts that may be payable by the client for ongoing advice or other services in the 1-page summary of the suitability report (see Chapter 4). We also ban certain arrangements between authorised firms and any other persons, including any overseas person, with whom there could be any potential for a conflict. These arrangements are banned if they could give rise to an incentive to an authorised firm to advise or arrange a transfer or conversion, or could otherwise be used to circumvent our rules banning contingent charging.

The Department for Work and Pensions (DWP) have confirmed to us that pension sharing orders are not covered by the requirement to take 'appropriate independent advice'. In our view, this means that advisers are only advising on where the funds will be invested, not on the transfer itself. So charges for advice about the receiving arrangement for a pension credit awarded under a pension sharing order are not included within the ban.

Firms may charge different amounts to different clients where there are genuine and legitimate reasons for the difference. For example, if they have set out different charges in their charging structure for different types of client, such as for existing clients, introduced clients or those with multiple schemes. But they should be able to demonstrate clearly that variations to their charges do not potentially undermine the anti-gaming provisions. Where consumers ask firms to advise on giving up multiple safeguarded benefit schemes, for example, they should agree a non-contingent charge in advance for advice on giving up a specific number of schemes. They should set out this agreed charge in the personalised charges information they give the client (see Chapter 4).

We explained in CP19/25 that Her Majesty's Revenue and Customs (HMRC) has told us that the VAT status of transfer advice does not

depend on whether the advice is to transfer or not transfer. Instead, it depends on whether the service provided includes negotiation on financial securities. This can apply whether or not the advice is to transfer, but does not automatically apply in either case. So the onus remains on firms to satisfy themselves, in line with HMRC's tax manual, that they are complying with tax requirements. However, HMRC's rules on unauthorised payments would prevent payment being made from a different pension product.

We agree that we should extend the definition of an 'Employer funded advice charge' to include advice-related payments made by trustees from a scheme. So we have renamed the title of the definition as the 'Employer or trustee funded advice charge' and amended the definition itself.

We proposed that all firms must charge at least as much in relation to pension transfer advice as if they were offering investment advice on funds of the same value. This is to prevent firms from gaming the ban by charging a token fee for initial advice. We consider that advice on pension transfers and conversions is generally more complex than other investment advice, and so should typically cost the same or more than other investment advice. This requirement will not apply if the charges are paid, partly or fully, by an 'employer or trustee funded advice charge'. In these cases, we consider that it will be difficult for firms to compare the charges for pension transfer advice with typical per member charges for investment advice more broadly. We also consider the same risks of gaming are unlikely to apply. However, the rules regarding the ban on contingent charging will apply to 'employer or trustee funded advice charges'.

Suggestions

While we welcomed alternative suggestions from respondents, we did not consider that these would be more effective or practical than the approach we originally consulted on:

- We agree that introducing a minimum transfer value, above which the ban would apply could, theoretically, help ensure consumers with smaller pots have easier access to advice. In practice, we have seen little evidence that consumers with smaller pots are able to access the market where most advice is charged contingently, so we are not convinced this would result in an actual benefit to consumers.
- Where a transfer takes place, we do not consider it is appropriate to ban payment of future adviser charges out of transferred funds. We understand it would make advice charges more transparent and consumers could better consider whether they represent value for money. But we have previously noted that it can be beneficial for consumers to pay adviser charges out of their investment, rather than post-tax income, as the funds have benefitted from tax relief.
- We have considered if we could allow separate implementation charges if they were capped. In general, we do not set pricing caps where we do not have a specific power to do so. Genuine implementation costs should be a small part of the overall costs to the consumer. We do not consider that there is a strong case for

capping this small part of the overall charges as an alternative to including them in the ban.

- We have seen no evidence that firms can demonstrate that where an adviser's individual remuneration was not affected by the outcome of a transfer, but was only based on quality measures, this could form a basis for letting 'good firms' to continue to charge on a contingent basis. We think this would be complex to set up and supervise in practice.
- Consumers can benefit from advice at different ages, depending on their personal circumstances. For example, we note it can be beneficial to transfer earlier for consumers in serious ill-health. Legislation does not restrict scheme members from transferring, until they are within at least 12 months of the scheme's normal retirement date. Even then, trustees can allow their scheme members to transfer. We do not believe it is our role to limit transfer advice only to clients who are at retirement so that if the advice is not to transfer, advice charges can be paid from the pension commencement lump sum.

Implementation period
We agree that firms will need longer than proposed to implement the ban. So we have set a revised implementation date for the ban on contingent charging of 1 October 2020.

We have amended the transitional arrangements for those firms with clients that have agreed contingent charges terms before 1 October and started work before 1 October. So where a firm can demonstrate that this situation applies, they may charge contingently, provided a personal recommendation is given before 1 January 2021 (i.e. within 3 months of the ban being implemented)

Mitigating impact on access to advice: carve-outs

Proposals

2.19 We identified that there are a small number of vulnerable consumers who may benefit from a pension transfer, but cannot afford to pay for advice. These consumers fall into 2 groups. The first is those who have a specific illness or condition that causes a materially shortened life expectancy. The second is those who may be facing serious financial hardship such as, for example, losing their home because they are unable to make mortgage or rental payments. To ensure that our proposed ban on contingent charging does not disadvantage these groups of consumers, we proposed that they may continue to be charged on a contingent basis. We refer to these exceptions from the ban on contingent charging as the carve-outs.

2.20 We proposed that, where a firm wants to rely on a carve-out for a client, the firm must satisfy itself that the client meets the requirements for serious ill-health or serious financial hardship. For serious ill-health, this would have involved getting evidence from a registered medical practitioner that the client has a medical condition that means their life expectancy is likely to be lower than age 75. For serious financial hardship, this would include getting evidence about the client's financial situation, for example, evidence that they are regularly unable to meet mortgage repayments, rent or utility bills.

Feedback received

General feedback

2.21 Some respondents considered that the ban should apply to all consumers, regardless of their health or wealth, while others opposed the carve-outs on principle because they disagreed with the ban. But most respondents gave a cautious welcome to the proposed carve-outs. While they liked the principle of keeping access to advice for groups that, as a whole, are more likely to be suited to a transfer, there were concerns about the practicality of the proposals. Some respondents considered that the carve-out would be open to gaming and difficult to supervise.

Serious ill-health

2.22 Several respondents considered that medical professionals would be unwilling to make an assessment of life expectancy so they would be unlikely to provide the evidence we proposed to require. While they acknowledged that medical practitioners do so for terminal illness, where death is expected within 12 months, they thought it would be much more difficult for medical practitioners to take a view on longer-term limited life expectancy, particularly for younger clients.

2.23 A small number of respondents were concerned about giving a carve-out for limited life expectancy that may be changed by future medical advances by the time the consumer reaches 75. Some respondents asked why we chose the age of 75. Some respondents noted that the potential for inheritance tax liability on death within 2 years of a transfer could make a transfer unsuitable. Others considered the carve-out should be widened to include a partner or other dependant with life-limiting medical conditions or situations where a member or their partner cannot work due to ill-health. Respondents also considered that the serious ill-health carve-out should not be available to those who could afford to pay for advice.

Serious financial hardship

2.24 Respondents were concerned that the proposed Handbook guidance on the evidence required to demonstrate eligibility for the carve-out set the bar so high that very few consumers would be eligible.

2.25 Some suggested that the time it takes to get a transfer value, get advice and effect a transfer would mean that many individuals might have already progressed to bankruptcy or lost their home in the interim. These changing circumstances could remove the reason for the transfer in the first place.

2.26 Some respondents, including those from debt charities, challenged the presumption of suitability of a transfer for those in debt. For example, they suggested that advisers should not recommend a transfer to gamblers, those who persistently overspend or who are simply unable to improve their poor money management skills.

Other

2.27 Some respondents asked whether it was right to continue to leave these groups exposed to a continued conflict of interest, given that both groups within the carve-out appeared to be vulnerable consumers. Some firms noted that they already offered free advice to some consumers in these situations.

Our response

General feedback

The carve-outs aim to identify certain groups of vulnerable consumers in circumstances that make pension transfer advice particularly worth considering. They help these consumers access advice they may not be able to afford otherwise. Compared with the population as a whole, a greater proportion of individuals within each of these groups may have personal circumstances that mean transfers are suitable. But this does not mean that a transfer is automatically suitable for an individual who meets the tests to qualify for one of the carve-outs. Firms still have responsibility for giving suitable advice to each individual consumer. We will be collecting data on firms' use of the carve-out and the number of transfers recommended to carve-out consumers to inform our supervisory work (see paragraphs 2.52-2.58).

Serious ill-health carve-out

Despite some of the feedback, we consider it is appropriate to help consumers with limited life expectancy retain access to advice on whether a transfer is suitable.

We accept that it may be impractical to expect consumers to get evidence of limited life expectancy from a medical practitioner. So where clients have life-limiting medical conditions, we have amended our final rules so that clients can instead self-evidence their condition. We expect firms to record the evidence the client provides. For example, evidence may take the form of existing documentation from a registered medical practitioner, including details of treatment. We do not expect consumers to incur extra cost or significant time in getting evidence. GP health records are increasingly available online and hospital records can be requested from the relevant trust. Health data are 'special category personal data' and processing these data requires extra protection under the General Data Protection Regulation (GDPR). We have shared the process we expect with the Information Commissioner's Office (ICO) which has not reported any concerns.

Clients already self-evidence health conditions to advisers as part of the suitability assessment for a pension transfer/conversion. The evidence firms need from consumers to demonstrate they meet the criteria for life-limiting conditions is effectively a subset of this information. We consider our approach builds on firms' existing practice in this area, rather than requiring advisers to acquire new skills to assess the evidence provided. Under our existing high-level principles, this means firms will need to use due skill, care and diligence, as they do now, in assessing the quality of self-evidenced medical conditions.

In the same way we require advice to be suitable at the time it is given, we do not expect firms to revisit whether a consumer continues to meet the tests for the carve-out after they have given advice. We do not consider that medical advances that could improve life expectancy after advice has been given are relevant. We selected age 75 for the carve-out as, in the event of a suitable transfer, there are tax advantages for beneficiaries inheriting DC pensions where the scheme member's death

occurs before age 75. As advice requires a personal recommendation, it should take account of issues such as the potential for any relevant Inheritance Tax (IHT) and the tax treatment of dependants' benefits. As our policy intention focuses on the case for the member to give up their DB pension benefits, we will not extend the carve-out to cases where a member has a dependant with limited life expectancy, as suggested by some respondents.

Having considered the feedback on affordability, we have changed the way this carve-out will be applied. We now intend to restrict it to those who do not have the means to pay for advice, including those who would be likely to be forced into debt if they did not meet the tests for the carve-out and had to pay for advice on a non-contingent basis. Both the serious ill-health carve-out and the serious financial difficulty (previously hardship) carve-out require that a consumer is unable to pay for full pension transfer advice. We have set out the additional financial requirements for the serious financial difficulty carve-out below.

Serious financial difficulty (previously hardship) carve-out
Having considered the feedback, we agree that the way we originally proposed this carve-out could have made it difficult for consumers to prove they meet the test. So we are changing the test to allow for a lower threshold of 'serious financial difficulty'. And, to give greater flexibility, we will not prescribe the circumstances in which the threshold will be met. Instead we will set out circumstances where the test is likely to be met and circumstances where it is likely that it will not be met, but our guidance will not be exhaustive. The type of situation in which the carve-out test will be met will be based on the Money and Pensions Service (MaPS) definition of over-indebtedness, which has 2 parts:

- keeping up with domestic bills and credit commitments is a heavy burden, and
- payments for any credit commitments and/or any domestic bills have been missed in any 3 or more of the last 6 months

If a consumer would immediately meet this test if they had to pay for advice on a non-contingent basis, then we consider they can be treated as meeting the test. In some cases, this may include financial difficulties caused by the circumstances of household dependants, such as having to pay for care. We consider that the information that advisers will need to get from consumers to assess eligibility for the carve-out should be easy to get in practice, as it is similar to the information they collect as part of getting to know their customers when giving advice on a pension transfer.

To prevent firms from charging on a contingent basis to consumers who do not meet this test, we have set out evidential provisions and guidance in the Handbook, with examples of where we think the test will or will not be satisfied. So, for example, eligibility for the carve-out is unlikely to be satisfied where a consumer is incurring non-essential expenditure, for example, to maintain a certain lifestyle. Consumers who have reasonably accessible funds to pay for the advice, but would prefer not to use their savings and investments or income to do so, would not be eligible for the carve-out.

We are only making this carve-out available to those who can access their funds on transfer in accordance with legislation.

To reflect the way we have changed the test for this carve-out, we are changing the name of the test from one of 'serious financial hardship' to one of 'serious financial difficulty'.

Other

We agree that many carve-out consumers may be relatively more vulnerable consumers. So firms should ensure that they have the relevant knowledge and experience to deal with the specific personal circumstances of vulnerable consumers who meet the tests for the carve-outs. For example, when advising a consumer who is eligible for the serious financial difficulty carve-out, firms need to be knowledgeable about the behaviour of those with persistent debt. When assessing their attitude to transfer risk and suitability more generally, the firm will need to know whether the consumer would be likely to access funds in any arrangement with flexible benefits in an unplanned way. Advisers should also understand that there may be other available debt management options to help someone who is in financial crisis. These options could be a better alternative than accessing their DB pension.

We agree that firms should be able to offer pro bono advice in exceptional circumstances to other consumers who fall outside the carve-outs. So we have added Handbook guidance that sets out the type of situations in which firms may offer advice and related services free of charge. In these cases, we expect that the advice will be free of charge, whether or not it results in a recommendation to transfer or convert.

We have added in a requirement that consumers covered by the carve-out who subsequently transfer pay the same amount as if they had not been within its scope. This means they do not pay more than those outside the carve-out.

We expect that the changes we have made in response to feedback mean that fewer consumers are eligible for the serious ill-health carve-out than assumed in CP19/25. So we have updated the cost benefit analysis (see Chapter 8).

Options we decided to rule out

Alternatives to a ban on contingent charging

2.28 In CP19/25, we explained that we had considered some alternatives to banning contingent charging, given the risk that it reduces access to advice, but did not include any of these in our proposed rules. The options included:

- Price capping, so that firms could still use contingent charging but with a price limit to limit the conflict of interest.

- Improving conflicts management accountability. For example, by creating new obligations under the Senior Managers and Certification Regime (SM&CR) or more stringent systems and controls for firms using contingent charging, or imposing additional data requirements.
- Separating responsibility for transfer advice, so that advice on the transfer and the proposed destination are provided separately (a 2-adviser model), or requiring a separate firm to check every piece of advice given by another firm.
- Banning percentage charging, and requiring firms to set charges in monetary terms.
- Using our temporary product intervention powers to address the harm sooner.

2.29 We also identified some options outside our remit that may reduce the effect of a ban. These included a 'scheme pays' proposal (where individuals could be given the right to access part of their DB pension to pay for advice), extending the pension advice allowance to pay for pension transfer advice, partial transfers and improved guidance services.

2.30 We asked for views on the alternative options we ruled out in CP19/25, to ensure we had given respondents the chance to raise any further issues not covered elsewhere within this CP.

Feedback received

Price capping

2.31 Most respondents agreed that a price cap would limit but not eliminate the initial conflict of interest. Several suggested a cap would severely hamper price competition and value for money in advice. This is because firms would charge up to the cap and cross-subsidise more complex and less complex cases. Others believed a cap would disproportionately disadvantage rural regions, compared with London, and not address the conflict of interest. Some suggested that a cap could help carve-out consumers, to prevent them being targeted by unscrupulous advisers.

2.32 A few respondents interpreted the £3,000-£3,500 advice charge assumption within our CBA as an implied price cap. They considered this was not an accurate reflection of the current costs involved in delivering advice while ensuring a profit, pointing to rising PII premiums.

Improving conflicts management accountability

2.33 Respondents generally strongly supported our approach not to amend or extend our existing conflict of interest and accountability rules, with most agreeing that it was not clear that changing the existing rules would make them more effective.

2.34 The small number of respondents who were in favour of changes to these rules argued that the changes could improve standards, by providing greater clarity and understanding in the market about our regulatory expectations. They also believed it would make individuals more accountable for their actions and may not necessarily require us to develop new rules. Some suggested we should only give permissions to undertake this activity to those who meet the requirements in SM&CR.

Separating responsibility for & independent checking of transfer advice

2.35 Overall, respondents felt that separating responsibility and independent advice checks would both be difficult to implement. They also said the costs from added complexity and time spent would be likely to outweigh the benefits from better consumer outcomes and advice suitability. They noted that these costs would inevitably be passed onto consumers.

2.36 While respondents agreed a 2-adviser model could reduce the conflict of interest, most opposed this approach. They highlighted risks including:

- undermining a PTS' ability to give suitable transfer advice as part of the consumer's wider financial planning
- the danger of potential disruption to existing business relationships leading to a disconnected approach to advice and confusion for consumers
- higher costs from added complexity and inefficiency
- potential gaming/abuse of this model

2.37 Some respondents considered that independent checking of advice could be effective and said it already happens in parts of the market. Some PII providers require an independent check before a transfer can take place.

2.38 Other respondents highlighted potential issues with independent checking of advice, including:

- greater pressure on the 90-day cash equivalent transfer value (CETV) guarantee window
- data protection considerations
- potential confirmation bias between the independent checker and advice firm, and
- higher charges for consumers

Ban percentage charging

2.39 Most respondents agreed that banning percentage charging and requiring charges to be set in monetary terms does not directly address the conflict of interest. They agreed this could be addressed by preventing firms from having different fixed monetary charges for different levels of transfer. But they felt this could be counterproductive as it would reduce consumer choice and have a disproportionately negative impact on clients with lower transfer values. Respondents had different views about whether the level of risk, liability and transfer value dictates the amount of work, cost and complexity for the adviser, and how this might be reflected in different charging models.

2.40 Some respondents suggested that, instead of a ban on percentage charging, firms should provide clearer, more transparent charges disclosures, with charges justified upfront and compared against the average market price. They considered this information could encourage consumers to negotiate more on charges.

Scheme pays, pensions advice allowance and partial transfers

2.41 Respondents acknowledged that these options were all outside the FCA's remit. Some felt these options would offer greater flexibility for all consumers and better provision for poorer consumers who were less able to pay for pension transfer advice. But they also recognised there would be difficulties with implementation, administrative burdens and complexity, transparency concerns and the need for further Government intervention to introduce these options.

2.42 Some respondents thought we should not proceed with a ban unless 'scheme pays' was in place. But others doubted whether consumers would be able to understand how a lump sum charge would affect their eventual DB income. Respondents also considered the complexity of 'scheme pays' could leave the system open to potential gaming. They thought it would offer a greater incentive for sponsoring employers to encourage members to seek advice and transfer their accrued rights. This would

increase the risk of consumer harm through higher numbers of unsuitable transfers. Some respondents raised concerns about the challenges in administering 'scheme pays' which could prevent it being viable for some schemes.

2.43 Some respondents suggested the pensions advice allowance should be raised to £1,500 and its scope extended to include DB schemes. But, given the low take-up of the allowance in DC schemes to date, others doubted whether it was worthwhile extending the allowance to cover DB schemes, unless its existence was more widely promoted.

2.44 Respondents who commented on partial transfers frequently suggested these should be more widely encouraged across the market, as they could give consumers more choice. Respondents were not in favour of mandatory partial transfers. This was because of the undue burden on smaller schemes, the costs involved with changing scheme rules and the complexities of making partial transfer offers for schemes with large contracted-out rights.

Improved guidance services

2.45 Around half of respondents supported mandatory guidance. However, there was no consensus on who would be best placed to provide it, with suggestions including ceding schemes, regulated firms and MaPS. Supporters of mandatory guidance thought that having better informed consumers would reduce pressure on guarantee deadlines. Several respondents raised concerns about the capability of guidance providers to differentiate the advice/guidance boundary well enough, particularly if they were not qualified as a PTS. They also said that having guidance in addition to triage, abridged advice and full advice might confuse consumers.

Our response

There were varying levels of support for the alternatives we set out in CP19/25. Feedback on the options available to us did not convince us that these would be more appropriate than a contingent charging ban and other measures we have proposed for addressing the conflict of interest in the market. But, as a result of the feedback on our proposals, we have made some changes to our final rules and guidance overall. We have addressed the specific issues raised on the alternative options below.

Price capping:
We do not think price capping would be a proportionate way to protect carve-out consumers from unscrupulous advisers. Combining a price cap with a contingent charging ban could lead to a higher number of firms leaving the market.

To be clear, in CP19/25 we did not intend to imply that £3,000-£3,500 was a price cap. This CBA assumption was based on data available to us at the time of publication.

Improving conflicts management accountability
Firms and individuals should already understand how to meet our conflict of interest and accountability rules. Firms themselves are responsible for meeting SM&CR requirements so should be able to identify if they should no longer hold relevant permissions.

Separating responsibility for & independent checking of transfer advice
We recognise that parts of the market already undertake independent advice checks and that some PII providers require them. We believe that making these checks compulsory would place an undue burden on some firms. This could lead to the negative consequences previously outlined in CP19/25, such as higher charges for consumers and potential confirmation bias between the independent checker and the advice firm.

Ban percentage charging
We agree that firms should provide clearer disclosures. We have now made final rules on initial charging disclosures for pension transfer advice (paragraphs 4.2-4.4), taking into account the feedback we received. We also think it is helpful if firms are able to explain the charges for their advice offering, and the value it offers against other firms.

Options outside our remit
Where appropriate, we have shared a summary of the feedback on the options outside our remit with DWP and the Treasury, and are having ongoing discussions with MaPS about their role in the guidance process.

Triage and abridged advice

Triage services – proposals

2.46 As a non-advised service, triage should be an educational process so that consumers can decide whether to proceed to regulated advice.

2.47 In CP19/25, we explained that, compared with other forms of investment advice, pension transfer or conversion advice results in a binary decision of whether or not to transfer or convert. Decision trees and Red Amber Green (RAG) rated questionnaires build up personal information that is tailored to the individual consumer, rather than relates to customers in general. The way an adviser ranks the information in the pre-purchase questioning could suggest that the consumer takes one course of action over another, ie in this case, to transfer or convert, or not. For this reason, we stated that using decision trees and RAG-rated questionnaires are likely to lead to advice.

2.48 So we proposed amendments to our perimeter guidance (PERG) to clarify that firms should not use decision trees and traffic-light RAG-rated questionnaires within a non-advised triage service.

Feedback received

2.49 Most respondents agreed with our proposals. But a few thought that our interpretation of the advice boundary set out in PS18/20 was too narrow. They felt it restricts firms' ability to engage with consumers, with the aim of filtering out those who are not suitable candidates for a transfer. Several respondents thought that we should allow decision trees in triage services, as they can be an educational tool.

2.50 A few respondents suggested that triage presents a conflict of interest for the adviser and recommended that MaPS provide triage services, rather than advisers.

2.51 One respondent said these proposals were inconsistent with our final Retirement Outcomes Review rules for investment pathways set out in PS19/21. They thought that drawdown providers could inadvertently cross the advice boundary when a client is invited to choose an investment pathway based on their personal circumstances.

Our response

We are proceeding with our perimeter guidance on triage services. As set out in PS18/20, our interpretation of the advice boundary is based on what the courts have already said about the legislation and our view about how they may interpret it in the future. We acknowledge this may restrict firms' ability to engage with their clients, but we have not received evidence to persuade us to change our interpretation.

We consider that firms can use decision trees and RAG-rated questionnaires as educational tools in other forms of guidance, unrelated to pension transfer advice, such as where the consumer has a range of available options. But because firms can only make a binary recommendation on whether or not to transfer when giving advice on pension transfers and conversions, these tools carry a high risk of crossing the advice boundary for pension transfer advice. For this reason, our perimeter guidance on using decision trees or RAG-rated questionnaires when giving triage services on pension transfers or conversions is not directly transferable to investment pathways. We do not think these changes to our perimeter guidance conflict with our rules on investment pathways.

We acknowledge respondents' concerns about the conflicts of interest from triage services. We will monitor the use of triage services in the market through our new data collection (see Chapter 6).

Our new guidance is simply a further clarification of how firms can avoid giving advice when they deliver triage services. We think firms should be able to stop doing this immediately. So the guidance becomes effective from 15 June 2020.

Abridged advice – proposals

2.52 We proposed to introduce 'abridged advice' for pension transfers and conversions that require a PTS. This short form of advice enables an adviser to:

- Provide the consumer with a personal recommendation **not** to transfer or convert their pension.
  or
- Tell the consumer that it is **unclear** whether they would benefit from a pension transfer or conversion based on the information collected through the abridged advice process. The adviser must then check if the consumer wants to continue to full advice, and if they understand the associated costs.

2.53 We proposed that abridged advice would only include the initial stages of the full advice process, including a full fact-find and risk assessment. We said that some consumers may receive a personal recommendation not to transfer or convert without an adviser having to collect detailed scheme data, undertake Appropriate Pension Transfer

Analysis (APTA), or provide a Transfer Value Comparator (TVC). In our proposed guidance, we set out the information that advisers are likely to need from the client to give abridged advice. In CP19/25, we said that consumers may receive a personal recommendation not to transfer or convert their pension from abridged advice.

2.54 Firms do not need to offer abridged advice but, when they do, we proposed it must be carried out or checked by a PTS and that firms must provide a suitability report for advice not to transfer. We also proposed that a regulated firm would not be able to get involved in any arrangements to assist a transfer or conversion for a client (including not giving confirmation of advice to the trustees of an occupational pension scheme) unless the client has taken full advice, in line with our existing rules.

Feedback received

2.55 Around half of respondents supported our proposals. Some thought abridged advice would reduce the impact of a ban on contingent charging on access to advice. Others raised concerns that the proposed process would not enable the adviser to collect enough information about the client to make a suitable recommendation. In particular, respondents asked how an adviser could provide a suitable recommendation without knowing the size of the transfer value and the ceding scheme benefits. They also said that the draft Handbook rules did not prevent firms from undertaking APTA or providing a TVC.

2.56 Some respondents thought it would not be financially feasible for advisers to operate an abridged advice model. Respondents said this was due to potentially low consumer demand, the cost involved in undertaking a full fact find and employing a PTS to provide or check the advice. Some also asked whether VAT should be charged on abridged advice.

2.57 A few respondents asked whether the cost of abridged advice could be offset against the full advice fee. They considered that it would be reasonable to do so, if advisers use the same processes, such as the full fact-find, when giving abridged advice and full advice. Respondents were also concerned that an insistent client might have to pay twice for a recommendation not to transfer, and questioned whether abridged advice could be offered free of charge.

2.58 A few respondents raised concerns that abridged advice would effectively perpetuate a contingent charging model. They believed that most of those recommended not to transfer following abridged advice would pay very little and most of those for whom abridged advice has an unclear outcome would be suitable for a transfer. In particular, they thought that an adviser could charge no fee for those recommended not to transfer, and only undertake full advice where they plan to recommend that the customer transfers.

Our response

We are proceeding with abridged advice as set out in CP19/25, with some amendments and clarifications.

Based on feedback, we think that advisers can collect further information on the benefits of the client's existing scheme without compromising the role of abridged advice as a low-cost service. So, we have amended the guidance to make it clear that firms should consider the benefits of the client's existing scheme. With this change, we consider that advisers

will able to collect enough information about the client to provide a suitable recommendation.

In the final rules, we have clarified that firms must not undertake APTA, provide a TVC or consider the consumer's proposed receiving scheme. If firms undertook these processes as part of abridged advice, they would effectively be giving full advice without charge which would undermine the ban on contingent charging. When giving abridged advice, firms must consider the risks of staying in the scheme and the risks of transferring and losing the benefits. As abridged advice does not consider how funds might be invested if a transfer proceeded, firms must not assess the risks associated with a specific flexible arrangement.

Our final rules confirm that a PTS must give or check abridged advice. As abridged advice could represent the first stage of full advice, we believe it is more cost-effective to have a consistent approach, using a PTS across both abridged advice and full advice. We recognise that, while abridged advice will not appeal to all consumers, firms may be able to attract clients who would otherwise be unwilling to pay for full advice. The VAT treatment of abridged advice is a matter for HMRC but firms should note that abridged advice does not permit firms to consider a proposed receiving scheme.

We agree that firms will need to avoid unnecessary duplication of charges. This means that an adviser will need to offset the abridged advice charge from the full advice charge unless a client uses different advisers for abridged advice and full advice. Our Principles, particularly Principle 2, Principle 6 and Principle 8, mean that a firm should not charge the client for the same work twice, leading to unnecessary duplication of costs and charges. Our rules do not prevent firms from giving abridged advice free of charge, as long as it is not done as part of an attempt to game the ban on contingent charging.

Where clients proceed to full advice having previously received abridged advice where the outcome is unclear, we still expect some consumers to be advised not to transfer. So we do not consider that abridged advice undermines the ban on contingent charging. This is because we expect that the subsequent full advice will result in recommendations not to transfer for some consumers once a firm has been able to analyse the full impact of transferring to a specific product with flexible benefits.

Separately, where abridged advice results in a recommendation not to transfer, but clients proceed to full advice, with indications that they may become insistent clients, we have added guidance that, in most cases, we expect the advice to continue to be that the individual should remain in their existing arrangement.

As we intend that abridged advice should deliver a short-form advice process which is more affordable than full advice, the rules that enable firms to give abridged advice will be effective from the same date as the ban on contingent charging, ie 1 October 2020. Firms should not give abridged advice before this date.

3 Addressing ongoing conflicts

3.1 Advisers charge a fee at the point of initial advice, but typically also receive ongoing advice charges for managing transferred funds. The level of ongoing advice charges varies, depending on the level of service a firm agrees with the consumer. Ongoing advice charges create a conflict of interest, as an adviser may have a strong monetary incentive to recommend one course of action over another. Over time, these charges can have a significant negative financial impact on the consumer's transferred funds and, as a result, the pension income they can take.

3.2 In CP19/25, we set out proposals to require advisers to prioritise an available DC workplace pension scheme (WPS) as a proposed destination scheme. The default fund in a WPS should be appropriate for all members without the need for ongoing advice. Given the high-charging products that many consumers are currently transferred into, our proposed changes would also reduce the product charges for consumers who transfer in future. This is because a WPS is typically cheaper than many advised solutions. In this chapter, we set out how we have finalised our rules on considering a WPS, based on the feedback.

Proposals

3.3 Our rules already require firms to explain why the scheme they recommend is at least as suitable as a WPS (COBS 19.2.2R). But our recent work suggests that many firms are not complying adequately with this requirement and often recommend overly complex and expensive solutions. So we proposed that when giving pension transfer advice, firms would have to demonstrate why the scheme they recommend is more suitable than the default arrangement in an available WPS. Firms would also have to include analysis of a transfer into the default arrangement of an available WPS in APTA. This analysis provides the evidence for the suitability report. We also proposed guidance on circumstances we considered were valid, and not valid, reasons for considering and dismissing a WPS.

Feedback received

3.4 Most respondents agreed with our proposal to require firms to demonstrate why the scheme they recommend is more suitable than the default arrangement in an available WPS.

3.5 Many respondents agreed with our proposal that firms should demonstrate in APTA that their proposed investment solution was more suitable than the WPS. Most firms believed this change would clarify the standards expected in the existing rules. Some respondents said that the drafting in CP19/25 about a proposed scheme being 'more suitable' was not reflected in the instrument text.

3.6 Many respondents gave detailed examples of why a WPS would not be a suitable recommendation. Many of these examples expanded on the list of reasons set out in the guidance, and included consumers who planned to leave their employer or who, in respondents' view, wanted to receive ongoing advice that could not be paid for through the WPS.

3.7 Some respondents were concerned about how long it would take to gather the relevant information to analyse the WPS. Some respondents sought clarification about whether the proposal included analysis of all existing WPSs, or only the current WPS. Many of these respondents said the relevant information could not be gathered within the time constraints of the CETV guarantee period, especially if previous WPSs had to be considered.

3.8 Some respondents thought this proposal did not consider the value of ongoing advice and contradicted some of our previous statements where we had identified consumers who would benefit from ongoing advice. A few respondents asked how an adviser could carry out due diligence on the funds and fund performance as they would have limited access to the WPS.

3.9 A few respondents raised the issue of privacy if a client were to transfer large funds into their WPS, and how this would affect how their employer treated them.

3.10 Some respondents suggested that our proposals would simply result in firms writing additional paragraphs in the suitability report to dismiss WPSs as an option. Others asked how vertically integrated firms (VIFs) would comply with the rules, as their business model means they only analyse and recommend their own products.

Our response

We are proceeding with our rules, with some amendments. In particular, we have amended the rules so that they refer to a proposed scheme being 'more suitable' than an available WPS, in line with the policy intent. We consider this to be a substantively higher test than the current 'at least as suitable as' in COBS 19.2.2 and not just a clarification of existing standards.

We agree that the use of the current WPS, rather than current and previous WPS, will reduce the time needed to get the information to carry out appropriate due diligence. So we have amended our rules to allow firms to consider only the most recently joined WPS. Firms can also consider a previous WPS if it would be more appropriate to do so, eg if the most recent WPS does not accept additional contributions or if a consumer is not an active member of a WPS at the time.

Our final guidance sets out situations where the current WPS does not need to be considered as part of the analysis.

Our view is that many consumers would not benefit from ongoing advice as their circumstances are unlikely to change significantly from year to year. These consumers will be more suited to the default WPS fund. Where ongoing advice is needed and would add value for the consumer, we expect firms to consider this as part of the recommendation, including the option of paying ongoing adviser charges directly rather than via the scheme.

We believe that using the current WPS will enable advisers to have easier access to the default fund information and performance, once the client who is the scheme member has given permission. There is already legislation in place to separate the employer from the WPS to ensure the member's privacy.

We consider that using standard paragraphs to dismiss WPSs as a matter of course in suitability reports is unlikely to comply with our existing rules. Similarly, firms cannot simply add more paragraphs to suitability reports to dismiss WPSs under the new rules. Under our final rules and guidance, all firms will need to change their processes to be able to undertake the required analysis in the APTA and recommend a WPS where it is as suitable.

Our rules on prioritising WPSs will apply to advice provided by all firms. This includes firms that use panels or are restricted, including VIFs. While firms may have made a previous commercial decision to be restricted or to use panels, our rules do not prevent these firms from making an off-panel recommendation. If affected firms cannot accommodate this change, they may wish to consider how to restrict advice to those consumers where an available WPS is not a consideration. We acknowledge this may affect contractual arrangements in place and some firms may decide that, rather than revise their existing contractual arrangements, they will no longer give DB transfer advice.

We recognise that, in CP19/25, we indicated we would give firms 6 months to implement the new rules on WPSs. But we now consider that our package of interventions is likely to be most effective if we introduce most of the new rules at the same time. So we have amended the implementation date to 1 October 2020. We have provided transitional rules so that where a suitability report is prepared within 3 months of the new requirement, firms may omit the comparison with a WPS in APTA where they can demonstrate that the advice process started before 1 October 2020. We have also provided transitional rules so that where a suitability report is prepared within 3 months of the new requirement as above, the 1-page summary can omit the comparison with a WPS.

As it may cost more for affected firms to consider the implications for their business model and how to proceed, we have reviewed our CBA (see Chapter 8).

4 Empowering consumers

4.1 In CP19/25, we proposed changes to improve charges disclosure, suitability reports and consumer understanding during the advice process. These proposals were designed to empower consumers and have a positive effect on the value for money of advice. This chapter explains how we are implementing these remedies, based on the feedback we received.

Initial charging disclosures

Proposals

4.2 We proposed that before firms provide regulated advice on a transfer or conversion that requires a pension transfer specialist (PTS), they must send a letter of engagement to the customer that sets out, in monetary terms, the amounts the consumer would pay for abridged and full advice, and subsequent ongoing advice.

Feedback received

4.3 Most respondents supported our proposals, with some welcoming the disclosure as a way of improving transparency and trust.

4.4 Some respondents did not understand how the proposal differed from current disclosure requirements. A few thought it was unreasonable to require firms to set out ongoing advice charges as these may depend on the product, if a transfer proceeded. Alternatively, charges could depend on the level of ongoing service the client selected, and it was unclear which charge to disclose.

Our response

We are proceeding with the changes set out in CP19/25, with minor clarifications.

We have changed the name of the letter of engagement so that when providing confirmation of the charges, a firm can refer to 'Your personalised charges'. We have also amended our rules to clarify that the personalised charges communication must be personalised to the client, to distinguish it more clearly from the generic adviser charging structure. Firms should disclose charges assuming that funds would stay invested, as this is likely to illustrate an upper bound for the ongoing charges. Firms must provide the personalised charges communication 'in writing' which includes non-paper methods of communication.

If an adviser offers more than one ongoing advice proposition with different charging levels, we would expect the charges to be disclosed for all the propositions, as well as a description of the different servicing levels. We have amended our rules to reflect this.

Where relevant, firms will need to include a statement that the expected amounts payable do not include remuneration for any related advice or services that are provided outside the UK regulatory regime.

In CP19/25, we said the new rules on initial charging disclosure would become effective 6 months after we published the final instrument. When firms need to charge most consumers on a non-contingent basis, consumers must understand the amount they will need to pay before they commit to advice. So the final rules on disclosing personalised charges will now be effective at the same time as the ban on contingent charging, ie 1 October 2020.

Suitability reports: enhanced disclosures

Proposals

4.5 We proposed that firms must include a 1-page summary, limited to one side of A4, at the front of all transfer suitability reports requiring a PTS. We also included 3 sample templates to show how firms can apply this requirement.

4.6 We explained that the 1-page summary must include:

- Charges disclosure: including ongoing advice and all product charges they expect to levy in the first year if a transfer or conversion goes ahead. The percentage of the client's current scheme income spent on charges would also be included.
- The adviser's recommendation: which clearly sets out whether the consumer should transfer or convert their pension or not.
- Pension risk: a statement on the risks of the pension transfer or pension conversion.
- Ongoing advice: information about any ongoing service provided, if the adviser proceeds with the pension transfer or pension conversion.

4.7 For disclosures to be effective in informing client decision-making, we also proposed that firms must provide suitability reports for pension transfer or conversion advice in good time before a transaction is made.

Feedback received

4.8 Most respondents supported the inclusion of a 1-page summary in the suitability report. But many also suggested amendments, as set out below.

4.9 Many respondents disagreed with expressing first-year charges after transfer in to a DC scheme as a percentage of the client's DB scheme income, considering it to be unclear and misleading. Some respondents suggested the early retirement income value, rather than the revalued income, should be shown for members aged 55 and over, since this is the immediately accessible current value. A few respondents also disagreed with describing the revalued DB pension income as the 'current value of my pension income' in the example, particularly for clients aged under 55 who are unable to access the 'current value'.

4.10 Some respondents recommended the length of the 1-page summary should be extended to 2 sides of A4. Others recommended including additional information in the summary, such as exit charges, objectives, a Transfer Value Comparator

(TVC) summary, the pension commencement lump sum and simple graphs. Some respondents asked for clarification on how to include other ongoing charges, for example, discretionary fund management charges or platform charges.

4.11 A few respondents disagreed with the presentation of ongoing advice charges in our example template. In particular, they thought it was misleading to show no charges in the first year after a transfer to a workplace pension scheme (WPS), as this could imply that being invested in a WPS does not generate a need for ongoing advice.

4.12 Most respondents agreed with our proposal to require firms to provide suitability reports before a transaction is undertaken, with many saying this is current industry best practice.

Our response

We are proceeding with the introduction of a 1-page suitability report summary as set out in CP19/25, with some amendments to its format based on the feedback received.

We have removed the requirement to present first year charges after transfer as a percentage of the client's DB scheme income. We consider that it is sufficient to show the monetary values of both figures.

For consistency across all ages of member, we are keeping the requirement to show revalued DB income. In our rules, we have clarified how this figure must be calculated for clients under the normal retirement age (NRA), firstly by revaluing the benefits to the date they would normally be paid, consistently with the TVC methodology, then discounting the value. For the same reasons, we have reviewed the description of the revalued DB income and changed it to 'keep my current guaranteed benefits'. To ensure accurate representation of the client's current DB scheme charges, we have added a rule that these must be presented as nil charges if there are no charges.

Based on feedback, we have included an additional information field within the pension transfer summary table labelled 'additional charges'. Our final rules clarify that this could include any deductions and other associated additional charges not covered elsewhere in the table, such as initial product charges and charges to access the fund. In our final rules, we have also replaced the specific reference to 'product charges' with a requirement that 'other ongoing charges' must be included in the 1-page summary. This includes, but is not limited to, product charges, discretionary fund management charges and platform charges. We think including any further information and/or the extension of the summary to 2 sides of A4 would dilute its impact.

We have also added a rule to clarify that firms must give information on the amount payable, in cash terms, for the initial advice for the pension transfer or pension conversion in the 1-page summary, as set out in CP19/25.

The figures included in our example templates (see Annex 2) are illustrations. The nil figure for ongoing advice charges reflects our view that fewer consumers need to take ongoing advice when they transfer to a workplace pension scheme. In practice, the figures will be personalised to the client's individual circumstances.

We are proceeding with our proposal to require that firms provide suitability reports in good time before a transaction is undertaken, as set out in CP19/25.

In CP19/25, we proposed that the rules for the 1-page summary would be effective at the same time as our new rules on considering WPSs. We still think that is the appropriate time, so firms must comply with the new rules for 1-page summaries in suitability reports prepared from 1 October 2020. Firms may leave out the comparison with a WPS where they can show that the advice process started before 1 October 2020, as set out in Chapter 3.

Checking consumers understand the advice

Proposals

4.13 Consumers should be able to understand the advice they are given so they can make an informed decision. We set out a new rule and guidance explaining what firms must do when they give a recommendation to transfer or convert a pension, where a PTS is required. The firm must get evidence that the client can demonstrate they understand the risks to them of proceeding with a pension transfer or conversion before finalising the recommendation, and keep a record of this evidence.

Feedback received

4.14 Most respondents supported our proposals, with many confirming that they already carry out this process.

4.15 A few respondents were unsure how client understanding could be evidenced and thought checking client understanding of risk was outside the remit of financial advice.

Our response

We are proceeding with the changes set out in CP19/25. We consider that our existing rules on suitability address the extent to which the client's understanding of the risk should influence the type of transaction proposed. Financial advisers are responsible for explaining the risks of proceeding with a pension transfer or conversion in a way the consumer can understand and, in line with our new rules, demonstrating that the consumer understood the explanation.

In CP19/25, we proposed that firms should comply with the new rule and guidance soon after we published them. We have now aligned the implementation date more broadly with our other interventions. So the rule and guidance will be effective from 1 October 2020.

5 Enabling advisers

5.1 We want to see higher standards of advice. We think this can be achieved if PTSs improve their levels of knowledge and understanding. We think formal training is one way to achieve this outcome, so in CP19/25 (Chapter 6) we set out proposals for compulsory Continuing Professional Development (CPD) for PTSs. In this chapter, we explain how we are proceeding with compulsory CPD and the changes we have made, based on the feedback.

Our proposals

5.2 We proposed that PTSs must undertake a minimum of 15 hours CPD each year, focused specifically on pension transfer advice. This would be in addition to any other existing CPD requirements that an adviser may need to meet for other types of advice. We also proposed that at least 5 of the 15 hours must be provided by an independent provider external to any firm that employs or contracts services from the PTS.

5.3 We proposed that the new CPD requirements would come into force at the beginning of the calendar year after our Board makes the final rules. We proposed to require PTSs to maintain their own CPD records and for firms to maintain these records centrally, in line with the requirements of the TC Sourcebook.

Feedback received

5.4 Most respondents who commented on our CPD proposals supported our approach. Some respondents questioned the ongoing benefit of requiring 15 hours of CPD each year and the associated costs.

5.5 Some respondents asked about the meaning of 'external CPD' in our proposals. For instance, some asked whether studying materials provided by a third-party organisation or attending product provider events would satisfy the criteria. There were also concerns about the availability, cost and quality of trainers to provide 5 hours of external CPD, particularly if larger advice firms took up much of the available capacity. A few respondents suggested there was a risk of external trainers being briefed to provide firms with their 'house view' during events.

5.6 Some respondents asked for clarification on whether CPD had to be split between structured and unstructured learning, as set out in other CPD requirements. Several respondents suggested the CPD year be aligned with existing CPD years for each adviser. Some respondents also asked whether specific PTS CPD would be required for the Statement of Professional Standing (SPS).

5.7 A few respondents recommended we clarify that our proposed rule in TC2.1.23BG, which references our existing rules on appropriate CPD in TC 2.1.22G(1)-(5), should be read as referring to PTSs, not retail investment advisers. They suggested this would avoid potential confusion or misinterpretation.

5.8 Instead of CPD, some respondents suggested that it might be more effective for PTSs to undergo regular testing of knowledge. Others suggested introducing a PTS mentor system. Finally, some suggested our proposals should also apply to non-PTS advisers who prepare advice for sign-off by a PTS.

5.9 Many respondents queried the availability of content for CPD and asked for guidance on topics to include and how to set learning outcomes. Several suggested that training should focus on applying knowledge and delivering advice well, rather than just acquiring and maintaining knowledge.

Our response

We are proceeding with our proposals on CPD, with some changes made in response to feedback. We will implement rules to require 15 hours of CPD focused specifically on the activities of a pension transfer specialist, with at least 5 hours to be provided by an external provider. These activities include giving or checking advice on pension transfers, conversions and opt-outs. We know there is a cost associated with CPD, but both the costs and benefits were taken into account in the CBA in CP19/25. Firms must ensure that external CPD is delivered by organisations or individuals who are not associated with or influenced by the firm's own view.

In light of the feedback we have amended the rules to introduce a proportion of structured and unstructured learning for PTS CPD. The rules now set out that 9 of the 15 hours will need to be structured learning, while the remaining 6 hours may be unstructured. This reflects the same hourly ratio that is in place for retail investment adviser CPD. Where a PTS completes CPD in relation to activities other than acting as a PTS, for example retail investment adviser CPD, this must not count towards the PTS CPD requirement. Examples of structured and unstructured activities can be found in TC2.1.20G and TC2.1.21G respectively.

We have also amended the rules so that PTSs can elect the start of their PTS CPD year and so may align it with other existing CPD years, such as retail investment adviser CPD. The rules as consulted on, and the final made rules, do not require firms to get independent verification of PTS CPD for the SPS.

In TC2.1.23BG, we have clarified that the reference to 'retail investment adviser' in TC 2.1.22G(1)–(5) should be read as referring to PTSs, not retail investment advisers.

Firms may use various formats for PTS CPD such as incorporating a form of testing or implementing mentoring systems. There is nothing to prevent non-PTS advisers undertaking PTS CPD. Our non-Handbook Guidance Consultation provides examples of topics that could be incorporated into CPD.

In CP19/25, we proposed that the new CPD rules would be effective from 1 January 2021. We are now aligning the date more closely with most of the other new rules so we have changed this to 1 October 2020. This means that a PTS can start their PTS CPD year from 1 October 2020 or from a date within the following 12 months that aligns with another form of CPD. Our rules apply to all PTSs who are deemed competent. This includes PTSs who have not yet passed the Level 4 qualification for providing advice on investments, as the PTS CPD focuses only on the activities of a PTS. In April 2020, we extended the deadline for passing this qualification to 1 October 2021 due to Covid-19.

In response to the Covid-19 pandemic, we recently published guidance to let individuals carry over uncompleted CPD hours from one CPD year to the next, for CPD years ending before 1 April 2021. We are not applying this guidance to PTS CPD as we consider that our new PTS CPD requirements are an essential part of improving adviser competence to address the harm in this market as soon as possible.

6 Effective Regulation

6.1 In this chapter, we summarise the feedback to our proposals to collect new data on pension transfer advice and amend the existing data we collect on professional indemnity insurance (PII). We are proceeding with the proposals, with minor changes, as set out below.

Pension Transfer Specialist advice

Proposals

6.2 We proposed creating a new section of the RMAR regulatory return (RMA-M) covering data on DB and other safeguarded benefit advice. This would include advice on pension transfers and conversions, but exclude transfers that do not require a pension transfer specialist. These data will enable us to supervise DB transfer advice more effectively.

Feedback received

6.3 Most respondents supported our proposals. A few thought that smaller firms would struggle to provide the data required cost-effectively, and so may opt out of the market. Some of these respondents asked why the date for submission of data was different from their firm's other data reporting requirements. One respondent also thought that the wording of our data questions on triage would not produce a consistent data set.

Our response

We are proceeding with our proposals, with some amendments. Our cost benefit analysis in CP19/25 estimated the cost of these proposals on small firms. Collecting data from firms on the same date gives us a consistent data set and enables us to react more quickly than if data collection were spread across the year. We have amended the date in line with the other date changes in this PS. So the first 6-month reporting period will start on 1 October 2020. Firms must make their first submission by the end of April 2021. Based on feedback, we have amended our questions on triage to improve the consistency of the data.

Following our changes to the contingent charging carve-out in Chapter 2, we are including 2 additional questions. These are designed to monitor the number of carve-out clients that are given a recommendation to transfer or convert their pension, and the amount of revenue that an adviser receives from clients that meet the carve-out tests. We have also changed our reporting requirements for contingent charging by combining previously separated questions on the type of contingent charging model used. So firms do not need to separate out whether full contingent charging or partial contingent charging was used for clients within the carve-outs.

We have also made minor amendments to some questions to give more clarity and align with some of our other finalised rules.

Data collected on PII and guidance for completing regulatory returns

Proposals

6.4 We proposed to amend the existing data collected on intermediaries' PII cover within the existing quarterly RMA-E submission, FSA031, FSA032 and FIN-APF.

6.5 We also proposed new guidance notes to help firms complete RMA-M and revised guidance for firms completing RMA-E, FSA031, FSA032 and FIN-APF.

Feedback received

6.6 Most respondents supported our proposal to collect data on PII. Some said collecting PII data was an important way to monitor the market more effectively.

6.7 Respondents welcomed the provision of guidance notes.

Our response

We are proceeding with our proposals on PII data collection, as set out in CP19/25. These rules will be implemented from 1 October 2020, meaning that firms' Accounting Reference Date (ARD) forms will change from this date. Our requirements for firms to submit these data in line with their annual reporting cycle has not changed.

We are also proceeding with our proposals to provide guidance notes. For clarification, we have made minor amendments to the RMA-M guidance. We have also created new guidance notes to accompany the new and revised RMA-M questions on the contingent charging ban carve-outs.

7 Technical amendments

7.1 In this chapter, we summarise the feedback we received on a number of technical proposals that were intended to clarify how to apply our rules and guidance in practice. We also set out how we are making final rules on these issues.

Pension transfer definition

Proposals

7.2 We proposed aligning our pension transfer definition more closely with the wording of the regulated activity (article 53E of the Regulated Activities Order). The proposals meant that the pension transfer definition would include pension transfers that are covered by the regulated activity, ie the movement of safeguarded benefits to flexible benefits in a different scheme, as well as certain transfers of safeguarded benefits to other safeguarded benefits. For contractual cancellation purposes, we proposed to move the definition of pension transfer into the application section of COBS 15 to ensure that the transfer of flexible benefits would continue to be covered by cancellation rights.

7.3 We explained our proposals would mean firms have to retain suitability reports on transfers out of flexible benefits for 5 years instead of indefinitely. The proposals would also result in changes to the data providers report to us in Product Sales Data (PSD).

Feedback received

7.4 Most respondents who commented on the proposed definition supported our approach.

7.5 Some respondents asked for further clarification about specific types of safeguarded benefits from ceding schemes that are included in the pension transfer definition.

7.6 Some considered that removing transfers out of flexible benefit schemes from the definition would reduce consumer protections. For example, they thought that firms would not fully consider a workplace pension scheme (WPS), or features such as protected tax-free cash. Some respondents thought protected tax-free cash was a safeguarded benefit.

7.7 One respondent said our new definition for cancellation purposes under COBS 15 did not include transfers from non-occupational schemes to flexible benefits in a DC occupational scheme. They thought this conflicted with the policy intent on page 41 of CP19/25. This stated that the new definition for cancellation purposes would include transfers from pension schemes with flexible benefits to all types of pension scheme.

7.8 Some respondents asked if our proposal to reduce the unlimited record keeping requirement to 5 years for suitability reports on transfers of flexible benefits affects firms' liability. They also asked about the potential impact of the General Data Protection Regulation (GDPR) on firms' rights to retain suitability reports longer than 5 years.

7.9 Some respondents raised concerns about the way some product providers market products that are available as an open market option. For example, respondents said some providers market lifetime annuities as safeguarded benefit receiving schemes, as if this might bypass regulatory requirements. Separately, one respondent also raised concerns about structured products being marketed as lifetime annuities.

7.10 One respondent suggested we clarify that PSD reports/submissions fall under the scope of our proposed definition.

Our response

We are proceeding with the new definition, but with minor amendments to reflect feedback.

The pension transfer definition includes all transfers of safeguarded benefits to flexible benefits as set out in legislation. The Department for Work & Pensions (DWP) has previously provided guidance on the types of pension benefits that are safeguarded benefits and these do not include protected tax-free cash, provided that there are no other safeguarded benefits attached to the policy concerned.

We do not consider that protection is reduced by removing transfers from flexible benefit schemes from the definition. Firms are still required to give suitable advice when advising on these transactions. We would expect firms to consider the availability of any protected tax-free cash. Our existing rules explicitly require firms to explain why they consider any personal pension or stakeholder pension to be at least as suitable as a WPS.

We are amending the 'pension transfer' definition for cancellation purposes in COBS 15.1.2R(a)(ii), so that it includes all transfers from non-occupational schemes to DC occupational schemes.

The changes to the record keeping requirements do not affect firms' liability. For more information on GDPR, firms should refer to the FCA and ICO joint update on GDPR.

Firms should note that, for consistency, we are also amending the record keeping requirements in COBS 9.5.2R(2) to ensure that the 5-year retention period also applies to advice on a defined contribution occupational pension scheme. This means that the 5-year retention period applies to all transfers of flexible benefits that are no longer within the scope of the Handbook definition of pension transfer.

Where a transfer results in the purchase of a lifetime annuity, it is unlikely to be a safeguarded to safeguarded transfer. If firms arrange a transfer to a scheme that offers the open market option and can pay out a pension commencement lump sum prior to a lifetime annuity purchase, then it is unlikely to be a transfer to a safeguarded arrangement. In any event, our pension transfer definition also includes transfers from safeguarded benefits in occupational schemes to safeguarded benefits in non-occupational schemes, so regulatory requirements would still be likely

to apply even where firms structure the transfer to avoid the use of a pension scheme with flexible benefits.

SUP 16 Annex 20 Part 2 sets out guidance on the definitions for PSD reporting. An individual pension transfer is defined by the Glossary definition of a pension transfer. As we have removed some types of transfer from the definition, these will no longer be reported as an individual pension transfer. These transfers should now be reported under the relevant heading for the product being sold.

In CP19/25, we proposed that the new definition would become effective immediately after we published the rules. Our final rules are effective from 1 October 2020. This means that when firms submit data to PSD, they should use the new definition for reporting periods starting from 1 October 2020.

Transfer Value Comparator

Proposals

7.11 To achieve greater consistency across the industry, we set out proposals to clarify how firms should apply the Transfer Value Comparator (TVC) methodology in practice. We proposed that:

- For TVCs prepared where the consumer is within 12 months of the scheme's normal retirement age or for late retirement, the annuity basis should be the same as for consumers with more than 12 or more months to normal retirement age (NRA). We also confirmed that a TVC is required for late retirement cases.
- Where favourable early retirement benefits are available without reduction and no consent is required to take them, the TVC should be based on the earliest age at which such benefits can be taken, rather than at NRA.

7.12 Our proposals also confirmed that when firms prepare the TVC they should:

- Base the rate of return during accumulation on the 5- to 10-year UK FTSE Actuaries Index or the 10- to 15-year index, and can disregard the 5- to 15-year index.
- Assume that a male scheme member has a female spouse/partner who is 3 years younger, and a female scheme member has a male spouse/partner who is 3 years older, in a similar way to the calculation of the CETV by schemes. We set out that actual circumstances should be modelled in the appropriate pension transfer analysis (APTA).

7.13 We also proposed to reduce the pre-retirement expense assumption used in the TVC, from 0.75% to 0.4% to reflect the lower costs of investing solely in gilts.

Feedback received

7.14 Most respondents broadly agreed with our proposals. But some were concerned that TVC providers would not be able to make amendments in the proposed 6-month timescale.

Our response

We are proceeding with the clarifications to the TVC methodology. These will now be effective from 1 October 2020, in line with most of the rest of our new rules and guidance. Based on previous discussions with software providers, we consider that this is a reasonable timeframe to implement the changes.

Cashflow modelling

Proposals

7.15 We proposed that where firms choose to use cashflow modelling, they must prepare and present these to the consumer in real terms. We also proposed that cashflow models must use reasonable assumptions for tax bands and limits, as well as allow for taxes that are likely to arise on a transfer, such as Lifetime Allowance charges.

7.16 We also set out that the modelling must include 'stress testing' scenarios to help inform consumers of the impact of unfavourable future scenarios.

Feedback received

7.17 Most respondents welcomed the proposals and recognised the need for consistency in the use of cashflow models. Some respondents said the proposals would add time and cost to the advice process. Others believed the use of cashflow models should be mandatory for DB transfer advice.

7.18 Some respondents said the use of real terms in cashflow models could confuse consumers, although most felt real terms were the most straightforward to understand. While most respondents welcomed the inclusion of 'stress testing' scenarios, many wanted further guidance or specific mandated scenarios to use.

7.19 Some respondents were concerned that providers of cashflow models would not be able to make amendments in the proposed 6-month timescale although no software providers objected to the timescale.

Our response

We are proceeding with the changes. We consider it that it is unlikely that our final rules add materially more time or cost to the advice process. This is because the cashflow numbers should now align better with factors that firms should already be discussing with clients when giving

suitable advice. We are not mandating the use of cashflow models as we consider this is up to individual advisers.

We consider that the use of real terms will make the outputs easier for consumers to understand, as they will not need to account for inflation. In the guidance, we have added the specific inflation rate that firms should use when converting monetary terms to real terms. Mandatory stress-testing scenarios may not provide individual consumers with the information they need. So we consider firms are best placed to consider the most relevant stress testing scenarios for their client. We have changed the timescale, and our new rules will now be implemented on 1 October 2020, in line with the other date changes in this PS. We consider this timeframe is long enough for firms to make any changes. We have provided transitional rules so that where a suitability report is prepared within 3 months of the new requirement, a firm is not expected to carry out cashflow modelling as set out in the new rules where firms can demonstrate that the advice process started before 1 October 2020.

Retirement annuity contracts

Proposals

7.20 We proposed to amend the glossary definition of Guaranteed Annuity Rate (GAR) to clarify that it includes retirement annuity contracts (RACs) that contain a minimum guaranteed income.

Feedback received

7.21 Most respondents agreed with this proposal, welcoming its simplicity and the clarification of our position on the relationship between RACs and GARs.

7.22 Some respondents disagreed with our interpretation that RACs share more similarities with GARs than DB schemes. They argued RACs should require the same level of transfer analysis and protections as DB schemes. They explained that in practice, their advisers typically employ the same approach when assessing RACs and DB schemes.

7.23 Some respondents asked about the effect of our proposals on advising on hybrid schemes, such as those with money purchase underpin arrangements, and personal pensions containing a standalone Guaranteed Minimum Pension (GMP), bought out as part of a scheme windup. As these contracts can have a set level of income at maturity and involve commutation and early retirement factors, respondents believed we should require a pension transfer specialist (PTS) to advise on them. Some respondents also requested guidance on how advisers should complete APTA and TVC in such cases.

Our response

We are proceeding with the change to the glossary definition, but with further clarifications in response to feedback. In practice, this means that firms should treat RACs with a minimum guaranteed income, for example some conventional non-profit or with profit contracts, as GARs. The same requirements, permissions and protections that apply to GARs will then be applied to these RACs.

We have clarified that a minimum guaranteed income excludes fixed or guaranteed benefits in an individual pension contract that replaced similar safeguarded benefits under a defined benefits pension scheme. It also excludes entitlements to a lifetime income paying a GMP that results from contracting out of the State Earnings Related Pension Scheme and a defined benefit minimum that accrues or may accrue at the same time as money purchase benefits under a pension arrangement. We consider that there is more complexity in assessing and advising on these arrangements, so advice must be given or checked by a PTS and include a TVC and APTA.

As types of hybrid scheme vary, advisers will need to consider the precise nature of the benefits to determine whether the benefits are safeguarded, in line with the principles set out in DWP's factsheet. Where the benefits are safeguarded and contain a GMP or other benefits found in a DB scheme, firms should treat these as DB benefits whether or not there are any potential linked DC benefits. So a PTS must give or check the advice. A firm must prepare a TVC on the safeguarded benefits and should consider the nature of any hybrid arrangement in APTA.

In line with the other changes to timescales, the new definition will be effective from 1 October 2020.

Estimated transfer values

Proposals

7.24 We proposed new guidance that set out our expectations of firms who are advising a client with an estimated transfer value. Our proposals only applied where the arrangements in the ceding scheme were being changed or replaced by another scheme. The proposed guidance also set out that the client should be told of uncertainties about the advice being given.

Feedback received

7.25 Most respondents agreed with the proposed guidance, calling it clear and pragmatic. They felt our proposals were likely to help reduce the risk of CETVs expiring by avoiding duplicating time and effort.

7.26 Many respondents assumed that our proposals applied to all estimated transfer values. Others suggested the approach could be used more broadly, such as when an

estimated transfer value is available online, as this would help relieve time pressures created by the 3-month CETV deadline.

7.27 A few respondents asked for guidance where a guaranteed transfer value is not provided. These include contracted out money purchase schemes with DB underpins, sometimes described as a 'hybrid scheme', and schemes undertaking a s.143 assessment to enter the Pension Protection Fund (PPF).

7.28 Some respondents were concerned our proposal could lead to complaints from consumers who have paid for full advice but not received a final personal recommendation about the transfer. They believed there was a risk that the adviser may fail to finalise the advice if the advice charge had already been paid in full.

Our response

We are proceeding with our proposals so that firms can give provisional advice where only estimated transfer values are available, in cases when ceding scheme arrangements are expected to be changed or replaced by another scheme.

In these circumstances, the ceding scheme usually requires the scheme member to provide an indicative decision about opting into the changed or replacement arrangements. The scheme then uses this information to determine final transfer values. Members need to be able to make an informed decision based on the estimated transfer value. We do not consider that our proposals should apply more widely as these specific issues do not generally apply.

If a hybrid scheme is changing or replacing its safeguarded arrangements, our final guidance applies in the same way as for other affected schemes, assuming the benefits need to be treated as safeguarded for transfer purposes.

Where a scheme is undergoing a s.143 assessment to enter the PPF, only previously confirmed transfers out are allowed. Where a scheme is leaving the PPF so the scheme arrangements are being changed or replaced, and a member has an estimated transfer value, our final guidance applies.

We have added guidance that we expect advisers to finalise their advice once details of the final transfer value and the changed or replacement ceding arrangement are both available.

Firms should not give advice based on estimated transfer values except where the ceding scheme arrangements are expected to be changed or replaced.

The new guidance will be effective from 15 June 2020, as we think firms should be able to adopt this immediately.

Application of adviser charging and inducement rules

Proposals

7.29 We proposed to amend relevant parts of the adviser charging and inducement rules to apply them to advice on pension transfers and conversions, irrespective of whether a firm is making a recommendation into a retail investment product. We also proposed to insert an exception for an 'employer funded pension advice charge' from the provisions of COBS 6.1A.

Feedback received

7.30 Most respondents agreed that the broader adviser charging and inducement rules should always apply, whether or not there is a recommendation into a retail investment product. As noted in paragraph 2.14, a small number of respondents asked us to extend the definition to include payments by trustees.

Our response

We are proceeding with our changes and we are also renaming and amending the definition to reflect that it includes payments for advice made by trustees of a scheme.

Arranging a transfer

Proposals

7.31 Having identified an inconsistency in our rules, we proposed to change the application provisions of COBS 19.1, so that they refer to firms that arrange transfers, opt-outs and conversions as well as those that give advice. We also clarified that arranging a transfer, conversion or opt-out means any action that helps to bring about the conclusion of the client's rights in the ceding scheme, or potential rights in the case of an opt-out.

7.32 We proposed that if a firm arranges a transfer, conversion or opt-out where they did not give advice, they should confirm the outcome of the advice. Where the advice is not to transfer or convert, they should warn the client and check whether the client understands the consequences of acting against advice. If the client does not understand, the firm must refuse to arrange the pension transfer, conversion or opt-out and must refer the client back to the advising firm.

Feedback received

7.33 Although a few respondents said they needed further clarification to understand the proposal, there was broad agreement with its intent. Respondents thought it would give greater protection both for the firm arranging the transfer and the client.

7.34 Some providers had concerns that receiving scheme providers were captured within the definition of those who could be arranging a transfer. There were also concerns that providers or advisers, who are not qualified as a PTS, would not be able to explain the benefits fully and so could not check the client's understanding of the consequences of acting against the advice. Some respondents considered that arranging a transfer should be included within the scope of the regulated activities so it could be restricted to FCA-regulated firms.

7.35 Some respondents believed that providing a confirmation that advice had been given should be the final part of the advice process, not part of arranging a transfer, as stated in CP19/25. They considered it should only be possible for 1 firm to conclude the client's rights in the scheme, but that the proposed rules could mean that 2 firms arranged the transfer.

7.36 Respondents also asked whether sharing information about the outcome of advice conflicted with the provisions of Pension Schemes Act 2015 and potentially the Data Protection Act 2018.

Our response

We are proceeding with our changes for firms who are arranging a transfer. They apply to all firms arranging a transfer, including providers who make arrangements with a ceding scheme.

We do not expect firms to explain the benefits of not transferring. But we do expect that all firms that make arrangements for a transfer should check whether the client understands the consequences of advice and, if not, refer them back to the original advising firm.

We cannot amend the scope of the regulated activities order. This means that it is possible for non-regulated firms to arrange these transactions with the ceding scheme. So for an overseas client with a local adviser, the overseas advisory firm can make arrangements for concluding their rights with the ceding scheme, once an FCA regulated adviser has certified that advice has been given.

We agree that the activity of giving pension transfer advice concludes when the confirmation of advice has been provided and our rules reflect this.

We have added an obligation on the firm that gave the advice to provide the relevant information to the arranging firm as soon as reasonably practicable. We have also made a small technical amendment to the rules to ensure that processing personal data, as part of sharing the advice outcome, between the advising firm and the arranging firm will be carried out according to a legal obligation on both parties and so is lawful under the Data Protection Act 2018. This requirement does not require any 'special category personal data' to be shared between an advising firm and an arranging firm. The Information Commissioner's Office has confirmed to us that it has no comments on our proposal.

We do not consider that sharing the advice outcome with the arranging firm conflicts with the provisions of the Pension Schemes Act 2015. The sharing provision is intended to ensure that consumers cannot circumvent some of the protections that would apply to them under our rules if they used the same firm to provide both the advice and arrange the transfer.

In line with the other changes to timeframes in this PS, we have amended the implementation date for the new rules to 1 October 2020.

8 Cost benefit analysis

8.1 In CP19/25, at Annex 3, we included a cost benefit analysis (CBA) of our proposed rules, as required by the Financial Services and Markets Act 2000 (amended by the Financial Services Act 2012). We asked respondents for comments on our CBA.

8.2 This section sets out the feedback to our CBA and our response. It also sets out the updates we have made to the CBA as a result of new data and changes to our final Handbook rules and guidance. We received feedback on the CBA for the ban on contingent charging. We have also updated our CBA to reflect the impact of our workplace pension scheme (WPS) requirements on restricted firms and independent firms that use panels.

Ban on contingent charging

Feedback received

8.3 We based our CBA on a number of baseline and additional assumptions. Respondents questioned whether some of these were appropriate, as set out below.

Suitability statistics and conversion rates

8.4 Some financial advice firms challenged the use of statistics from our thematic reviews of defined benefit (DB) transfer advice. They said that the suitability statistics were not representative of the industry and would be skewed due to the focus on high risk firms. In some cases, they cited results from their own review as evidence.

8.5 Some firms also questioned our use of the market-wide conversion rate – the proportion of advice that results in a recommendation to transfer. They believed the conversion rate did not consider those cases where triage was used to filter out consumers not suited to a transfer who did not proceed to full advice. They thought this filtering would make conversion rates seem higher than they are.

Cost of advice

8.6 Some firms felt we had underestimated the assumed £3,000-£3,500 non-contingent charge for DB transfer advice. They said that it did not take account of the full range of skills, time and resources in providing DB transfer advice, including gathering information. A few respondents interpreted our estimate as an 'implied price cap'.

Professional indemnity insurance (PII) costs

8.7 Some firms thought the market for DB transfer advice would shrink as firms exit due to higher professional indemnity insurance (PII) costs or as PII providers become reluctant to provide cover for DB transfer advice. They believed that this reduced access to advice could have the unintended consequence of increasing charges.

8.8 These firms did not agree with our view that our measures may reduce insurers' risks and premiums over time if they reduce the proportion of unsuitable advice. This was partially due to their own experience that PII providers do not always look at suitability of advice, and their perception that PII providers are now increasing premiums for past business undertaken.

8.9 Some firms also claimed that costs could be inflated by considerations not included in our CBA. For example, there could be reputational damage to the industry/profession. But they did not provide specific estimates of what these costs would be.

Our response

Where respondents have not provided any evidence to support criticisms of our estimates of costs and benefits, we have considered the feedback but have not revisited our CBA estimates due to these responses.

Suitability statistics and conversion rates

In our CBA in CP19/25, we used the suitability rates from our thematic reviews to establish a baseline for the size of harm from unsuitable advice to transfer and the reduction in harms from our proposed interventions. We acknowledged that our thematic work targeted firms that may pose a high risk to consumers. At that time, we did not hold any data about the suitability of advice across the whole of the market so these thematic file review data were the best available to us. We still do not hold representative samples of market-wide file review data.

Although we only carried out file reviews from a part of the market, ie focused on firms with higher volumes or, in some cases, other risk factors and where we had concerns about the advice process, we still consider that it provides an indication of the possible harm across the rest of the market. This is because sampling from firms with higher volumes is more likely to be representative of sale practices across the market. For example, they are providing advice to a similar consumer profile.

Despite the above, we have updated our suitability rate based on the latest findings from further file reviews (see 'Changes due to updated data' below).

The conversion rate for those receiving advice (69%) was unreasonably high, based on our view that most customers are best advised to remain in their DB scheme. When taken together with the sample, it suggests there is a risk of unacceptably high rates of unsuitable advice in the rest of the market.

The baseline assumption for the conversion rate was based on our market-wide data collection. This showed that 69% of consumers taking DB transfer advice were advised to transfer out, whether or not they went through triage. Consumers who choose not to proceed to full advice after triage do not suffer harm from unsuitable advice so are not included in our analysis. As this is based on market-wide data, we do not consider it necessary to revise our assumption.

Cost of advice

Our estimate for the cost of advice was based on information from our thematic work. This suggested that good quality, suitable advice could be given in 20-25 hours. Based on information from firms, we assumed half of these hours are carried out by a Pension Transfer Specialist (PTS)

and the other half by support staff. Taken together, we estimated an advice charge to the client of £3,000-£3,500, including an allowance for overheads and a profit margin. We acknowledge the comments received but continue to believe this is a reasonable estimate for the price of advice on a non-contingent basis, based on feedback from other respondents. We used this figure in our CBA to estimate the reduction in advice costs for those who proceed to transfer and the increase in advice costs for those that do not. This should not be interpreted as an implied price cap for the cost of advice. It is an estimate for considering the likely impacts of the proposed intervention. The price for advice will be determined by market forces.

Professional indemnity insurance (PII) costs
Respondents did not provide evidence to support the view that PII costs will remain high for firms that offer better advice. Similarly, they did not provide evidence that our intervention would create costs as a result of reputational damage to the industry. So we cannot update our CBA based on this feedback. We consider that if our proposed measures are successful in reducing the proportion of unsuitable advice, this may be expected to reduce insurers' risks and premiums over time. Even if some PII firms exit the market, the extent of competition in that market is such that we do not expect an increase in PII as a result, but we will be monitoring it closely.

Changes due to updated data

8.10 We have updated our CBA based on new data we have received from our most recent supervisory work.

Changes to suitability rate

8.11 We have updated our suitability rate based on the latest findings from our supervisory file review work. We primarily targeted firms who were most active in this market.

8.12 For the purposes of updating our CBA, we have focused on more recent DB transfer advice from firms, given in 2018 and 2019. This advice should take account of our recent interventions, including our published supervision findings and policy changes to the advice framework. We used the results from the initial batch of files we requested from each firm, but only where there was a recommendation to transfer out. This is because the aim of our interventions is to reduce the number of unsuitable transfers out of DB schemes.

8.13 We used suitability outcomes from 107 advice files from 2018 and 2 files from 2019. Of these, 60 (55%) were suitable and 21 (19%) were unsuitable. This recent rate of suitable advice (55%) is lower than the recent rate reported in our findings as we have omitted recommendations where the recommendation was to remain in the DB scheme. For 28 cases (26%), we were unable to assess the suitability of the firm's recommendation due to material information gaps (MIGs). This means the firm failed to collect the necessary information to assess suitability. So the firm should not have proceeded to advise the client without this information.

8.14 We do not know if the MIG files would have been suitable if all the information had been gathered. Based on our file reviews and for the purpose of the CBA only, we have assumed that if half of the MIG files could be shown to be suitable, this would increase

the rate of suitable advice to 68%. So we have revised our suitability assumption from 50% in the original CBA to 68%. We have used these updated estimates of suitability as if they applied to the whole market, instead of the estimates used in the original CBA.

8.15 This means that our assumption for the proportion of unsuitable advice has fallen from 50% to 32%. This is still very high compared with the unsuitability rate in the rest of the investment advice market, which we estimate is around 5.5% if calculated in a similar way, including files labelled as unclear.

8.16 So, based on this revised rate of unsuitability, our central estimate of the harm from unsuitable advice has fallen by £578m from £1,784m to £1,206m each year. We have based this on the average redress awarded by the Financial Ombudsman Service that we estimated in CP19/25, ie £56,000.

8.17 Even if the proportion of unsuitable advice across the rest of the market was 50% lower than our central estimate of 32%, the harm would remain considerable at over £600m each year.

8.18 When we combine our revised suitability rate with our market-wide conversion rate, which we have rounded up to 70% for consistency with CP19/25, we can infer that 48% of consumers taking advice may be suited to a transfer, up from 35% in our original CBA. This means that the proportion of consumers receiving unsuitable advice to transfer falls by 13 percentage points, from 35% to 22%.

Changes to contingent charging ban carve-outs

8.19 We have updated the CBA to take account of the changes we have made to the scope of the carve-outs (see paragraphs 2.21-2.27).

8.20 **Serious ill-health carve-out:** Overall, we expect fewer consumers to be eligible for the serious ill-health carve-out because we have restricted this carve-out to those who do not have the means to pay for advice. This includes those who could be forced into indebtedness if they were not eligible for the carve-out and had to pay for advice on a non-contingent basis. This reflects responses received to our consultation that the carve out should be limited to those who are both in serious ill-health and cannot afford advice.

8.21 Our original CBA assumed that up to 15% of consumers taking DB transfer advice would be in serious ill-health. We based this estimate on national statistics which suggest that no more than 10%-15% of 65 year olds will die by age 75. We also assumed that 60% of individuals aged 52-57 with a DB pension have liquid assets of more than £10,000, based on the Office for National Statistics (ONS) Wealth & Assets Survey 2014-16. This means they are likely to have enough to pay for the cost of advice. We have applied the same assumption to the group of consumers targeted by this proposal, which means that 40% of those in serious ill-health would not be able to pay for advice. Based on this, we estimate that 6% of consumers would meet the criteria to be considered for the revised serious ill-health carve-out, ie 40% of 15%.

8.22 **Serious financial difficulty:** Overall, we expect broadly the same number of consumers as in our original CBA to meet the test for the serious financial difficulty carve-out. Our original CBA assumed that around 5% of consumers taking DB transfer advice would be in 'serious financial hardship'. However, respondents suggested that the proposed Handbook guidance on the evidence required for the serious financial hardship carve-out had been set in a way that very few consumers would meet the test

in practice. So we have revised the test (see 'Our response' in paragraph 2.27). Based on information from our Financial Lives Survey, we expect around 5% of consumers would still fall into this revised carve-out definition.

8.23 There could be an overlap between consumers meeting the tests for both the serious ill-health and serious financial difficulty carve-outs. This may potentially reduce the overall number of consumers that meet the tests for the carve-outs. But we do not have enough detailed information on consumers' personal circumstances at this stage to assess this. So we have summed up the estimates of the size of these 2 categories of consumers. Overall, for both carve-outs, we expect around 11% (6% plus 5%) of consumers could meet the tests for the revised carve-outs from the ban on contingent charging.

Other assumption changes

8.24 We have restricted the serious ill-health carve-out to those who do not have the means to pay for advice. By definition, those who are no longer included in that carve-out can afford to pay for advice. As a result of their serious ill-health, they will have a strong reason to transfer and, as a group, are more likely to be suited to a transfer, so we have assumed that they are all willing to pay.

8.25 We had previously assumed that all those carved out from the contingent charging ban would be suited to a transfer. However, meeting the tests for the carve-out does not presume suitability for a transfer. So we expect that some of those carved out would be more suited to remaining in their scheme. Based on feedback to CP19/25 that suggested some of those who meet the test for the serious financial difficulty carve-out would not be suited to a transfer, we have assumed that 20% of those carved out will not be suited to transfer.

Impact on our CBA from a ban on contingent charging

8.26 The table below shows the updated outcomes that may arise from our intervention to ban contingent charging based on our revised evidence and assumptions above. Apart from the changes described above, we have used the same scenarios and assumptions as in CP19/25 (see paragraph 99 of Annex 3), and as set out in the table below.

Assumptions	Baseline	Scenario 1a	Scenario 1b	Scenario 1c	Scenario 1d
% of suitable transfer cases	48%	48%	48%	48%	48%
% of unsuitable transfer cases	52%	52%	52%	52%	52%
New price of advice post intervention, £	£7,000	£3,500	£3,500	£3,500	£4,500
Willingness to pay the fee (for those who have funds), %		50%	50%	30%	30%
Policy efficiency, %		90%	90%	50%	50%
Gains forfeited by consumers suitable to transfer who do not take advice		£0	£52,500	£52,500	£52,500
Outcomes					
Consumers suitable to transfer who do not take advice, %		19%	19%	23%	23%
Consumers not suitable to transfer who do not take advice, %		37%	37%	43%	43%
Benefits from reduced advice costs, £m		**£371m**	**£371m**	**£448m**	**£421m**
Benefits from changes in unsuitable advice and forfeited gains, £m		**£1,040m**	**£209m**	**-£62m**	**-£62m**
Overall net benefits to consumers from reduced advice costs, changes in unsuitable advice and forfeited gains, £m		**£1,411m**	**£580m**	**£386m**	**£359m**

Updated consumer outcomes

8.27 In total, our updated analysis shows that the harm from unsuitable advice reduces by **£1,040m each year under scenario 1a**, compared with the updated baseline. Here we assume that there are no forfeited gains for those suited to a transfer who don't transfer. Consumers would also benefit from reduced cost of advice by **£371m each year**.

8.28 The benefits are reduced to **£209m each year under scenario 1b**. These figures assume there are gains of, on average, £52,500 forfeited by those who do not proceed to take advice but would have been suited to transfer. We think this a generous assumption given that often little harm will be caused by retaining the defined benefit pension income over time, but have sought to analyse and understand how outcomes vary with assumptions. Consumers would benefit from reduced cost of advice by the same amount as under the Scenario 1a, ie **£371m each year**.

8.29 **Under scenarios 1c and 1d**, we assume only 30% consumers are willing to pay non-contingent charges for advice, and the policy is much less effective in reducing unsuitable advice than under scenarios 1a and 1b. This reduces the benefits further as more consumers continue to receive unsuitable advice. As willingness to pay the non-contingent advice charges reduces, more consumers suited to a transfer do not proceed to take advice and forfeit gains we assume they could have received in these scenarios. **Making these assumptions, it is possible to model scenarios where the gains forfeited by those suited to transfer that no longer take advice, exceed the benefits of a reduction in harm from unsuitable advice by £62m each year.** In addition, consumers still benefit from reduced advice costs by **£448m and £421m each year respectively**. The reduced advice costs represent savings for consumers, and loss of revenue for firms. So the measures are still net beneficial to consumers even under these assumptions.

8.30 One-off governance/change and IT project costs of £68.2m and ongoing costs of up to £0.5m each year remain unchanged from those in our original CBA, but are not sufficient to offset the net benefits to consumers.

8.31 In practice, we are confident our interventions will be **net beneficial to consumers under realistic assumptions**. Those suited to a transfer who do not fall into our carve-out are often transferring for wealth management and tax planning purposes. So they are likely to be more able to pay the non-contingent costs of advice than those not suited to a transfer. This means a smaller proportion of those suited to a transfer would lose out from not transferring than assumed in our CBA.

8.32 Based on our revised assumptions, we estimate that the numbers of consumers seeking advice will reduce by between 56% and 66% each year as a result of our intervention. This is the same as in our original CBA. Roughly 2 out of 3 of these cases, previously 4 out of 5 cases in our original CBA, will consist of consumers who are currently taking advice but for whom a transfer is unsuitable. So our view is that these consumers will benefit from not paying for advice, and not proceeding with a transfer that would be unsuitable. The remaining 1 out of 3 cases, previously 1 out of 5 cases, would be suitable but would not seek advice as a result of our intervention although they keep valuable pension benefits.

Market Impact – response from firms

8.33 Our CBA acknowledged that some firms may leave the market due to reduced demand or because firms identified, from the descriptions in the consultation paper, that they were a firm that we might have concerns about. While it is difficult to predict with certainty how many firms will remain in the market, as well as the type and the quality of those that may leave, we still expect that good firms will be able to continue to offer advice profitably. We have evidence and reports that suggest some firms are withdrawing from this market despite these interventions because of increased insurance premiums. This may mean that, in the near term, consumers will find fewer firms willing to give them advice. In our view, the advice market is unlikely to work well for consumers or firms in the longer term unless the proportion of unsuitable advice is substantially reduced, and insurance costs for firms, and charges to consumers, can also begin to fall again. So we think our intervention is important to maintaining consumers' access to a competitive market for DB transfer advice in the longer term.

Prioritising DC workplace pension scheme

One-off costs on restricted firms and independent firms using panels

8.34 We have reviewed the CBA to reconsider the impact of our new rules on restricted firms that only advise on a limited range of products and independent firms that use panels.

8.35 Our rules require firms to demonstrate why any non-WPS they recommend is more suitable than a WPS. In our original CBA, we calculated the ongoing cost of our WPS requirements on all firms, both restricted and unrestricted. So we included restricted firms that only advise on a limited range of products and independent firms that use panels. We did not attempt to quantify the impact on different types of firms in detail.

8.36 Based on the feedback received, restricted firms and independent firms that use panels may need to undertake further familiarisation work and gap analysis to assess the impact of our WPS requirements. This includes considering how to change their business model, eg in a way that would allow them to recommend WPS providers that are outside the firm's current commercial limitations or whether to continue operating in the market.

8.37 We do not have information to quantify these additional one-off costs for restricted firms and independent firms that use panels.

8.38 In a similar way as for the ban on contingent charging, affected firms will need to consider whether to continue operating in the market and, if so, how to make changes to their internal processes, for review by their Boards.

8.39 Overall, we believe this additional amount of work will lead to a marginal increase in costs for a small number of firms, thus only marginally affecting the total CBA estimates. However, as indicated above, it would not be reasonably practicable and proportionate to produce this additional cost estimate for affected firms.

8.40 In our original CBA, we calculated the benefits to consumers in terms of reduced lifetime fees and charges of our WPS requirements. This gave a total benefit across all consumers of £399m-£598m each year. As we have estimated that the same proportion of consumers will take advice as in our previous CBA, we have not changed our estimate of the benefits of considering a WPS. As before, this is, in effect, a transfer from advice firms and providers to consumers.

Annex 1
List of non-confidential respondents

Access Wealth Management

Adrian Douglas

Aegon

Affinity Integrated Wealth Management

Age Partnership Group Limited

AJ Bell

Almond & Jenkinson Financial Planning Ltd

Alun Webster

Anonymous

Aon

Appropriate Advice

Associated Legal & Financial

Association of British Insurers

Association of Consulting Actuaries Limited

Association of Electricity Supply Pensioners

Association of Pension Lawyers

ATEB Consulting

bdhSterling Limited

Belmayne Independent Chartered Financial Planners LLP

Bloomfield Financial Limited

Brighter Financial Services

Britannia Financial Services Limited

BT Group plc

BT Pension Scheme Management Limited

Chambers Townsend Consultancy Ltd

Chevening Financial Ltd

CISI

Citywire Financial Publishers Ltd

Claymore Compliance Consultants Ltd

Clear Vision Financial Planning Limited

Clive R Steggel

Compliance & Training Solutions Ltd

Compliance News Limited

Creative Wealth Management

David Craik

David Williams IFA Limited

Devere

EQ Investors Limited

EQ Paymaster Limited

Equilibrium Asset Management LLP

Expert Pensions Advice Limited

Expert Pensions Limited

FCA Practitioner Panel

Financial Services Consumer Panel

Fowler Drew Limited

Grove Pension Solutions

Helena Wardle

Huntington Ross Ltd

Ideal Financial Management

Intelligent Pensions Limited

Investment and Life Assurance Group

John Ridge

Joseph Lamb

Joslin Rhodes Lifestyle Financial Planning Ltd

Just Group plc

Keith Churchouse

Kent Insurance Services Ltd

Killik & Co

Kingsfleet Wealth Ltd

Lane Clark & Peacock LLP

Lemonade LLP

Liam Martin

Lincoln Pensions Limited

Lowes Financial Management, Fernwood House

Lucas Fettes Financial Planning

Manor IFA Limited

MCM Investment House LLP

Money Honey Financial Planning

Money Honey Financial Planning & others (19 signatures)

MPA Financial Management Limited

Novia Financial Plc

O&M Pension Solutions

O&M Systems

On-Line Partnership Group Limited

Origen Financial Services

Paul Wallis Financial Solutions Limited

Pensal Consulting Ltd.

Pension Advice Specialists

Pension Income Planning Ltd

Pension Scams Industry Group

Pensionhelp Ltd

Pensions & Actuarial Services

Pensions & Annuities Ltd

Pensions and Lifetime Savings Association

Personal Finance Society

Personal Investment Management & Financial Advice Association

Phil Dales

PI Financial Services

Portafina

Prismatic Wealth Ltd

Prudential Financial Planning Limited

Quilter plc

Richard Jacobs Pension and Trustee Services Limited

Russell Dene

Sam Kelly

Sam Lever – Independent Financial Adviser Ltd

Sapienter Wealth Management

Scott Keachie

Sense Network Limited

Smaller Business Practitioner Panel

Smith & Pinching Financial Services Limited

Standard Life Aberdeen

Strategic Investment Solutions Ltd

Tanner Financial Advice Ltd

Tenet Group Ltd

The Consumer Council for Northern Ireland

The Investment Association

The Money Charity

The Pension Drawdown Company

The Private Office Limited

The SimplyBiz Group

The Society of Pension Professionals

TheGIConsultant.com Limited

threesixty services LLP

Tideway Investment Group Limited

Verus Financial Planning Limited

V-Financial Ltd

Vintage Investment Services

Wake Up Your Wealth

Wardour Partners

Watson Wood

Wealth Management & Growth Ltd

Wealth Wizards Benefits Limited

Whitechurch Securities Limited

Wingate Benefit Solutions

Wingate Wealth Management

Wren Sterling

x2 Wealth Management Ltd

XPS Pensions Group

Annex 2
Sample suitability report summaries

Example A: Client has available workplace pension

1. Pension transfer summary:

	Keep my current guaranteed benefits	If I transfer to my workplace pension	If I transfer to another defined contribution pension
Level of my pension income currently	£833 per month	Variable	Variable
Ongoing advice charges in first year	£0	£0	-£250 per month
Product charges in first year	£0	-£250 per month	-£438 per month
Total charges in first year (excluding initial advice)	**£0**	**-£250 per month**	**-£688 per month**
Additional charges	**No**	**Yes/No**	**Yes/No**

In addition, this pension transfer advice will cost me £6000 – this is equivalent to around 7 months' income from my current scheme.

2. Pension transfer risk warning:

I understand that by transferring my pension I will lose a guaranteed income, I will have to manage my funds, and my funds may run out in my lifetime:

(signature)

3. My adviser's recommendation:

My adviser has recommended that I stay in/leave XYZ Scheme (and [if leaving] transfer to FGH Scheme [or if leaving and a separate adviser is advising on the destination scheme:] DEF adviser has recommended that I transfer to ABC Scheme).

The reasons for this recommendation are set out in section X of the report.

I confirm that I intend to follow the transfer advice of my adviser:

(signature)

4. Ongoing pension management advice

If I transfer my pension, my (or [if a separate adviser] DEF) adviser has offered to provide separate ongoing pension management advice. I am not required to take this service and I can cancel it at any time by contacting my (or [if a separate adviser] DEF) adviser. I confirm that I would like to receive charged ongoing pension management advice, initially costing **£250 per month** which is **£3,000 per year (this amount will vary in the future as it is based on a % of fund size)**:

(signature)

Example B: Client does not have available workplace pension or is converting benefits

1. Pension transfer summary:

	Keep my current guaranteed benefits	If I transfer to a defined contribution pension
Level of my pension income currently	£833 per month	Variable
Ongoing advice charges in first year	£0	-£250 per month
Product charges in first year	£0	-£438 per month
Total charges in first year (excluding initial advice)	**£0**	**-£688 per month**
Additional charges	**No**	**Yes/No**

In addition, this pension transfer advice will cost me £6000 – this is equivalent to around 7 months' income from my current scheme.

2. Pension transfer risk warning:

I understand that by transferring my pension I will lose a guaranteed income, I will have to manage my funds, and my funds may run out in my lifetime:

(signature)

3. My adviser's recommendation:

My adviser has recommended that I stay in/leave XYZ Scheme (and [if leaving] transfer to FGH Scheme [or if leaving and a separate adviser is advising on the destination scheme:] DEF adviser has recommended that I transfer to ABC Scheme)

The reasons for this recommendation are set out in section X of the report.

I confirm that I intend to follow the transfer advice of my adviser:

(signature)

4. Ongoing pension management advice

If I transfer my pension, my (or [if a separate adviser] DEF) adviser has offered to provide separate ongoing pension management advice. I am not required to take this service and I can cancel it at any time by contacting my (or [if a separate adviser] DEF) adviser. I confirm that I would like to receive charged ongoing pension management advice, initially costing **£250 per month** which is **£3,000 per year (this amount will vary in the future as it is based on a % of fund size)**:

(signature)

Example C: Abridged advice

1. Value of my pension:

	If I keep my current benefits
Level of my pension income currently	£833 per month

2. Advice charges

	Stay in my current scheme	If I proceed to full advice
Abridged advice charge	-£X	-£X
Expected full advice charge	£0	-£4,000

3. My adviser's recommendation:

My adviser has recommended that I: stay in my current XYZ Scheme.

(or)

My adviser has concluded that there is insufficient information to make a recommendation.

The reasons for this recommendation/conclusion are set out in section X of the report.

I confirm that I intend to follow the recommendation of my adviser:

(signature)

(or)

I understand that I cannot transfer my pension unless I take full advice. Full advice will cost me £4,000 – this is equivalent to around 4 months' income from my current scheme.

(signature)

Annex 3
Abbreviations used in this paper

APTA	Appropriate Pension Transfer Analysis
CBA	Cost benefit analysis
CETV	Cash equivalent transfer value
COBS	Conduct of Business Sourcebook
CP	Consultation Paper
CPD	Continuing Professional Development
DB	Defined benefit
DC	Defined contribution
DWP	Department for Work and Pensions
FCA	Financial Conduct Authority
GAR	Guaranteed annuity rate
GC	Guidance Consultation
GDPR	General Data Protection Regulation
GMP	Guaranteed Minimum Pension
HMRC	Her Majesty's Revenue and Customs
ICO	Information Commissioner's Office
IHT	Inheritance Tax
MaPS	Money and Pensions Service
MIG	Material information gap
NRA	Normal retirement age
ONS	Office of National Statistics
PERG	Perimeter Guidance

PII	Professional indemnity insurance
PPF	Pension Protection Fund
PS	Policy Statement
PSD	Product Sales Data
PTS	Pension transfer specialist
RAC	Retirement annuity contract
RAG	Red Amber Green
SM&CR	Senior Managers and Certification Regime
SPS	Statement of Professional Standing
TC	Training and Competence
TPR	The Pensions Regulator
TVC	Transfer Value Comparator
VAT	Value Added Tax
VIF	Vertically integrated firm
WPS	Workplace pension scheme

Appendix 1
Made rules (legal instrument)

CONDUCT OF BUSINESS SOURCEBOOK (PENSION TRANSFERS) (No 3) INSTRUMENT 2020

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137T (General supplementary powers); and
(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. This instrument comes into force as follows:

(1) Part 1 of Annex C and Annex E come into force on 15 June 2020.

(2) The remainder of the instrument comes into force on 1 October 2020.

Amendments to the Handbook

D. The modules of the FCA'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
Training and Competence sourcebook (TC)	Annex B
Conduct of Business sourcebook (COBS)	Annex C
Supervision manual (SUP)	Annex D

Amendments to material outside the Handbook

E. The Perimeter Guidance manual (PERG) is amended in accordance with Annex E to this instrument.

Notes

F. In Annex A to this instrument, the "note" (indicated by "Editor's note:") is included for the convenience of readers but does not form part of the legislative text.

Citation

G. This instrument may be cited as the Conduct of Business Sourcebook (Pension Transfers) (No 3) Instrument 2020.

By order of the Board
21 May 2020

Annex A

Amendments to the Glossary of definitions

This Annex comes into force on 1 October 2020.

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

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

abridged advice	advice in relation to a *pension transfer* that is not *full pension transfer or conversion advice* (see *COBS* 19.1A (Special rules for giving abridged advice)).
appropriate pension transfer analysis	analysis prepared in accordance with *COBS* 19.1.2BR.

[*Editor's note*: the above definition of "appropriate pension transfer analysis" was previously defined in *COBS* 19.1.1-AR for the purposes of *COBS* 19.1 and *COBS* Annex 4A, 4B and 4C. We are now adding it as definition to the main Handbook Glossary so all consequential references to "appropriate pension transfer analysis" should be read as, and amended to, references to "*appropriate pension transfer analysis*".]

cash terms	in pounds and pence.
ceding arrangement	(for the purposes of *COBS* 6, *COBS* 9 and *COBS* 19) a *retail client's* existing pension arrangement with *safeguarded benefits*.

[*Editor's note*: the above definition of "ceding arrangement" was previously defined in *COBS* 19.1.1-AR for the purposes of *COBS* 19.1 and *COBS* 19 Annex 4A, 4B and 4C. We are now adding it as definition to the main Handbook Glossary so all consequential references to "ceding arrangement" in *COBS* 6, *COBS* 9 and *COBS* 19, should be read as, and amended to, references to "*ceding arrangement*".]

employer or trustee funded pension advice charge	any form of charge payable by or on behalf of a trustee or an employer to a *firm* in relation to the provision of a *personal recommendation* by the *firm* to members of a defined benefit *occupational pension scheme* (in respect of which that trustee has been appointed to act as trustee or is sponsored by that employer (as applicable)) regarding a *pension transfer* and/or *pension conversion*.
full pension transfer or conversion advice	advice on *pension transfers* or *pension conversions* (as applicable) given in accordance with *COBS* 19.1 (Pension transfers, conversions, and opt-outs).

future income benefits	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);

[*Editor's note*: the above definition of "future income benefits" was previously defined in *COBS* 19.1.1-AR for the purposes of *COBS* 19.1 and *COBS* 19 Annex 4A, 4B and 4C. We are now adding it as definition to the main Handbook Glossary so all consequential references to "future income benefits" should be read as, and amended to, references to "*future income benefits*".]

non-DB pension scheme	any pension arrangement that is not a scheme (or is not a section of a scheme) that provides *safeguarded benefits* other than a *guaranteed annuity rate*.
proposed arrangement	(for the purposes of *COBS* 19), refers to the arrangement with *flexible benefits* to which the *retail client* would move and takes into account the subsequent intended pattern of decumulation;

[*Editor's note*: the above definition of "proposed arrangements" was previously defined in *COBS* 19.1.1-AR for the purposes of *COBS* 19.1 and *COBS* 19 Annex 4A, 4B and 4C. We are now adding it as definition to the main Handbook Glossary so all consequential references to "proposed arrangements" in *COBS* 19 should be read as, and amended to, references to "*proposed arrangements*".]

related services	(for the purposes of *COBS* 19.1B) has the same meaning as in *COBS* 6.1A.6R and *COBS* 6.1A.6AG.
serious financial difficulty	circumstances that mean a *retail client* is experiencing serious financial difficulty.
serious ill-health	a medical condition that is likely to reduce the life expectancy of a *retail client* to below age 75.
transfer value comparator	comparison prepared in accordance with *COBS* 19.1.3AR.

[*Editor's note*: the above definition of "transfer value comparator" was previously defined in *COBS* 19.1.1-AR for the purposes of *COBS* 19.1 and *COBS* 19 Annex 4A, 4B and 4C. We are now adding it as definition to the main Handbook Glossary so all consequential references to "transfer value comparator" should be read as, and amended to, references to "*transfer value comparator*".]

Amend the following definitions as shown.

adviser charge	any form of charge payable by or on behalf of a *retail client* to a *firm* in relation to the provision of a *personal recommendation* by the *firm* in respect of a *retail investment product*, <u>*pension transfer*, *pension conversion*, *pension opt-out*</u> or *P2P agreement* (or any related service provided by the *firm*) which: (a) is agreed between that *firm* and the *retail client* in accordance with the

rules on adviser charging and remuneration (*COBS* 6.1A); and

(b) is not a *consultancy charge*.

arranging …

(e) (in relation to a *pension transfer*, *pension conversion* or *pension opt-out)* making arrangements for a *retail client* to bring about:

(i) (in a *pension transfer* or *pension conversion*) the conclusion of all or part of the *retail client's* subsisting rights in respect of any *safeguarded benefits*; or

(ii) a *pension opt-out*.

guaranteed annuity rate an arrangement in a pension scheme to provide benefits whereby, in defined circumstances and irrespective of the prevailing market rate for annuities when those benefits come into payment, a member is entitled to:

(a) an annuity at a minimum specified rate; or

(b) benefits equivalent to that annuity at that minimum specified rate, including a minimum guaranteed income under a *retirement annuity* but excluding, for the avoidance of doubt:

(i) fixed or guaranteed benefits in an individual pension contract that replaced similar *safeguarded benefits* under a *defined benefits pension scheme*;

(ii) an entitlement to a lifetime income paying a guaranteed minimum pension that results from contracting out of the State Earnings Related Pension Scheme; and

(iii) a defined benefit minimum that accrues or may accrue at the same time as *money-purchase benefits* under a pension arrangement.

pension transfer ~~a transaction, resulting from the decision of *a retail client* who is an individual:~~

~~(a) to transfer deferred benefits (regardless of when the *retail client* intends to crystallise such benefits) from:~~

~~(i) an *occupational pension scheme*;~~

~~(ii) an individual pension contract providing fixed or guaranteed benefits that replaced similar benefits under a *defined benefits pension scheme*; or~~

~~(iii) (in the cancellation *rules* (*COBS 15*)) a *stakeholder pension scheme* or *personal pension scheme*,~~

~~to:~~

~~(iv) a *stakeholder pension scheme*;~~

~~(v) a *personal pension scheme*; or~~

~~(vi) a deferred annuity *policy*, where the eventual benefits depend on investment performance in the period up to the date when those benefits will come into payment; or~~

~~(vii) a *defined contribution occupational pension scheme*; or~~

~~(b) to require the trustees or manager of a pension scheme to make a transfer payment in respect of any *safeguarded benefits* with a view to obtaining a right or entitlement to *flexible benefits* under another pension scheme.~~

(except in *COBS* 15 (Cancellation)) a transaction, resulting from the decision of a *retail client* who is an individual, to require a transfer payment in respect of any *safeguarded benefits*:

(a) from any pension scheme with a view to obtaining a right or entitlement to *flexible benefits* under another pension scheme; or

(b) from an *occupational pension scheme* with a view to obtaining a right or entitlement to *safeguarded benefits* under a non-occupational pension scheme; or

(c) from an individual pension contract providing fixed or guaranteed benefits that replaced similar *safeguarded benefits* under a pension scheme with a view to obtaining a right or entitlement to *safeguarded benefits* under a non-occupational pension scheme or under a *defined contribution occupational pension scheme*.

For the purposes of this definition of "pension transfer":

(d) "pension scheme" means an *occupational pension scheme* or a non-occupational pension scheme; and

(e) "non-occupational pension scheme" means a *stakeholder pension scheme*, a *personal pension scheme* or a deferred annuity contract.

qualifying scheme

(a) a *personal pension scheme* or *stakeholder pension scheme*, which provides money purchase benefits, used by an employer(s) to comply with duties imposed in Part 1, Chapter 1 of the Pensions Act 2008. In summary, these duties are to take necessary steps for particular employees, by a particular time, to make those employees members of a pension scheme which meets the criteria in that Act and in regulations made under that Act;

(b) but such a scheme will not be a *qualifying scheme* if the only members of that scheme are directors or former directors of the same employer, including at least one third of the current directors of that employer; and

(c) (in *COBS* 9.4.11R, *COBS* 19.1 and *COBS* 19.2) in addition to the

schemes in (a) as qualified by (b), a *defined contribution occupational pension scheme* that is a qualifying scheme for the purposes of the Pensions Act 2008.

remuneration

(1) (except where (2), ~~or~~ (3) or (4) apply) …

…

(4) (in *COBS* 19.1B) means any payment or benefit whatsoever:

(a) charged to, or received from, a *retail client* (directly or indirectly); or

(b) received by a *firm*, or by any *person* or entity connected with the *firm*;

for, or in connection with, advice or other services provided by the *firm*, or by any of its *associates* that are also a *firm*.

Annex B

Amendments to the Training and Competence sourcebook (TC)

This Annex comes into force on 1 October 2020.

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

2 Competence

2.1 Assessing and maintaining competence

…

Continuing professional development for retail investment advisers

2.1.15 R …

…

2.1.23 R …

Continuing professional development for pension transfer specialists

2.1.23A R (1) A *firm* must ensure that a *pension transfer specialist* who has been assessed as competent for the purposes of *TC* 2.1.1R remains competent by completing a minimum of 15 hours of appropriate continuing professional development in each 12-month period.

(2) The 15 hours of appropriate continuing professional development must include:

(a) 9 hours of structured professional development activities; and

(b) at least 5 hours provided by an external independent provider.

(3) In the year in which they were assessed as competent, a *pension transfer specialist* need:

(a) only complete the pro-rated proportion of the 15 hours (and 9 and 5 hours) that reflects the portion of the 12-month period;

(b) the 12-month period commences:

(i) immediately on the date the *pension transfer specialist* was assessed as competent; or

(ii) on another date during the year of the assessment to align with the *pension transfer specialist's* other continued professional learning year or period, if any.

(4) The appropriate continuing professional development in (1) is in addition to any other continuing professional development completed. Continuing professional development completed by a *pension transfer specialist* in relation to activities other than acting as a *pension transfer specialist* must not be taken into account for the purposes of (1).

2.1.23B G (1) Appropriate continuing professional development has the same meaning as given in *TC* 2.1.22G(1) to (5). For this purpose, reference to *retail investment adviser* should be read as if it were a reference to a *pension transfer specialist*.

(2) An external independent provider is an organisation or person that is not associated with or influenced by the *firm's* own view.

(3) For examples of structured and unstructured professional development see *TC* 2.1.20G and *TC* 2.1.21G.

2.1.23C R *TC* 2.1.17R (suspending the continuing professional development requirement) and related *guidance* apply in relation to a *pension transfer specialist* and references to:

(1) *TC* 2.1.15R must be read as if it were a reference to *TC* 2.1.23AR; and

(2) a *retail investment adviser* must be read as if it were a reference to a *pension transfer specialist*.

Continuing professional development record-keeping

2.1.24 R A *firm* must, for the purposes of *TC* 3.1.1R (Record keeping), make and retain records of:

(1) the continuing professional development completed by each:

(a) *retail investment adviser* (under *TC* 2.1.15R);

(b) *pension transfer specialist* (under *TC* 2.1.23AR)~~;~~

and

(2) the dates of and reasons for any suspension of the continuing professional development requirements under *TC* 2.1.17R or *TC* 2.1.23CR.

2.1.25 R A *firm* must not prevent a *retail investment adviser* or a *pension transfer specialist* from obtaining a copy of the records relating to them which are maintained by the *firm* for the purposes of *TC* 2.1.24R.

…

Annex C

Amendments to the Conduct of Business sourcebook (COBS)

Part 1: Comes into force on 15 June 2020.

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

19 Pensions supplementary provisions

19.1 Pension transfers, conversions and opt-outs

…

Guidance on estimated transfer value

19.1.3B G If a *firm* gives *advice on conversion or transfer of pension benefits* to a *retail client* under circumstances where the ceding arrangement is expected to be changed, or replaced by another scheme, the *firm* should:

(1) prepare a provisional *appropriate pension transfer analysis* and *transfer value comparator* based on the information related to the changed or replacement scheme;

(2) make reasonable assumptions about the changed or replacement scheme where the benefits are uncertain; and

(3) set out in a provisional *suitability report* any assumptions and uncertainties to the *retail client*, which should clearly set out that the *personal recommendation* can only be finalised once the transfer value and changed or replacement arrangements are certain.

Part 2: Comes into force on 1 October 2020.

2 Conduct of business obligations

…

2.3 Inducements relating to business other than MiFID, equivalent third country or optional exemption business and insurance-based investment products

…

2.3.1 R …

(1) …

(2) …

(b) …

(i) …

(A) giving a *personal recommendation* in relation to a *retail investment product*, *pension transfer*, *pension conversion*, *pension opt-out* or *P2P agreement*; or

…

(c) in relation to the carrying on by a *UK UCITS management company* or *EEA UCITS management company* of the *collective portfolio management* activities of investment management and administration for the relevant *scheme* or when carrying on a *regulated activity* in relation to a *retail investment product*~~,~~ or a *pension transfer*, *pension conversion* or *pension opt-out* or when *advising on P2P agreements*, the payment of the fee or commission, or the provision of the non-monetary benefit is designed to enhance the quality of the service to the *client*; or

(3) proper fees which enable or are necessary for the provision of *designated investment business*, such as custody costs, settlement and exchange fees, regulatory levies or legal fees, and which, by their nature, cannot give rise to conflicts with the *firm's* duties to act honestly, fairly and professionally in accordance with the best interests of its *clients*; or

(4) an *employer or trustee funded pension advice charge*.

…

2.3.6A G …

(1) relating to the provision of a *personal recommendation* on *retail investment products*, *pension transfers*, *pension conversions*, *pension opt-outs* or *P2P agreements*; or

…

2.3.16B R …

(1) makes *personal recommendations* to *retail clients* in relation to *retail investment products*, *pension transfers*, *pension conversions*, *pension opt-outs* or *P2P agreements*, and to which *COBS* 6.1A (Adviser charging and remuneration) applies; or

…

…

6 Information about the firm, its services and remuneration

…

6.1A Adviser charging and remuneration

Application - Who? What?

6.1A.1 R (1) This section applies to a *firm* which makes *personal recommendations* to *retail clients* in relation to *retail investment products*, *pension transfers*, *pension conversions*, *pension opt-outs* or *P2P agreements*.

…

Application - Where?

6.1A.3 This section does not apply if the *retail client* is outside the *United Kingdom* except to the extent that the service provided is *advising on conversion or transfer of pension benefits*.

Requirement to be paid through adviser charges

6.1A.4 R Except as specified in this section, ~~*COBS* 6.1A.4AR, *COBS* 6.1A.4ABR, *COBS* 6.1A.4ACG, *COBS* 6.1A.4BR and *COBS* 6.1A.5AR(1),~~ a *firm* must:

…

Exception: Events before December 2012

6.1A.4A R …

…

Exception: Employer or trustee funded pension advice charge

6.1A.4C R A *firm* may receive an *employer or trustee funded pension advice charge*.

Exception: receipt and refund of adviser charges

6.1A.5 …

…

Related and other services

6.1A.6 R Related service(s)' for the purposes of *COBS* 6.1A includes:

(1) …

(2) managing a relationship between a *retail client* (to whom the *firm* provides *personal recommendations* on *retail investment products*, *pension transfers*, *pension conversions*, *pension opt-outs* or *P2P agreements*) and a *discretionary investment manager* or providing a

service to such a client in relation to the investments managed by such a manager; or

(3) recommending a *discretionary investment manager* to a *retail client* (to whom the *firm* provides *personal recommendations* or other services in relation to *retail investment products*, *pension transfers*, *pensions conversions*, *pension opt-outs* or *P2P agreements*).

6.1A.6A G 'Other services' in *COBS* 6.1A.6R(3) includes:

(1) providing information relating to *retail investment products*, *pension transfers*, *pension conversions*, *pension opt-outs*, *P2P agreements* or *operators of electronic systems in relation to lending to* the *retail client*, for example, general market research; or

…

…

Calculation of the cost of adviser services to a client

6.1A.16 G ~~In order to~~ To meet its responsibilities under the *client's best interests rule* and Principle 6 (Customer's interests)~~,~~:

(1) a *firm* should consider whether the *personal recommendation* or any other related service is likely to be of value to the *retail client* when the total charges the *retail client* is likely to be required to pay are taken into account;

(2) a *firm* that *advises on conversion or transfers of pension benefits* should consider whether it would be more appropriate to give a *retail client abridged advice* (under *COBS* 19.1A) rather than a *full pension transfer or conversion advice* (under *COBS* 19.1) taking into account the total charges the *retail client* is likely to pay.

…

Initial information for clients on the cost of adviser services

6.1A.17 R A *firm* must disclose its charging structure to a *retail client* in writing in good time before making the *personal recommendation* (or providing *related services*) or commencement of the *abridged advice* process.

…

6.1A.18A R (1) Where the services to be provided in *COBS* 6.1A.17R include *full pension transfer or conversion advice* (other than where the only *safeguarded benefi*t involved is a *guaranteed annuity rate*), the disclosure required under *COBS* 6.1A.17R must include a personalised charges communication.

(2) The personalised charges communication in (1) must include the

following:

(a) the expected amounts payable (in *cash terms*) for the *full pension transfer or conversion advice*, and, where applicable, any *advice on investments* (whether by the *firm* or any other *firm)* in connection with the *retail client's pension transfer* or *pension conversion*;

(b) where the *firm* is subject to the ban on contingent charging *rules* (see *COBS* 19.1B) (Ban on contingent charging)) because the *client* does not fall within one of the exceptions in *COBS* 19.1B.9R, a statement that the amount of charges payable in relation to *full pension transfer* or *conversion advice* is the same whether or not the advice is to transfer or convert or to remain in their *ceding arrangement*;

(c) the estimated amount of the monthly charge (in *cash terms*) for ongoing advice and/or services (whether provided by the *firm* or any other *firm*) in the first year following the transfer or conversion, assuming that funds remain invested with no growth but taking into account the cost of initial advice;

(d) whether and the extent to which the charges in the first year are lower than the charges anticipated in subsequent years;

(e) if the charges are significantly lower in the first year compared to subsequent years, the *firm* must indicate the amount of the monthly charge (in *cash terms*) in subsequent years until the point at which the charges are no longer expected to vary significantly from year to year; and

(f) where relevant, a statement that the expected amounts payable in (a) do not include any amounts that may be payable by the *client* for any related advice or services they may receive that fall outside the *UK* regulatory regime.

(3) Where the *firm* (or any other *firm)* offers different types of ongoing advice and/or services with different charging structures, the *firm* must include in the personalised charges communication, the charges for each type of ongoing advice and/or service it offers.

(4) Where a *firm* has reasonable grounds to believe that it is not subject to the ban on contingent charging *rules* (see *COBS* 19.1B) because the *client* falls within one of the exceptions in *COBS* 19.1B.9R:

(a) the reasons why the *firm* considers that the *client* falls within one of the exceptions, and including a description of the evidence relied on by the *firm* in support;

(b) the amounts payable (in *cash terms*) if the *firm's* recommendation is for the *client* not to transfer or not to convert their pension, and the amounts payable (including any

amounts recoverable by the *firm* (or any other *firm)* as part of ongoing charges) if the advice is to transfer or to convert; and

(c) a statement that:

(i) the reasons set out in (4a) may change after further analysis of the *client's* circumstances; and

(ii) if after further analysis of the *client's* circumstances, the *firm* determines that it is subject to the ban on contingent charging *rules* because the *client* does not fall within one of the exceptions in *COBS* 19.1B.9R, then the amount of charges payable in relation to *full pension transfer* or *conversion advice* is the same whether or not the advice is to transfer or convert or to remain in their *ceding arrangement*.

6.1A.18 B R Where the services to be provided in *COBS* 6.1A.17R include *abridged advice*, the *firm* must disclose to the *client* in writing the amounts payable (in *cash terms*) in each of the following situations:

(1) the *firm* gives *abridged advice* and a *personal recommendation* not to transfer or convert their pension;

(2) the *firm* starts the *abridged advice* process but is unable to take a view on whether it is in the *client's* best interests to transfer or convert without undertaking *full pension transfer or conversion advice*; and

(3) the *firm* gives *abridged advice* followed by *full pension transfer or conversion advice*.

Ongoing payment of adviser charges

6.1A.22 R …

(1) …

(2) the *adviser charge* relates to a *retail investment product* or a *pension transfer*, *pension conversion* or *pension opt-out* or arrangement with *an operator of an electronic system in relation to lending* for which an instruction from the *retail client* for regular payments is in place and the *firm* has disclosed that no ongoing *personal recommendations* or service will be provided.

…

9 Suitability (including basic advice) (other than MiFID and insurance-based investment products)

…

9.1 Application and purpose provisions

…

9.1.8 G For a *firm* making *personal recommendations* in relation to pensions:~~,~~

(1) *COBS* 19.1 contains additional provisions relevant to assessing suitability and the contents of *suitability reports* for *full pension transfer or conversion advice*; and

(2) *COBS* 19.1A contains additional provisions relevant to assessing suitability and the contents of *suitability reports* for *abridged advice*.

…

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 (in respect of *full pension transfer or conversion advice* or advice on a *pension opt-out*) and *COBS* 19.1A.11G (in respect of *abridged advice*).

…

9.4 Suitability reports

…

9.4.2A R (1) If a *firm* makes a *personal recommendation* in relation to *a pension transfer* or *pension conversion*, it must provide:

(a) the *client* with a *suitability report*; and

(b) (except where the only *safeguarded benefit* involved is a *guaranteed annuity rate*) a one page summary at the front of *suitability report*.

…

Timing

9.4.4 R A *firm* must provide the *suitability report* to the *client*:

…

(2) … ; ~~or~~

(2A) in the case of a *pension transfer* or *pension conversion*, in good time before the transaction is effected; or

(3) in any other case, when or as soon as possible after the transaction is effected or executed.

…

…

Additional content for pension transfers and conversions

9.4.11 R (1) A *firm* must include a one page summary at the front of the *suitability report* when making a *personal recommendation* in relation to a *pension transfer* or a *pension conversion*, except where the only *safeguarded benefit* involved is a *guaranteed annuity rate*.

(2) The one page summary must include the following:

(a) a summary of the *personal recommendation*;

(b) a statement as to whether the recommendation is in relation to *abridged advice* or *full pension transfer or conversion advice*;

(c) information about the ongoing advice and/or services (if any) the *firm*, or any other *person*, proposes to provide to the *client* after the execution of the *pension transfer* or *pension conversion*;

(d) the risks associated with *pension transfers* or *pension conversions* as set out in *COBS* 19.1.6G(4)(b), and an invitation to the *client* to consider whether they fully understand those risks and, if so, sign the one page summary to confirm that;

(e) all of the ongoing advice charges, all other ongoing charges and any additional charges expected to be incurred by the *client* if they proceed with the *pension transfer* or *pension conversion*, together with a comparison to the charges and revalued monthly income in the *ceding arrangement* and to the charges in any *default arrangement* in any available *qualifying scheme*; and

(f) information about the amounts payable (in *cash terms*) in relation to the initial advice on the *pension transfer* or *pension conversion*, and the number of months (rounded up to the

nearest whole month) it would take to pay that amount out of the revalued monthly income the *client* would receive from the *ceding arrangement*.

(3) Where the *firm* only gave *abridged advice*:

(a) the information in (2)(c), (d) and (e) is not required;

(b) the information in (2)(f) must clearly state that this is only relevant if the *client* wishes to obtain *full pension transfer or conversion advice*; and

(c) the one page summary must also set out:

(i) that the *firm* has not given *full pension transfer or conversion advice*, and provide a summary of the difference between it and *abridged advice*; and

(ii) that where the *full pension transfer or conversion advice* is within the scope of the requirement in section 48 of the Pension Schemes Act 2015, no *firm* can arrange a *pension transfer* or a *pension conversion* unless the *client* receives *full pension transfer or conversion advice*.

(4) The summary in (2)(a) must:

(a) set out whether the recommendation is to effect a *pension transfer* or *pension conversion* or to remain in the *client's* current scheme or arrangement;

(b) set out where in the *suitability report* the *client* can obtain a more detailed explanation of the recommendation;

(c) invite the *client* to consider whether they accept or do not accept the recommendation and, if so, sign the one page summary to confirm that; and

(d) where the *firm* provides *full pension transfer or conversion advice* and any *advice on investments* (whether by the *firm* or any other *person*) in connection with the *pension transfer* or *pension conversion*, set out the summary of the advice given by the *firm* and/or any other *person* for both services.

(5) The information in (2)(c) must:

(a) set out that the *client* is not required to accept ongoing advice and/or services proposed (if any);

(b) explain that the *client* can opt out of receiving ongoing advice and/or services at any time;

(c) set out, in *cash terms*, the monthly and annual charges associated with receiving ongoing advice and/or services whether by the *firm* or any other *person*;

(d) where the *firm* proposes that it or another *firm* offers ongoing advice and/or services to the *client*, invite the *client* to consider whether they wish to receive this ongoing advice and/or services proposition, and whether they agree to the associated charges, and if so, sign the one page summary to consent to receiving the services and agree to the charges; and

(e) where the *client* declines to sign the one page summary for any of the proposals in (d), set out that the *client* is not required to accept ongoing advice and/or services, and explain that additional charges and/or other amounts may be payable by the *client* if they wish to receive ongoing advice and/or services from another *person*.

(6) The summary of the anticipated charges associated with the *pension transfer* or *pension conversion* in (2)(e) must include the anticipated first-year charges after the *pension transfer* or *pension conversion* and be set out:

(a) in *cash terms*;

(b) alongside any charges associated with the *client's ceding arrangement* (and presented as nil if there are no charges); and

(c) alongside any charges associated with any *default arrangement* in any *qualifying scheme* available to the *client*, if the *client* chose to transfer to that scheme.

(7) The revalued monthly income in the *ceding arrangement* referred to in (2)(e) must:

(a) (where the *client* has not passed the normal retirement age) be calculated by:

(i) revaluing the *future income benefits* to the date of the *client's* date they would normally be paid in accordance with *COBS* 19 Annex 4B 1R(1)(1); and

(ii) discounting the value of the *future income benefits* to the calculation date in accordance with the assumption in *COBS* 19 Annex 4C 1R(4)(d);

(b) (where the *client* has passed the normal retirement age) be calculated in line with the current income in the *ceding arrangement*.

9.4.12 G (1) If the *personal recommendation* to the *client* is to remain in the *ceding arrangement*, and the *client* declines to sign the one page summary to confirm that they intend to accept the *personal recommendation* in accordance with *COBS* 9.4.11R(4)(c), the *firm* should follow the insistent *client* guidance in *COBS* 9.5A (Additional guidance for firms with insistent clients).

(2) If the *client* declines to sign the one page summary of the advice to confirm their understanding of the risks in *COBS* 9.4.11R(2)(d), the *firm* should take further steps to establish whether the *client* has fully understood the risks, and if not, consider changing its *personal recommendation*.

(3) The other ongoing charges in *COBS* 9.4.11R(2)(e) include (but are not limited to):

(a) ongoing product charges, including those in relation to *investments* within the product;

(b) discretionary fund management charges; and/or

(c) platform charges.

(4) The additional charges in *COBS* 9.4.11R(2)(e) include initial product charges, charges associated with accessing existing funds or moving funds to a different scheme.

…

9.5 Record keeping and retention periods for suitability records

…

9.5.2 R …

(2) if relating to a *life policy*, *personal pension scheme*, ~~or~~ *stakeholder pension scheme* or benefits in a *defined contribution occupational pension scheme* (unless otherwise falling in (1) above), five years; and

…

15 Cancellation

…

15.1 Application

…

Definitions

15.1.2 R In this section:

(a) "pension transfer" means a transaction, resulting from the decision of a *retail client* who is an individual to require a transfer payment of benefits from a pension scheme to:

(i) benefits under a non-occupational pension scheme; or

(ii) (for transfers from a non-occupational pension scheme) benefits under a *defined contribution occupational pension scheme*;

(b) "non-occupational pension scheme" means a *stakeholder pension scheme*, a *personal pension scheme* or a deferred annuity contract; and

(c) "pension scheme" means an *occupational pension scheme* or a non-occupational pension scheme.

…

15.2 The right to cancel

Cancellable contracts

15.2.1 R …

- a contract for a ~~*pension transfer*~~ pension transfer

…

…

15.3 Exercising a right to cancel

…

Record keeping

15.3.4 R …

(1) indefinitely in relation to a ~~*pension transfer*~~ pension transfer, *pension opt-out* or *FSAVC*;

…

…

15 Exemptions from the right to cancel
Annex 1

…

Exemptions for certain pension arrangements (the 'cancellation substitute')

1.5 R There is no right to cancel:

(1) a contract for or funded (wholly or in part) from a ~~*pension transfer*~~ pension transfer; or

…

…

19 Pensions supplementary provisions

19.1 Pension transfers, conversions and opt-outs

Application

…

19.1.-1A R Except where a *firm* is providing *abridged advice* (see *COBS* 19.1A), this ~~This~~ section applies to a *firm* which:

(1) gives *advice on pension transfers, pension conversions and pension opt-outs* to a *retail client*; or

(2) *arranges pension transfers*, *pension conversions* or *pension opt-outs*,

in relation to:

~~(1)~~ a *pension transfer* ~~from a scheme with *safeguarded benefits*~~;

(3)

~~(2)~~ a *pension conversion*; or

(4)

~~(3)~~ a *pension opt-out* from a scheme with *safeguarded benefits* or potential *safeguarded benefits*.

(5)

…

~~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.~~ [deleted]

…

Personal recommendation for pension transfers and conversions

19.1.1C R …

(5) Prior to making a *personal recommendation* to effect a *pension transfer* or *pension conversion*, *a firm* must obtain evidence that the *client* can demonstrate that they understand the risks to them of proceeding with the *pension transfer* or *pension conversion*.

19.1.1D G (1) *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*.

(2) (a) *COBS* 9 requires a *firm* to obtain from the *client* necessary information for the *firm* to be able to make a recommendation. The necessary information includes ensuring that the *client* has the necessary experience and knowledge to understand the risks involved in the transaction. If a *client* does not understand the risks and/or the *firm* does not have evidence that the *client* can demonstrate their understanding, then it is likely not to be appropriate, under the *COBS* 9 requirements, to make a recommendation to transfer or convert.

(b) The *firm* should make a clear record of the steps it has taken to satisfy itself on reasonable grounds that it has adequate evidence of the *client's* demonstration of their understanding of the risks.

(3) When a *firm* is obtaining evidence as to whether the *client* can demonstrate that they understand the risks involved in the *pension transfer* or *pension conversion*, it should tailor its approach according to the experience, financial sophistication and/or vulnerability of each individual *client*.

…

…

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) where the *proposed arrangement* is a *personal pension scheme*, *stakeholder pension scheme* or *defined contribution occupational pension scheme* that is not a *qualifying scheme*, and a *qualifying scheme* is available to the *retail client*, compare the benefits and options available under the *proposed arrangement* with the benefits and options available under the *default arrangement* of the *qualifying scheme*; and

~~(3)~~ (4) undertake the analysis in (1), ~~and~~ (2) and (3) in accordance with *COBS* 19 Annex 4A and *COBS* 19 Annex 4C.

…

Transfer value comparator

19.1.3A R (1) …

(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 using the notes set out in *COBS* 19 Annex 5 1.2R. ~~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.~~

(3) When the *retail client* has passed the normal retirement age of the *ceding arrangement*, the *firm* must provide a *transfer value comparator* applying the retirement age assumed in the calculation of the transfer value.

(4) Where the *ceding arrangement* allows the *retail client* to take their benefits at an age below the scheme's normal retirement age, with no reduction for early payment and where no consent is required, then the *firm* must provide a *transfer value comparator* assuming that the *retail client* will retire at this age.

…

Guidance on assessing suitability

19.1.6 G …

(7) Where a *qualifying scheme* is available to the *retail client*, a *firm* considering making a *personal recommendation* to effect a *pension transfer* to a *personal pension scheme*, *stakeholder pension scheme* or *defined contribution occupational pension scheme* that is not a *qualifying scheme*:

(a) should start by assuming that it will not be as suitable as a transfer to the *default arrangement* of an available *qualifying scheme*; and

(b) will need to be able to demonstrate clearly that, as at the time of the *personal recommendation*, it is more suitable than a transfer to the *default arrangement* of an available *qualifying scheme*.

(8) For the purposes of (7):

(a) a *qualifying scheme* is available to the *retail client* where it accepts transfers from other schemes into its *default arrangement*; and

(b) where more than one *qualifying scheme* is available to the *retail client*, the *firm* should consider the available *qualifying scheme* that the *retail client* most recently joined, but may, in addition, also consider any of the other *qualifying schemes* available to the *retail client*.

(9) To demonstrate (7)(b) the *firm* may, subject to (10), take into account one or more of the following considerations:

(a) the *retail client* provides evidence of experience at making active investment choices as a self-investor or as an *advised* investor (except in relation to investments in the *default arrangement* of a *qualifying scheme* or in a mortgage endowment policy or similar product);

(b) where the *retail client* wishes to access the funds within 12 *months* of entering into pension decumulation and the *qualifying scheme* does not offer the *retail client* a decumulation option that would enable the *retail client* to achieve their desired outcome.

(10) In taking into account the considerations in (9), as well as any other considerations that the *firm* may decide to take into account when demonstrating 7(b), the *firm* should also consider:

(a) whether those considerations are so important to the *client* as to outweigh other considerations in favour of the *default arrangement* of the available *qualifying scheme*; and

(b) why the outcome sought by transferring to a *personal pension scheme*, *stakeholder pension scheme* or *defined contribution occupational pension scheme* that is not a *qualifying scheme* cannot be achieved by transferring to the *qualifying scheme*.

(11) The presence of one or more of the following circumstances should not be taken as sufficient to demonstrate that the *personal recommendation* in (7) is suitable:

(a) one of the *retail client's* objectives is to have access to a wider range of investment options than available under the *default arrangement* of the *qualifying scheme*;

(b) the transfer is to take place more than 12 *months* before the *retail client* enters into pension decumulation; and/or

(c) the *retail client* will enter into pension decumulation within the next 12 *months*, but the *retail client* has not yet decided whether or how they will access their funds.

…

~~Record keeping and suitability reports~~ Arranging without making a personal recommendation

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

(1) make a clear record of the fact that ~~no~~ the *firm* has not given that *personal recommendation* ~~was given~~ to ~~that~~ the *client*; ~~and~~

(1A) where the *pension transfer* or *pension conversion* is within the scope of the requirement in section 48 of the Pension Schemes Act 2015:

(a) not proceed with the arrangements until it has received confirmation, from the *firm* that gave the advice to the *retail client*, that the *retail client* has received a *personal recommendation* in accordance with the requirements of *COBS* 19.1 (and that it was not *abridged advice*); and

(b) if the client has received a *personal recommendation*, ask whether or not the recommendation was to transfer or convert; and

(c) retain clear records showing evidence of (a) and (b);

(1B) where the recommendation in (1A) was not to transfer or convert the *retail client's* subsisting rights in respect of *safeguarded benefits*, the *firm arranging* the *pension transfer* or *pension conversion* must:

(a) warn the *retail client* that they are acting against advice not to transfer or convert;

(b) ask the *retail client* whether they understand the consequences of acting against advice;

(c) where the *retail client* does not understand the consequences of acting against advice, refuse to arrange the *pension transfer* or conversion and instead refer the *retail client* back to the *firm* that advised them not to transfer or convert for an explanation of that advice; and

(d) retain a record of the communications with the *retail client* that evidence compliance with the requirements in (a) to (c);

(2) retain ~~this record~~ the records in (1), (1A) and (1B) indefinitely.

19.1.7D G Where the advice referred to in *COBS* 19.1.7CR(1A) was *abridged advice*, the *firm* being asked to arrange the transfer or conversion should not ask the advising *firm* for confirmation of the *abridged advice* given. The *firm* is not permitted to arrange the relevant *pension transfer* or *pension conversion* where the advice given was *abridged advice*.

19.1.7E R Where the *firm* that has given advice to a *retail client* is asked by a *firm* arranging a *pension transfer* or *pension conversion* that is within the scope of the requirement in section 48 of the Pension Schemes Act 2015 to:

(a) provide a confirmation that the *retail client* has received a *personal recommendation* in accordance with the requirements of *COBS* 19.1 (and that it was not *abridged advice*); and

(b) if the *client* has received a *personal recommendation*, confirm whether or not the recommendation was to transfer or convert,

the advising *firm* must provide the requested information to the *firm* arranging a *pension transfer* or *pension conversion* as soon as reasonably practicable.

Suitability reports

19.1.8 G If a *firm* provides a *suitability report* to a *retail client* in accordance with ~~*COBS* 9.4.1R~~ *COBS* 9.4.2AR it should include:

…

…

19.1.9A R Prior to finalising the *firm's personal recommendation*, a *firm* seeking evidence that the *client* can demonstrate their understanding of the risks in accordance with *COBS* 19.1.1CR(5) must:

(1) make a clear record of either:

(a) the evidence showing that the *client* demonstrated that they understood the risks involved in effecting a *pension transfer* or *pension conversion* and the steps taken by the *firm* to obtain that; or

(b) if the *firm* could not obtain evidence that the *client* could demonstrate that understanding and the *firm* did not change to a recommendation not to transfer, the steps taken by the *firm* to obtain the evidence and clear evidence and explanation of how the *firm* satisfied itself on reasonable grounds that it was still suitable to continue to make the same *personal recommendation*; and

(2) retain the records in (1) indefinitely.

After COBS 19.1 (Pension transfers, conversions, and opt-outs) insert the following new sections, COBS 19.1A and 19.1B. The text is not underlined.

19.1A Abridged advice on pension transfers and pension conversions

Application

19.1A.1 R This section applies to a *firm* which gives *abridged advice* in relation to a *pension transfer* or *pension conversion* to a *retail client*.

19.1A.2 R A *firm* may not give *abridged advice* to the extent that the *safeguarded benefits* involved are *guaranteed annuity rates*.

Options when providing abridged advice

19.1A.3 R A *firm* giving a *retail client abridged advice* must either:

(1) make a *personal recommendation* that the *client* remains in their *ceding arrangement*; or

(2) do all of the following:

(a) inform the *client* that they are unable to take a view on whether it is in the *client*'s best interests to transfer or convert without undertaking *full pension transfer or conversion advice*, even when the *firm* considers that it may be in the *client*'s best interests;

(b) check if the *client* wants the *firm* to provide *full pension transfer or conversion advice* and check that the *client* understands the associated cost; and

(c) (if the *firm* has reason to believe that the *client* is suffering from *serious ill-health* or experiencing *serious financial difficulty*) make the *client* aware of the implications for the level of

adviser charges if the *client* proceeded to *full pension transfer or conversion advice*.

Guidance about proceeding from abridged advice to full pension transfer or conversion advice

19.1A.4 G This *guidance* applies where a *firm* has given *abridged advice* to a *retail client* and the *client* wishes to proceed to *full pension transfer or conversion advice*.

(1) Where the outcome of the *abridged advice* was a *personal recommendation* that the *client* remains in their *ceding arrangement*, the *FCA's* expectation is that in most cases the outcome of *full pension transfer or conversion advice* will be a *personal recommendation* that the *client* remains in their *ceding arrangement*.

(2) Where the outcome was a statement that the *firm* was unable to take a view on whether it would be in the *client's* best interests to transfer or convert without undertaking *full pension transfer or conversion advice*, the *FCA's* expectation is that the outcome of *full pension transfer or conversion advice* could still be a *personal recommendation* that the *client* remains in their *ceding arrangement*.

Inability to provide confirmation for the purposes of section 48 of the Pension Schemes Act 2015

19.1A.5 R A *firm* must not provide a confirmation for the purposes of section 48 of the Pension Schemes Act 2015 unless it has provided *full pension transfer or conversion advice*.

Prohibition

19.1A.6 R A *firm* must not carry out *appropriate pension transfer analysis* and/or prepare a *transfer value comparator* and/or consider the *proposed arrangement* when providing *abridged advice* to a *retail client*.

Requirement to use a pension transfer specialist

19.1A.7 R A *firm* must ensure that *abridged advice* is given or checked by a *pension transfer specialist*.

19.1A.8 G Where a *firm* uses a *pension transfer specialist* to check its proposed *abridged advice* it should have regard to the *guidance* in *COBS* 19.1.1BG.

Relevant guidance about assessing suitability

19.1A.9 G If a *firm* provides a suitability report to a *retail client* in accordance with *COBS* 9.4.2AR it should include (in addition to the requirements in *COBS* 9.4):

(1) a summary of the advantages and disadvantages of its *personal recommendation*; and

(2) a summary of any other material information that would assist the client in understanding the basis of the advice.

19.1A.10 R A *firm* must not arrange a transaction for a *client* where only *abridged advice* has been given.

19.1A.11 G (1) This *guidance* relates to a *firm's* obligations to assess suitability in accordance with *COBS* 9.2.1R to 9.2.3R.

(2) A *firm* should start by assuming that a *pension transfer* or *pension conversion* will not be suitable.

(3) For the purposes of the provision of *abridged advice*, 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* for *flexible benefits*, taking into account the following factors:

(i) the risks and benefits of staying in the *ceding arrangement*;

(ii) the risks and benefits of transferring from the *ceding arrangement* into an arrangement with *flexible benefits*;

(iii) the *retail client's* attitude to certainty of income in retirement;

(iv) whether the *retail client* would be likely to access funds in an arrangement with *flexible benefits* in an unplanned way;

(v) the likely impact of (iv) on the sustainability of the funds over time;

(vi) the *retail client's* attitude to, and experience of, managing *investments* or paying for *advice on investments* so long as the funds last; and

(vii) the *retail client's* attitude to any restrictions on their ability to access funds in the *ceding arrangement*;

(c) the *retail client's* realistic retirement income needs including:

(i) how they can be achieved;

(ii) the role played by *safeguarded benefits* in achieving them; and

(iii) the consequent impact on those needs of a *pension transfer* or *pension conversion*, including any trade-offs in broad terms;

(d) alternative ways to achieve the *retail client's* objectives instead of the *pension transfer* or *pension conversion*;

(e) the *retail client's* attitude to, and understanding of, investment risk;

(4) If a *firm* uses a risk profiling tool or software to assess a *retail client's* attitude to the risk in (3)(b) it should:

(a) check whether the tool or software is capable of taking into account at least those factors listed in (3)(b)(i) to (vii); and

(b) ensure that those factors which are not included are factored into the *firm's* assessment of the *client's* attitude to risk.

(5) When a *firm* asks questions about a *retail client's* attitude to the risk in 3(b) it should ensure they are fair, clear and not misleading in accordance with *COBS* 4.

Guidance about charging for *abridged advice*

19.1A.12 G (1) A *firm* may provide *abridged advice* to a *retail client* free of charge. However, if they do, and the conclusion is that they are unable to give a *personal recommendation* without carrying out *full advice on pension transfers or conversions*, a *firm* will need to ensure it is able to demonstrate how it still complies with *Principle* 8 (Conflicts of interest), and the *rules* on contingent charging (*COBS* 19.1B).

(2) A *firm* that charges a *client* twice for what is, in essence, the same service is likely to be acting inconsistently with *Principle* 2, *Principle* 6 and *Principle* 8. As a result, a *firm* will be expected to offset the *adviser charges* paid by a *retail client* for the provision of *abridged advice* from the amount it would have otherwise charged that *retail client* for the provision of *full pension transfer or conversion advice*.

19.1B Ban on contingent charging for pension transfers and conversions

Application

19.1B.1 R This section applies to a *firm* in relation to the provision of:

(1) *advice on conversion or transfer of pension benefits* except where:

(a) the only *safeguarded benefit* involved is a *guaranteed annuity rate*; or

(b) it is *abridged advice*;

(2) *investment advice* or other services in connection with a *pension transfer* or *pension conversion* (including, but not limited to, implementing and arranging a *pension transfer* or *pension conversion*);

(3) ongoing advice or other services in relation to rights or interests in a *non-DB pension scheme* derived in whole or part from a *pension transfe*r or *pension conversion*; or

(4) any related services.

Purpose

19.1B.2 G The purpose of this section is to ensure that *firms'* charging structures, either individually or taken together with other *associates*, do not create any potential for a conflict of interest relating to, or an incentive to recommend or effect, a *pension transfer* or a *pension conversion* to a *retail client*.

Ban on contingent charging

19.1B.3 R Except as specified in *COBS* 19.1B.9(1) or (2), a *firm* must ensure that both the methodology for calculating any part of, and the total value of, the *firm's adviser charges*, *employer or trustee funded pension advice charge* or *remuneration* do not vary depending on whether or not:

(1) the *firm* makes a *personal recommendation* to a *retail client* to effect a *pension transfer* or a *pension conversion*; and/or

(2) the *retail client* effects *a pension transfer* or a *pension conversion*; and/or

(3) (in relation to ongoing advice or other services in relation to the *retail client's* rights or interests in a *non-DB pension scheme*) the rights or interests in the *non-DB pension scheme* include sums derived from a *pension transfer* or a *pension conversion*.

19.1B.4 R Where:

(1) one *firm* carries out multiple services for a particular *retail client*; and/or

(2) a *firm* and one or more *firms* that are its *associates* (including any other *firm* providing *investment advice* in relation to a *proposed arrangement*) are involved then,

COBS 19.1B.3R applies to the *firm* in relation to both the methodology for calculating any part of, and the total value of, the *adviser charges*, *employer or trustee funded pension advice charge* and/or *remuneration* of the *firm* and, where applicable, any of those *associates*.

19.1B.5 R (1) A *firm* must not allow itself to be part of any charging structure or

arrangement (operated by the *firm* or any *associate*) which could create a potential incentive to any *firm* or any *firm* that is its *associate* to recommend or arrange a *pension transfer* or a *pension conversion* to or for a *retail client* or otherwise could circumvent the *rules* in this section.

(2) This includes charging structures in relation to the pricing of other goods or services provided to the *client* or a connected *person* at any time by any *firm* involved in the *pension transfer* or *pension conversion* arrangements, or by any *associate* of the *firm*.

Examples of unacceptable practices

19.1B.6 G The following *evidential provisions* provide examples of charging arrangements the *FCA* considers will breach the *rules* in this section.

19.1B.7 E (1) A *firm* should not charge and/or receive *adviser charges*, *employer or trustee funded pension advice charges* and/or *remuneration*, that are higher, when taken together, if the recommendation is to effect a transfer or conversion than if the recommendation is not to do so.

(2) A *firm* and/or any of its *associates* that are *firms* should not charge and/or receive *remuneration* of a higher amount for their ongoing advice or services in relation to the funds in a *non-DB pension scheme* than they charge or receive where the funds are not derived from a *pension transfer* or a *pension conversion*.

(3) A *firm* should not purport to charge a *retail client* the same for advice that recommends a *pension transfer* or a *pension conversion* as it would for advice that does not recommend a transfer or conversion, but not take reasonable steps to enforce payment of the full amount of the charge by the *retail client* where the advice is not to transfer or convert.

(4) A *firm* should not charge a lower amount for any other services provided, or to be provided, by the *firm* or an *associate* to the *retail client* or, anyone connected to the *retail client*, if the *client* is advised not to transfer or convert.

(5) A *firm* should not subsequently vary its *adviser charges*, *employer or trustee funded pension advice charge* and/or *remuneration* for advice and/or *related services* so that in practice they become dependent on the outcome of a *personal recommendation* or whether the *retail client* effects a *pension transfer* or a *pension conversion*.

(6) A *firm* should not charge less in relation to *full pension transfer* or *conversion advice* (including charges for *abridged advice*) than it would do if it provided *investment advice* on the investment of the same size of pension funds but which did not include funds from a *pension transfer* or a *pension conversion.* This does not apply in relation to *full pension transfer* or *conversion advice* where part of the

charge is payable by an *employer or trustee funded advice charge*.

(7) A *firm* should not undertake some services related to *full pension transfer or conversion advice*, such as parts of *appropriate pension transfer analysis* or *transfer value comparator*, then decline to advise further and not charge for the work undertaken.

(8) Contravention of:

(a) either of (1) or (2) may be relied upon as tending to establish contravention of *COBS* 19.1B.3R; and

(b) any of (3) to (7) may be relied upon as tending to establish contravention of *COBS* 19.1B.5R.

Guidance about charging for full pension transfer or conversion advice

19.1B.8 G (1) A *firm* may provide *full pension transfer or conversion advice* to a *retail client* free of charge in exceptional cases, even if they do not fall within the exceptions in *COBS* 19.1B.9R(1) or (2). This may be, for example, where the *firm* is acting entirely pro-bono on humanitarian grounds, or is helping a close family friend, where the *firm* can demonstrate that the *rules* on contingent charging in this chapter are not being breached. For example, where all of the related services provided (by the *firm* or any *associate*) are also free of charge. The *firm* will also need to show that the advice was free of charge irrespective of whether or not the advice results in a recommendation to transfer or convert.

(2) Where a *firm* has provided a *retail client* with *abridged advice* and with *full pension transfer or conversion advice*, it should charge the *retail client* taking into account the guidance in *COBS* 19.1A.12G(2).

Exceptions to the ban on contingent charging

19.1B.9 R A *firm* need not comply with *COBS* 19.1B.3R or *COBS* 19.1B.5R in relation to *full pension transfer or conversion advice* if it has satisfied itself, on reasonable grounds and based on adequate supporting evidence, that the *retail client* is unable to pay for *full pension transfer or conversion advice* without using funds that are not reasonably available, and is either:

(1) suffering from *serious ill-health*; or

(2) (a) experiencing *serious financial difficulty* or likely would be if they had to pay for *full pension transfer or conversion advice* on a non-contingent basis; and

(b) would be able to access their pension fund immediately after a *pension transfer* or a *pension conversion* has taken effect.

19.1B.10 R A *firm* that charges a *retail client* in relation to *full pension transfer or*

conversion advice on a contingent basis in reliance on *COBS* 19.1B.9R(1) or (2), must ensure that the methodology for calculating, and the total value of, the *firm's* and any *associate's adviser charges*, *employer or trustee funded pension advice charge* or *remuneration* for that advice, any related service, and any ongoing advice or other services in relation to the *retail client's* rights or interests in a *non-DB pension scheme*, is not higher than if they had charged the *retail client* in relation to *full pension transfer or conversion advice* on a non-contingent basis.

19.1B.11 G A *client* is likely to meet the requirements for *serious ill-health* where:

(1) the *retail client* has a particular medical condition, as shown by reliable medical reports or records; and

(2) there are reputable sources of medical information to evidence that the medical condition in question results, in the majority of cases, in a life expectancy below age 75.

19.1B.12 G A *client* is likely to meet the requirement that they are unable to pay for *full pension transfer or conversion advice* without using funds that are not reasonably available where the amount of their reasonably available savings and investments is below the cost of *full pension transfer or conversion advice*.

19.1B.13 G The types of circumstances in which a *client* is likely to be able to show they are experiencing *serious financial difficulty* include where continuing to pay domestic bills and credit commitments is a heavy burden on the *client* and the *client* has missed payments for any credit commitments and/or any domestic bills in any three or more of the last six *calendar months*.

Examples of unacceptable reasons for relying on an exception to the ban on contingent charging

19.1B.14 G The following *evidential provisions* provide examples of what the *FCA* considers to be unacceptable reasons for relying on the *serious financial difficulty* and *serious ill health* exceptions and which, if relied on by a *firm*, the *FCA* considers will breach the *rules* in this section.

19.1B.15 E (1) A *firm* should not be satisfied that a *client* meets the requirements for *serious ill-health* where a *client* is only able to demonstrate an expected reduced life expectancy due to lifestyle factors (for example smoking or drinking alcohol) and not a medical condition.

(2) A *firm* should not be satisfied that a *client* meets the requirements for *serious financial difficulty* where a *client* is experiencing *serious financial difficulties* because of incurring non-essential expenditure.

(3) A *firm* should not be satisfied that a *client* will be able to access their pension fund immediately after a *pension transfer* or *pension conversion* (relevant to *serious financial difficulty*) unless the *client* has been able to demonstrate to the satisfaction of the *firm* the basis on which they would be able to access their pension fund immediately

after a *pension transfer* or *pension conversion*.

(4) A *firm* should not be satisfied that a *client* is unable to pay for *full pension transfer or conversion advice* where a *client* is able to access reasonably available savings or investments to pay for *full pension transfer or conversion advice* but does not wish to access these to pay for advice.

19.1B.16 R Contravention of any of *COBS* 19.1B.15E (1) to (4) may be relied upon as tending to establish contravention of *COBS* 19.1B.9R and therefore *COBS* 19.1B.3R or *COBS* 19.1B.5R.

Additional record-keeping requirements for a firm relying on an exception in COBS 19.1B.9R(1) or (2)

19.1B.17 R In addition to any other record-keeping requirements to which the *firm* is subject, a *firm* charging a *retail client* on a contingent basis in reliance on one of the exceptions in *COBS* 19.1B.9R(1) or (2) must make and retain indefinitely a record of the evidence it relied upon to satisfy itself that all the relevant requirements in *COBS* 19.1B.9R were met in relation to the *retail client*.

…

19.2 Personal pensions, FSAVCs and AVCs

…

Suitability

19.2.2 R When a *firm* prepares a *suitability report* it must:

(1) (in the case of a *personal pension scheme*), explain why it considers the *personal pension scheme* to be at least as suitable as a *stakeholder pension scheme*; ~~and~~

(2) (in the case of a *personal pension scheme*, *stakeholder pension scheme* or *FSAVC*) explain why it considers the *personal pension scheme*, *stakeholder pension scheme* or *FSAVC* to be at least as suitable as any facility to make additional contributions to an *occupational pension scheme*, *group personal pension scheme* or *group stakeholder pension scheme* which is available to the *retail client*; and

(3) (in the case of a *pension transfer*, other than where the only *safeguarded benefit* involved is a *guaranteed annuity rate*, where the *proposed arrangement* is a *personal pension scheme*, *stakeholder pension scheme* or *defined contribution occupational pension scheme* that is not a *qualifying scheme*) explain why, at the time of the *personal recommendation*, it considers the *proposed*

arrangement to be more suitable than the *default arrangement* of an available *qualifying scheme*.

…

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

This annex belongs to *COBS* 19.1.2BR.

…

Cashflow model

R

5 Where a *firm* prepares a cashflow model, it must:

(1) produce the model in real terms in line with the CPI inflation rate in *COBS* 19 Annex 4C1R (4)(d);

(2) (if the net income is being modelled) ensure that the tax bands and tax limits applied are based on reasonable assumptions;

(3) take into account all relevant tax charges that may apply in both the *ceding arrangement* and the *proposed arrangement*; and

(4) include stress-testing scenarios to enable the *retail client* to assess more than one potential outcome.

19 Annex 4B **Transfer value comparator**

This annex belongs to *COBS* 19.1.3AR.

R

1 ~~Where the *retail client* has 12 *months* or more before reaching the normal retirement age under the rules of the ceding arrangement the~~ The *firm* must:

…

R

2 ~~Where the *retail client* 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 *pension annuity* must be determined as the amount in *COBS* 19 Annex 4B 1R(2) multiplied by the ratio of (1) and (2) where:~~

~~(1) is the open market cost of purchasing a *pension annuity* which offers increases in payment which are the nearest match to those in the ceding arrangement; and~~

~~(2) (2) is the value of the *pension annuity* in (1) where the cost is determined in accordance with the assumptions in *COBS* 19 Annex 4C 1R(2).~~ [deleted]

G

3 ~~(1) *COBS* 19 Annex 4B 2R requires *firms* to adjust the estimated cost of purchasing the future income benefits using a *pension annuity* 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 *pension annuity* which is the nearest match for the scheme benefits should usually be taken as an index-linked *pension annuity* unless it can be shown that the majority of the benefits are not index-linked in some way.~~ [deleted]

19 Annex 4C **Assumptions**

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

Assumptions

R

1 …

(2) The assumptions are:

…

(h) the *transfer value comparator* should be calculated on the basis that:

(i) a female member of the scheme has a male spouse or partner who is 3 years older; or

(ii) a male scheme member has a female spouse or partner who is 3 years younger.

…

Rate of return and charges

2 …

(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.

(2A) The fixed coupon yields in (2) are derived using the appropriate term from one of the following indices:

(a) up to 5 years;

(b) up to 5-10 years;

(c) up to 10-15 years; or

(d) over 15 years.

(3) The product charges prior to *future income benefits* coming into payment must be assumed to be: ~~0.75%~~ 0.4%

(4) The fixed coupon yields in (2) are updated on the 6th day of each month based on the yield that applied on the 15th day of the previous month.

…

19 Annex 5R **Format for provision of transfer value comparator**

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. The second page of the *transfer value comparator* must contain the notes set out in Table 2.

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.~~ [deleted]

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.~~ [deleted]

…

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 (or the retirement age assumed in the calculation of the transfer value if you have passed the normal retirement age or the earliest age at which you can take unreduced benefits without consent being required) 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 risk free 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 [deleted]
~~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.*~~

Amend the following as shown.

TP 2 Other Transitional Provisions

(1)	(2)	(3)	(4)	(5)	(6)
	Material to which the transitional provision applies		Transitional provision	Transitional provision: dates in force	Handbook provisions: coming into force
2.2	…	…	…	…	…
2.-2B	*COBS* 9.4.11R(2) e) and *COBS* 9.4.11R(6) (c)	R	In relation to a particular *client*, a *firm* need not comply with the requirements in *rules* in column (2) relating to charges in any *default*	1 October 2020 to 31 December 2020	1 October 2020

			arrangement in any available *qualifying scheme*, where the *firm's* work for the *client* on advice on *pension transfer* or *pension conversion* commenced prior to 1 October 2020 and is completed before 1 January 2021.		
2.-2A	*COBS* 9.4.12G(3) and *COBS* 9.4.12G(4)	G	In relation to a particular *client*, a *firm* need not consider the *guidance* in column (2) to the extent that it relates to the charges in any *default arrangement* in any available *qualifying scheme*, where the *firm's* work for the *client* on advice on *pension transfer* or *pension conversion* commenced prior to 1 October 2020 and is completed before 1 January 2021.	1 October 2020 to 31 December 2020	1 October 2020
2.2A	…	…	…	…	…
…					
2.2E	…	…	…	…	…
2.EA	*COBS* 19.1.2BR (3) and *COBS* 19.1.2BR(4)	R	In relation to a particular *client*, the *rules* in column (2) do not apply in relation to the *default arrangement* of the *qualifying scheme* where a *firm's* work for the *client* on advice on *pension transfer* or *pension conversion*	1 October 2020 to 31 December 2020	1 October 2020

			commenced prior to 1 October 2020 and is completed before 1 January 2021.		
2.EB	*COBS* 19.1.6(7) to *COBS* 19.1.6(11)	G	In relation to a particular *client*, a *firm* need not consider the *guidance* in column (2) where a *firm's* work for the *client* on advice on *pension transfer* or *pension conversion* commenced prior to 1 October 2020 and is completed before 1 January 2021.	1 October 2020 to 31 December 2020	1 October 2020
…					
2.8F	…	…	…	…	…
2.8F-B	*COBS* 19.1B.3R, *COBS* 19.1B.4R, and *COBS* 19.1B.5R.	R	The *rules* in column (2) do not apply in relation to a *firm's adviser charges*, *employer or trustee funded pension advice charge*, or *remuneration* incurred in respect of work that is commenced prior to 1 October 2020 and is completed before 1 January 2021 where: (1) a *firm* agreed in writing to be engaged by a *retail client* before 1 October 2020; or (2) (in the case of an *employer or trustee funded pension advice charge*) a *firm* agreed in writing to be engaged by the employer or the trustee before 1 October 2020; and (3) (in either case) the *firm* agreed in writing to provide *full pension*	1 October 2020 to 31 December 2020	1 October 2020

			transfer or conversion advice on a contingent basis.		
2.8F-A	*COBS* 19 Annex 4AR(5)	R	In relation to a particular *client*, the *rule* in column (2) does not apply where a *firm's* work for the *client* on advice on *pension transfer* or *pension conversion* commenced prior to 1 October 2020 and is completed before 1 January 2021.	1 October 2020 to 31 December 2020	1 October 2020
2.8FA	…	…	…	…	…

Annex D

Amendments to the Supervision manual (SUP)

This Annex comes into force on 1 October 2020.

In this Annex, underlining indicates new text and strikethrough indicates deleted text.

16 Reporting requirements

…

16.12 Integrated Regulatory Reporting

…

16.12.22 A R The applicable *data items* referred to in *SUP* 16.12.4R are set out according to type of *firm* in the table below:

Description of d*ata item*	*Firms'* prudential category and applicable *data item* (note 1)				
	IFPRU	*BIPRU firm*	*Exempt CAD firms* subject to *IPRU(INV)* Chapter 13	*Firms* (other than *exempt CAD firms*) subject to *IPRU(INV)* Chapter 13	*Firms* that are also in one or more of *RAGs* 1 to 6 and not subject to *IPRU(INV)* Chapter 13
…					
Adviser charges	…				
Pension Transfer Specialist advice	Section M RMAR (see note 30)	Section M RMAR (see note 30)	Section M RMAR (see note 30)	Section M RMAR (see note 30)	Section M RMAR (see note 30)
…					
Note 30	Only applicable to *firms* in relation to advice on the merits of a *pension transfer* or a *pension conversion* from pension arrangements with *safeguarded benefits* (other than *guaranteed annuity rates*).				

…

16.12.23 A R The applicable reporting frequencies for *data items* referred to in *SUP* 16.12.22AR are set out in the table below. Reporting frequencies are calculated from a *firm's accounting reference date*, unless indicated otherwise.

Data item	Frequency				
	Unconsolidated *BIPRU investment firm* and *IFPRU investment firm*	Solo consolidated *BIPRU investment firm* and *IFPRU investment firm*	*UK Consolidation Group* or *defined liquidity group*	Annual regulated business revenue up to and including £5 million	Annual regulated business revenue over £5 million
COREP/ FINREP	…				
…					
Section K RMAR					
Section M RMAR	Half yearly	Half yearly	Half yearly	Half yearly	Half yearly
…					

16.12.24A R The applicable due dates for submission referred to in *SUP* 16.12.4R are set out in the table below. The due dates are the last day of the periods given in the table below following the relevant reporting frequency period set out in *SUP* 16.12.23R, unless indicated otherwise.

Data item	Daily	Weekly	Monthly	Quarterly	Half yearly	Annual
COREP/ FINREP	…					
Section K RMAR	…					
Section M RMAR					30 *business days*	
…						

…

The form (Annual questionnaire for authorised professional firms) referred to in SUP 16 Annex 9R is amended as shown.

FIN –APF – Authorised Professional Firms Questionnaire

…

Professional indemnity insurance

8	Is the firm's professional indemnity insurance policy compliant with regulatory requirements?						
9	Please provide details of the firm's current policy/policies	…	M PII basic information	N	O	P	Q
			Business line subject to policy excess	~~Policy~~ ~~excess~~ Level of policy excess	~~Policy~~ Business line category subject to policy exclusio	Time period of policy exclusion	Type of exclusion

n

…

The guidance notes (Guidance notes for completion of annual questionnaire for authorised professional firms in SUP 16 Annex 9R) referred to in SUP 16 Annex 9AG are amended as shown.

…

16 Annex 9AG **Guidance notes for completion of annual questionnaire for authorised professional firms in SUP 16 Annex 9R**

…

Data elements

…

Professional indemnity insurance

…

9M PII detailed information: business line

The *firm* should select the business line to which each policy relates from the available list. If the policy relates to all business, the *firm* should select 'all'.

9N <u>and</u> <u>9O</u> PII detailed information: policy excess

The *firm* should enter the value of any excess applicable to the relevant policy <u>and the business line to which that excess relates</u>.

~~9O~~ <u>9P to 9R</u> PII detailed information: policy exclusions

If there are any exclusions in the *firm*'s PII policy which relate to types of business that the *firm* has carried out in the past or during the lifetime of the policy, these should be selected from the available list <u>showing the business line to which the exclusion relates, the time period it covers and type of exclusion</u>.

…

The form (Retail Mediation Activities Return ('RMAR') referred to in SUP 16 Annex 18AR is amended as shown.

SECTION E: PII Self-Certification

…

3		Has your firm renewed its PII cover since the last reporting date?
3A		Has there been a change to the basis of your firm's PII cover since the last reporting date?
4		**Professional Indemnity Insurance Details**

…	**L**	**M**	**N**	**P**	**Q**
	PII detailed information				
	Business line category subject to policy excess	Policy excess (Sterling)	~~Policy~~ Business line category subject to policy exclusions	Time period to which the policy exclusion(s) relates	Type of exclusion

…

Section M: Pension Transfer Specialist advice

	Qualifying question	
1.	Has the *firm* or its *appointed representatives* provided advice to *retail clients* on converting or transferring from *defined benefits* (DB) *pension schemes* or other pensions with *safeguarded benefits* (excluding *guaranteed annuity rates*) in the reporting period?	[Yes/No]
Part 1 – Business model		
2.	How many *retail clients* in total did the *firm* and its *appointed representatives* provide with only *full pension transfer or conversion advice*?	[number]
3.	How many *retail clients* in total did the *firm* and its *appointed representatives* provide with *abridged advice*?	[number]
4.	How many *pension transfer specialists* were employed by, or working under the responsibility of, the *firm* and its *appointed representatives* at the end of the reporting period? Please provide the full-time equivalent numbers.	[number]
5.	How many introductions for advice on *pension transfers* and *pension conversions* were accepted by the *firm*, or its *appointed representatives*, from other authorised *firms*?	[number]
6.	How many introductions for advice on *pension transfers* and *pension conversions* were accepted by the *firm*, or its *appointed representatives*, from introducer *firms* that were not authorised?	[number]

7.	Of the total *retail clients* in Question 2, how many did the *firm* and its *appointed representatives* provide with *full pension transfer or conversion advice* but not on the investment of proceeds of the transfer or the conversion?	[number]
Part 2 – Appointed representatives		
8.	Of the *retail clients* who were reported under Question 2, how many were advised by an *appointed representative* of the *firm*?	[number]
9.	Of the *retail clients* reported in Question 3, how many were given *abridged advice* by an *appointed representative* of the *firm*?	[number]
10.	Focusing on the *appointed representative* that gave *full pension transfer or conversion advice* to the most *retail clients*, how many *retail clients* did they advise?	[number]
Part 3 – Personal recommendations to transfer		
11.	Of the *retail clients* reported in Question 2, how many did the *firm* and its *appointed representatives* provide with a *personal recommendation* to transfer or convert their pension?	[number]
12.	Of the *retail clients* in Question 11, what was the total transfer value of the *pension transfers* and *pension conversions*?	[monetary value]
13.	Of the *retail clients* reported in Question 11, what was the total revenue derived from initial *advisory charges* for *full pension transfer or conversion advice*, including advice on the investment of the proceeds?	[monetary value]
14.	Of the *retail clients* reported under Question 11, how many satisfied the requirement for one or more of the exceptions to	

	the ban on contingent charging and so charged in full or partially on a contingent basis?	
Part 4 – Personal recommendations not to transfer		
15.	Of the *retail clients* reported in Question 2, how many did the *firm* and its *appointed representatives* provide with a *personal recommendation* not to transfer or convert their pension after receiving *full pension transfer or conversion advice*?	[number]
16.	Of the *retail clients* reported in Question 3, how many did the *firm* and its *appointed representatives* provide with a *personal recommendation* not to transfer or convert their pension after receiving *abridged advice*?	[number]
17.	Of the *retail clients* reported in Question 15, what was the total transfer value of the *pension transfers* and *pension conversions*?	[monetary value]
18.	Of the *retail clients* reported in Question 15, what was the total revenue derived from the initial *advisory charges* for *full pension transfer or conversion advice* on the *pension transfers* and *pension conversions*?	[monetary value]
19.	Of the *retail clients* reported in Question 16, what was the total revenue derived from *abridged advice* on *pension transfers* and *pension conversions*?	[monetary value]
20.	For how many *retail clients* did the *firm* arrange a *pension transfer* or *pension conversion* on an insistent client basis after providing *full pension transfer or conversion advice*?	[number]
21.	Of the *retail clients* that satisfied the requirement for one or more of the exceptions to the ban on contingent charging and charged in full or partially on a contingent basis, what was the	

	total initial revenue derived from the *firm* accepting to process the *pension transfers* or *pension conversions* on a non-insistent client basis (including providing advice on the investment of the proceeds)?	
22.	Of the *retail clients* that satisfied the requirement for one of the exceptions to the ban on contingent charging and charged in full or partially on a contingent basis what was the total initial revenue derived from the *firm* accepting to process the *pension transfers* or *pension conversions* on an insistent client basis (including providing advice on the investment of the proceeds)?	[monetary value]
Part 5 – Ongoing services		
23.	How many *retail clients* did the *firm* arrange a *pension transfer* or *pension conversion* for?	[number]
24.	Of the *retail clients* in Question 23, how many agreed to an ongoing advice service provided by the *firm* or its *appointed representatives*?	[number]
Part 6 – Charging structures		
25.	Of the *retail clients* reported in Question 2, how many were advised under a charging structure which meant the *advisory charge* was only payable if the *retail client* proceeded with the transfer or conversion? (charging fully or partially contingent on a transfer or conversion taking place).	[number]
26.	Of the *retail clients* reported under Question 2, how many were advised under a charging structure which meant that the *advisory charge* remained the same whether or not the *retail client* proceeded with the transfer or conversion? (charging	[number]

	completely non-contingent)	
Part 7 – Product and investment solutions		
27.	How many *retail clients* proceeded to transfer or convert into an investment solution that had annual ongoing product and investment charges (excluding ongoing advice charges) of 0.75% or less?	[number]
28.	How many *retail clients* proceeded to transfer or convert into an investment solution that had annual ongoing product and investment charges (excluding ongoing advice charges) of more than 0.75% and less than or equal to 1.5%?	[number]
29.	How many *retail clients* proceeded to transfer or convert into an investment solution that had annual ongoing product and investment charges (excluding ongoing advice charges) of more than 1.5%?	[number]
30.	How many *retail clients* proceeded to transfer into a solution that had higher ongoing charges than their workplace pension?	[number]
31.	How many *retail clients* proceeded to transfer into a workplace pension?	[number]
32.	How many *retail clients* proceeded to transfer or convert where the investment solution included investments subject to regulatory restrictions on retail distribution?	[number]
33.	How many *retail clients* proceeded to transfer into a qualifying recognised overseas pension scheme (QROPs) or another overseas pension scheme?	[number]
Part 8 – Guidance		

34.	How many *retail clients* were provided with guidance (eg through a triage service) in the reporting period?	[number]
35.	Of the *retail clients* reported under Question 2, how many were provided with guidance (eg through a triage service)?	[number]

…

The guidance notes (Notes for completion of the Retail Mediation Activities Return ('RMAR') referred to in SUP 16 Annex 18BG are amended as shown.

…

16 Annex 18BG **Notes for completion of the Retail Mediation Activities Return ('RMAR')**

Introduction: General notes on the RMAR

…

NOTES FOR COMPLETION OF THE RMAR

…

Section E Professional indemnity insurance

…

Guide for completion of individual fields

Part 1

…	
Has the firm renewed its PII cover since the last reporting date?	This question will ensure that a *firm* does not fill in Part 2 of the PII section of the *RMAR* each time it reports, if the information only changes annually. Where the *RMAR* form requires information which a *firm* has not submitted previously then this should be completed in the first submission period after those changes have come into force. If the *firm* is reporting for the first time, you should enter 'yes' here and complete the data fields. You should only enter 'n/a' if the *firm* is exempt from the PII requirements for all the regulated activities forming part of the *RMAR*.
Has the basis of your PII cover changed since the last reporting date?	You should select 'yes' or 'no' to identify whether there has been a change in the cover in your *firm's* PII policy or policies since the last reporting date. If you enter 'yes' then you should specify any changes to the level of excess, period of cover or

	exclusion(s) in the relevant data fields.

Part 2

…	
Increased excess(es) for specific business types (only in relation to business you have undertaken in the past or will undertake during the period covered by the policy)	If the prescribed excess limit is exceeded for a type or types of business, the type(s) of business to which the increased excess applies and the amount(s) of the increased excess should be stated here. *Firms* should record each business type subject to an increased excess separately. (Some typical business types include advice on non-mainstream pooled investments, endowments, ~~FCAVCs,~~ splits/zeroes, precipice bonds, income drawdown, *lifetime mortgages*, discretionary management, delegated authority work.)
Policy exclusion(s) (only in relation to exclusions you have had in, ~~the~~ or will have during, the period covered by the policy)	If there are any exclusions in the *firm's* PII policy which relate to any types of ~~businesses~~ business or activities that the *firm* has carried out either in the past or during the lifetime of the policy, enter the business type(s) to which the exclusions relate here. *Firms* should record each business type or activity subject to an exclusion separately. If no exclusions apply to the *firm's* PII policy, *firms* should state this here (eg 'No exclusions apply to this policy). (Some typical business types include advice on non-mainstream pooled investments, endowments, ~~FCAVCs,~~ splits/zeroes, precipice bonds, income drawdown, *lifetime mortgages*, discretionary management.)
Time period to which the policy exclusion(s) relate	For any exclusions in the *firm's* PII policy, the *firm* should select whether the exclusion applies to types of business or activities carried out in the past ('past business'), during the period covered by the policy ('future business) or both ('past and future business').
Type of exclusion(s) (only in relation to business you have undertaken in the past or will undertake during the	The *firm* should enter the type of exclusion from the drop-down list. Some typical types include the volume of business or activity

period covered by the policy)	covered by the policy, the specific type of a particular business/activity covered by the policy and sub-limits to the level of indemnity for particular types of business/activity. If the type of exclusion is not listed firms should select 'other'.
…	
Insurer name (please select from the drop-down list)	The *firm* should select the name of the *insurance undertaking* or Lloyd's syndicate providing cover named on the schedule or certificate of insurance. If the PII provider is not listed you should select 'other'. ~~and enter the name of the *insurance undertaking* or Lloyd's syndicate providing cover in the free-text box.~~ If a policy is underwritten by more than one *insurance undertaking* or Lloyd's syndicate, you should select ~~multiple' and state the names of all the *insurance undertakings* or Lloyd's syndicates in the free-text box~~ the name of the lead *insurer* on your schedule or certificate of insurance.
…	

…

Section M Pension Transfer Specialist advice

The data in this section should only relate to advice on *pension transfers* or *pension conversions*, meaning advice on the merits of a *pension transfer* or a *pension conversion* from *defined benefits pension schemes* or other *safeguarded benefits* but excluding transfers from or conversions of *safeguarded benefits* that are *guaranteed annuity rates*. A *retail client* transferring or converting multiple defined benefit pensions should be counted as a single *retail client* within RMA-M.

For this *guidance* on section M, all questions below relate to activity in the reporting period.

Guide for completion of individual fields

Qualifying question		
1	Has the *firm* or its *appointed representatives* provided advice to *retail clients* on converting or transferring from *defined benefits* (DB) *pension schemes*	This should include advice that was either *full pension transfer or conversion advice* or *abridged advice*. If the answer to the qualifying question is

	or other pensions with *safeguarded benefits* (excluding *guaranteed annuity rates*) in the reporting period?	no, then no further questions need to be answered.
Part 1 – Business model		
2	How many *retail clients* in total did the *firm* and its *appointed representatives* provide with only *full pension transfer or conversion advice*?	This should only include the total number of *retail clients* that were provided with *full pension transfer or conversion advice*, including those that were recommended not to transfer or convert. It should exclude *retail clients* that were only provided with *abridged advice*.
3	How many *retail clients* in total did the *firm* and its *appointed representatives* provide with *abridged advice*?	This should include the total number of *retail clients* that were provided with *abridged advice*, including those that were recommended not to transfer or convert and those that proceeded to take *full pension transfer or conversion advice*.
4	How many *pension transfer specialists* were employed by, or working under the responsibility of, the *firm* and its *appointed representatives* at the end of the reporting period? Please provide the full-time equivalent numbers.	This should include all *pension transfer specialists* providing advice under the authorisation of the *firm* completing this return. This should not include *pension transfer specialists* working alongside the *firm*, but under responsibility of another authorised *firm*. Please express as full-time-equivalent numbers eg an individual working 4 out 5 days per week should be recorded as 0.80 FTE. Data must be entered to 2 decimal places.
5	How many introductions for advice on *pension transfers* and *pension conversions* were accepted by the *firm*, or its *appointed representatives*, from other authorised *firms*?	This should include introductions for *full pension transfer or conversion advice* and *abridged advice*. This should not include introductions from *firms* or individuals that are not authorised.
6	How many introductions for advice on *pension transfers* and *pension conversions* were accepted by the *firm*, or its *appointed representatives*, from introducer *firms* that were not authorised?	This should include introductions for *full pension transfer or conversion advice* and *abridged advice*. This should not include referrals not done by way of business, for example by friends or family. Nor should it include referrals from *UK* accredited accountancy or legal *firms* that are regulated by a *designated professional body*.

		For more information on introducers, please see our website: https://www.fca.org.uk/news/news-stories/investment-advisers-responsibilities-accepting-business-unauthorised-introducers-lead-generators
7	Of the total *retail clients* in Question 2, how many did the *firm* and its *appointed representatives* provide with *full pension transfer or conversion advice* but not on the investment of proceeds of the transfer or conversion?	This is specifically looking for the number of *retail clients* where the choice of investment for the proceeds of the transfer has been recommended by another authorised *firm* or chosen by the *retail client* (whether based on information provided by an introducer or not).
Part 2 – Appointed representatives		
8	Of the *retail clients* who were reported under Question 2, how many were advised by an *appointed representative* of the *firm*?	This is specifically looking for the number of *retail clients* advised by the *firm's appointed representatives*.
9	Of the *retail clients* reported in Question 3, how many were given *abridged advice* by an *appointed representative* of the *firm*?	As with Question 8, this is specifically looking for the number of *retail clients* advised by *appointed representatives*.
10	Focusing on the *appointed representative* that gave *full pension transfer or conversion advice* to the most *retail clients*, how many *retail clients* did they advise?	*Firms* should identify the *appointed representative* that provided *full pension transfer or conversion advice* to the highest number of *retail clients*.
Part 3 – Personal recommendations to transfer		
11	Of the *retail clients* reported in Question 2, how many did the *firm* and its *appointed representatives* provide with a *personal recommendation* to transfer or convert their pension?	This should include the total number of *retail clients* that were provided with *full pension transfer or conversion advice*, excluding those that were recommended not to transfer or convert.
12	Of the *retail clients* in Question 11, what was the total transfer	This should be the total transfer value of *pension transfers* and *pension conversions*

	value of the *pension transfers* and *pension conversions*?	collected by the *principal firm* and *appointed representatives* from those *retail clients* provided with a *personal recommendation* to transfer or convert their pension (as reported under Question 11).
13	Of the *retail clients* reported in Question 11, what was the total revenue derived from initial *advisory charges* for *full pension transfer advice*, including advice on the investment of the proceeds?	This should be the total revenue collected by the principal *firm* and *appointed representatives* for the initial *advisory charges* for *full pension transfer or conversion advice*. This should include all initial charges for the *full pension transfer or conversion advice*, including the investment advice on the proposed destination where relevant, and arranging a *pension transfer* or *pension conversion*. It should exclude any ongoing charges the *retail client* has agreed to pay. It should also exclude any separate initial charges for *abridged advice*.
14	Of the *retail clients* reported under Question 11, how many satisfied the requirement for one or more of the exceptions to the ban on contingent charging and so charged in full or partially on a contingent basis?	This should include the total number of *retail clients* that were provided with a *personal recommendation* to transfer or convert their pension, that were also charged in full or partially on a contingent basis. Only *retail clients* that satisfy the requirement for the serious ill-health carve-out exemption and/or the serious financial difficulty carve-out exemption may be charged in full or partially on a contingent basis.
Part 4 – Personal recommendations not to transfer		
15	Of the *retail clients* reported in Question 2, how many did the *firm* and its *appointed representatives* provide with a *personal recommendation* not to transfer or convert their pension after receiving *full pension transfer or conversion advice*?	This should include the total number of *retail clients* that were provided with a *personal recommendation* NOT to transfer or convert their pension after receiving only full pension transfer or conversion advice. This should not include *abridged advice* recommendations.
16	Of the *retail clients* reported in Question 3, how many did the *firm* and its *appointed representatives* provide with a	This should include the total number of *retail clients* that were provided with a *personal recommendation* NOT to transfer or convert their pension after receiving

	personal recommendation not to transfer or convert their pension after receiving *abridged advice*?	only *abridged advice*. This should not include *full pension transfer or conversion advice* recommendations.
17	Of the *retail clients* reported in Question 15, what was the total transfer value of the *pension transfers* and *pension conversions*?	This should include the total transfer revenue of *retail clients* provided with a *personal recommendation* not to transfer or convert their pension after receiving *full pension transfer or conversion advice*.
18	Of the *retail clients* reported in Question 15, what was the total revenue derived from the initial *advisory charges* for *full pension transfer or conversion advice* on the *pension transfers* and *pension conversions*?	This should be the revenue collected by the principal *firm* and *appointed representatives*. This should not include transfer revenue from *abridged advice* recommendations.
19	Of the *retail clients* reported in Question 16, what was the total revenue derived from *abridged advice* on *pension transfers* and *pension conversions*?	This should be the revenue collected by the principal *firm* and *appointed representatives*.
20	For how many *retail clients* did the *firm* arrange a *pension transfer or conversion* on an insistent client basis after providing *full pension transfer or conversion advice*?	*Retail clients* should only be considered insistent clients if the *firm* or its *appointed representatives* initially provided a *personal recommendation* not to transfer following *full pension transfer or conversion advice*.
21	Of the *retail clients* that satisfied the requirement for one or more of the exceptions to the ban on contingent charging and charged in full or partially on a contingent basis, what was the total initial revenue derived from the *firm* accepting to process the *pension transfers* or pension conversions on a non-insistent client basis (including providing advice on the investment of the proceeds)?	This should be the total initial revenue derived from *retail clients* that satisfy the requirement for one of the exceptions to the ban on contingent charging and charged in full or partially on a contingent basis, and that **WERE NOT** processed on an insistent client basis. Only *retail clients* that satisfy the requirement for the serious ill-health carve-out exemption and/or the serious financial difficulty carve-out exemption may be charged in full or partially on a contingent basis.
22	Of the *retail clients* that satisfied the requirement for one or more of the exceptions to the ban on	This should be the total initial revenue derived from *retail clients* that satisfy the requirement for one of the exceptions to

	contingent charging and charged in full or partially on a contingent basis what was the total initial revenue derived from the *firm* accepting to process the *pension transfers* or *pension conversions* on an insistent client basis (including providing advice on the investment of the proceeds)?	the ban on contingent charging and charged in full or partially on a contingent basis, and that **WERE** processed on an insistent client basis. Only *retail clients* that satisfy the requirement for the serious ill-health carve-out exemption and/or the serious financial difficulty carve-out exemption may be charged in full or partially on a contingent basis.
Part 5 – Ongoing services		
23	How many *retail clients* did the *firm* arrange a *pension transfer* or *pension conversion* for?	This should be measured at the point of receiving the *retail client's* request to arrange a *pension transfer* or *pension conversion*. This should include: • those advised to transfer or convert by the *firm* or its *appointed representatives* (as reported in Question 11); • insistent client transfers or conversions (as reported in Question 20); and • any *retail client* that did not receive advice on the transfer or conversion by the *firm* (for example, for less than £30k pots or those transfers or conversions executed by the *firm* where the *retail client* had received advice from a different *firm*).
24	Of the *retail clients* in Question 23, how many agreed to an ongoing advice service provided by the *firm* its *appointed representatives*?	This should be the total number of *retail clients* that the *firm* arranged a *pension transfer* or *pension conversion* for, that also agreed to an ongoing advice service provided by the *firm* or its *appointed representatives*?
Part 6 – Charging structures		
25	Of the *retail clients* reported in Question 2, how many were advised under a charging structure which meant the advisory charge was only payable if the retail client	This should be the total number of *retail clients* that were eligible one or more of the exemptions to the ban on contingent charging and charged in full or partially on a contingent basis.

	proceeded with the transfer or conversion (charging fully or partially contingent on a transfer or conversion taking place)?	
26	Of the *retail clients* reported under Question 2, how many were advised under a charging structure which meant that the *advisory charge* remained the same whether or not the *retail client* proceeded with the transfer or conversion? (charging completely non-contingent)	This should be the total number of *retail clients* that were not eligible for one or more of the exceptions to the ban on contingent charging and charged in full on a non-contingent basis. This excludes *retail clients* who only received *abridged advice*.
Part 7 – Product and investment solutions		
27	How many *retail clients* proceeded to transfer or convert into an investment solution that had annual ongoing product and investment charges (excluding ongoing advice charges) of 0.75% or less?	This should include all charges associated with the ongoing investment eg discretionary fund management, platform, product, tax wrapper or investment charges. This should not include ongoing advice charges. Where the cost is expected to vary over time, include the average for the first 5 years. This should not include *retail clients* that did not plan to have any money remain invested, such as those immediately making a full encashment or purchasing an annuity with the full balance of the transfer.
28	How many *retail clients* proceeded to transfer or convert into an investment solution that had annual ongoing product and investment charges (excluding ongoing advice charges) of more than 0.75% and less than or equal to 1.5%?	This should include all costs associated with the ongoing investment eg discretionary fund management, platform, product, tax wrapper or investment charges. This should not include ongoing advice charges. Where the cost is expected to vary over time, include the average for the first 5 years. This should not include *retail clients* that did not plan to have any money remain invested, such as those immediately making a full encashment or purchasing an annuity with the full balance of the transfer.
29	How many *retail clients* proceeded to transfer or convert into an investment solution that had annual ongoing product and	This should include all costs associated with the ongoing investment eg discretionary fund management, platform, product, tax wrapper or investment

	investment charges (excluding ongoing advice charges) of more than 1.5%?	charges. This should not include ongoing advice charges. Where the cost is expected to vary over time, include the average for the first 5 years. This should not include *retail clients* that did not plan to have any money remain invested, such as those immediately making a full encashment or purchasing an annuity with the full balance of the transfer.
30	How many *retail clients* proceeded to transfer into a solution that had higher ongoing charges than their workplace pension?	This should include *retail clients* advised to transfer and insistent client transfers. This should not include *retail clients* that planned to immediately withdraw the full balance on transfer. It should also not include *retail clients* without a workplace pension or where the workplace pension would not accept a transfer.
31	How many *retail clients* proceeded to transfer into a workplace pension?	This question refers to those *retail clients* that proceeded to transfer to a workplace pension covered by 0.75% charge cap.
32	How many *retail clients* proceeded to transfer or convert where the investment solution included investments subject to regulatory restrictions on retail distribution?	This should include *retail clients* advised to transfer and insistent client transfers. For investments subject to restrictions on retail distribution see *COBS* 9.3.5G: https://www.handbook.fca.org.uk/handbook/COBS/9/3.html?date=2016-03-07
33	How many *retail clients* proceeded to transfer into a qualifying recognised overseas pension scheme (QROPs) or another overseas pension scheme?	This should include *retail clients* advised to transfer and insistent client transfers.
Part 8 – Guidance		
34	How many *retail clients* were provided with guidance (eg through a triage service) in the reporting period?	This should include *retail clients* that were provided with guidance from the *principal firm* and its *appointed representative* only.
35	Of the *retail clients* reported under Question 2, how many were provided with guidance (eg through a triage service)?	This should include the total number of *retail clients* that the *firm* and its *appointed representatives* provided with *full pension transfer or conversion advice* that were also provided with guidance.

…

The form (Data items for SUP 16.12) referred to in SUP 16 Annex 24R is amended as shown.

FSA031

Capital Adequacy (for exempt CAD firms subject to IPRU(INV) Chapter 9)

…

Part 4 (Regulatory capital test to be completed by all firms)

29 …

…

Professional Indemnity Insurance

33 …

34 Does your firm conduct insurance distribution activities?

34A Has your firm renewed its PII cover since the last reporting date?

34B Has there been a change to the basis of your PII cover since the last reporting date?

35 …

	J	K	L	M	N
	PII detailed information				
	Business line subject to policy excess (from list)	Policy excess	Business line category subject to policy exclusion(s)	Time period of policy exclusion(s)	Type of exclusion(s)

…

FSA032

Capital Adequacy (for exempt CAD firms subject to IPRU(INV) Chapter 13)

…

34 Does your firm conduct insurance distribution activities?

35 Has your firm renewed its PII cover since the last reporting date?

35A Has there been a change to the basis of your PII cover since the last reporting date?

36 …

…

38	…	J	K	L	M	N
		PII detailed information				
		Business line subject to policy excess	Policy excess	~~Policy~~ Business line category subject to policy exclusions	Time period of policy exclusion(s)	Type of exclusion(s)

…

The guidance notes (Guidance notes for data items in SUP 16 Annex 24R) referred to in SUP 16 Annex 25G are amended as shown.

16 Annex 25G **Guidance notes for data items in SUP 16 Annex 24R**

…

FSA031 – Capital Adequacy (for exempt CAD firms subject to IPRU(INV) Chapter 9)

…

…		
Professional Indemnity Insurance This section requires each firm to confirm it is in compliance with the prudential requirements in relation to professional indemnity insurance (PII). Data is required in relation to all PII policies that a firm has in place, up to a limit of ten (this is provided in columns A-~~H~~). If a firm has more than ten policies, it should report only on the ten largest policies by premium. For each insurer, if there are any business lines with different excess or different exclusions, then they should be reported in columns J and K, for excess, and in columns L to N, for exclusions (so there can be multiple entries in columns J and K, and L to N, for each insurer).		
…		
Business line	35J	For policies that cover all business lines, firms should select ‘All’ from the list provided (to follow). Where the policy contains different excess for different business lines, firms should identify these business lines from the list (or the closest equivalent) and report the (highest) excess for that business line in data element 35K. Once these ‘non-standard’ excesses have been identified, the remaining business lines should be reported under ‘All other’. (Some typical business types include pensions, endowments, FSAVCs, splits/zeroes, precipice

		bonds, income drawdown, lifetime mortgages, discretionary management).
Policy excess	35K	For policies that cover all business lines with no difference in excesses, this should be the excess applicable. Otherwise, it should contain the highest excess for each business line that differs.
Policy exclusion	35L to 35M	If there are any exclusions in the firm's PII policy, the business type(s) to which they relate should be entered here in data element 38M (from the drop-down menu). For any exclusions in the firm's PII policy, the firm should enter in data element 38N whether the exclusion applies to types of business or activities carried out in the past ('past business'), during the period covered by the policy ('future business) or both ('past and future business'). For any restrictions or limitations in the firm's PII policy which relate to any types of business or activities that the firm has carried out either in the past or will undertake during the period covered by the policy, the firm should enter in data element 38O the type of restriction or limitation from the drop-down list. (Some typical policy restriction/limitation types include the volume of business or activity covered by the policy, the specific type of a particular business/activity covered by the policy and sub-limits to the level of indemnity for particular types of business/activity.) If the type of restriction or limitation is not listed firms should select 'other'.

…

FSA032 – Capital Adequacy (for exempt CAD firms subject to IPRU(INV) Chapter 13)

…

…		

Professional Indemnity Insurance

This section requires each firm to confirm it is in compliance with the prudential requirements in relation to professional indemnity insurance (PII). Data is required in relation to all PII policies that a firm has in place, up to a limit of ten (this is provided in columns A-H). If a firm has more than ten policies, it should report only on the ten largest policies by premium. For each insurer, if there are any business lines with different excess or different exclusions, then they should be reported in columns J – L, for excess, and in columns L to N, for exclusions (so there can be multiple entries in columns J~~,~~ and K, and L to N, for each insurer).

…		
Has your firm renewed its PII cover since the last reporting date?	35A	This is either 'Yes' or 'No'.
Has there been a change to the basis of your PII cover since the last reporting date?	35AA	This is either 'Yes' or 'No'.
…		
Business line	38J	For policies that cover all business lines, firms should select 'All' from the list provided (to follow). Where the policy contains different excess for different business lines, firms should identify these business lines from the list (or the closest equivalent) and report the (highest) excess for that business line in data element 38K. Once these 'non-standard' excesses have been identified, the remaining business lines should be reported under 'All other'. (Some typical business types include pensions, endowments, FSAVCs, splits/zeroes, precipice bonds, income drawdown, lifetime mortgages, discretionary management).
Policy excess	38K	For policies that cover all business lines with no difference in excesses, this should be the excess applicable. Otherwise, it should contain the highest excess for each business line that differs.
Policy exclusions	38L to 38N	If there are any exclusions in the firm's PII policy, the business type(s) to which they relate should be entered here in 38L. This is a free text field. For any exclusions in the firm's PII policy, the firm should enter in 38M whether the exclusion applies to types of business or activities carried out in the past ('past business'), during the period covered by the policy ('future business) or both ('past and future business'). For any restrictions or limitations in the firm's PII policy which relate to any types of business or activities that the firm has carried out either in the past or will undertake during the period covered by the policy, the firm should enter in 38N the type of restriction or limitation from the drop-down list.

		Some typical policy restriction/limitation types include the volume of business or activity covered by the policy, the specific type of a particular business/activity covered by the policy and sub-limits to the level of indemnity for particular types of business/activity. If the type of restriction or limitation is not listed firms should select 'other'.
…		

…

[**Note:** the FSA previously provided firms in the Supervision Manual (Retail Mediation Activities Return) Instrument 2006 (FSA 2006/14) with an indication of the available insurers which could be selected in the online version of the RMAR Section E. We have included below the various options which are to be made available for the revised drop-down menus in RMAR Section E. These lists will also be used for FIN –APF – Authorised Professional Firms Questionnaire, FSA 031 and FSA 032.]

Drop-down list for 'Insurer name'

[Please Select]

Acapella Syndicate 2014 (Managed by Pembroke Managing Agency Limited)

Ace

Aegis Syndicate 1225 at Lloyd's

AIG Europe Ltd

American International Group (AIG)

Amtrust at Lloyd's 1861

AmTrust Europe Limited

Antares Syndicate 1274

Arch Insurance Company (Europe) Ltd

Arch Underwriting at Lloyd's 2012

Argo Managing Agency

Assicurazioni Generali SpA (Branch of overseas firm)

Atrium Underwriting

Aviva

AXA insurance UK

Axis Specialty Europe SE / Axis Syndicate 1686 at Lloyd's

Beazley (Lloyd's Syndicate or Limited Company)

Brit (Lloyd's Syndicate or Limited Company)

Canopius Managing Agents (previously Trenwick)

Catlin Insurance Company Ltd

Channel Syndicate at Lloyd's 2015

Chartis UK

Chaucer Insurance Company

Chubb European Group SE

CNA Insurance

DCH Syndicate at Lloyd's 386

DTW Syndicate at Lloyd's 1991

DUAL Corporate Risks

Eureko Insurance Ireland Ltd

Everest at Lloyd's 2786

Golgate Insurance Company

Great Lakes Insurance SE (UK Branch)

HCC (Lloyd's syndicate)

HCC International Insurance Company Plc

HDI Global Specialty SE

Hiscox (Lloyd's Syndicate or Limited Company)

Liberty Managing Agency limited (4472; 5381)

Liberty Mutual Insurance Europe

Markel (Lloyd's Syndicate)

Markel International Insurance Company Ltd

MS Amlin

MS Amlin Syndicate 2001

Munich Re Syndicate at Lloyd's 457

Named Underwriters at Lloyd's

Navigators Syndicate at Lloyd's 1221

Neon Syndicate at Lloyd's 2468

Omnyy LLP

Other

Probitas Syndicate at Lloyd's 1492

QBE at Lloyd's (5386; 5334)

QBE International Insurance Limited

Royal and Sun Alliance plc

The Griffin Insurance Association Limited

Travelers Insurance Company

W R Berkley Syndicate at Lloyd's 1967

XL Insurance Company SE

Zurich Insurance PLC (Branch of overseas firm)

Allianz Global Corporate & Specialty SE

China Re Syndicate at Lloyd's 2088

Pembroke Syndicate at Lloyd's 4000

International General Insurance Company (UK) Ltd (IGI)

QIC Europe Limited

Sompo International Insurance Ltd

Starr International (Europe) Ltd

Starr Managing Agents Limited

Travelers Insurance DAC

Travelers at Lloyd's 5000

XL Insurance Company UK Limited

Drop-down list for any column requiring 'Business line category'

[Please Select]

All business lines [for excess only]

No exclusions apply to this policy [for exclusions only]

General insurance and pure protection - Standard/general

General insurance and pure protection - Commercial

General insurance and pure protection - Critical illness

General insurance and pure protection - Income protection

General insurance and pure protection - Delegated authority business

General insurance and pure protection - Other GI and pure protection type

Mortgages - Standard/general

Mortgages - Impaired credit

Mortgages - Self certification

Mortgages - Endowments

Mortgages - Equity release

Mortgages - Other mortgage type

Retail investments - Standard/general

Retail investments - Income drawdown/withdrawal

Retail investments - Investment bonds

Retail investments - Personal pensions and AVCs

Retail investments - Structured products

Retail investments - DB pension transfers/safeguarded benefits

Retail investments - NMPI/NRRS

Retail investments - Other retail investment type

Other FCA regulated business

Drop-down menu for PII exclusion time period

[Please Select]

Past business

Future business

Past and future business

Drop-down menu for PII exclusion type

[Please Select]

All business

Volume of business

Type of consumer

Type of business

Sub-limit of cover

Jurisdiction of insurers used

Rating of insurer used

Other

Annex E

Amendments to the Perimeter Guidance manual (PERG)

This Annex comes into force on 15 June 2020.

In this Annex, underlining indicates new text.

8 Financial promotion and related activities

…

8.30A Pre-purchase questioning (including decision trees)

…

8.30A.16 G …

(3) The table in *PERG* 12 Annex 1 includes an example of when the use of pre-purchase questioning (including, decision trees) in the course of a triage conversation with customers is likely to be *advice on conversion or transfer of pension benefits*.

…

12 Guidance for persons running or advising on personal pension schemes

…

12 Annex 1 Examples of what is and is not advising on conversion or transfer of pension benefits

Examples	Is this advising on conversion or transfer of pension benefits?
Firm A has a triage conversation with customers. It gives them factual information about *safeguarded benefits* and *flexible benefits* and describes the requirement to take *advice on conversion or transfer of pension benefits* and the cost of transfer. In addition, the *firm* explains the features of pension schemes with *flexible benefits* and pension schemes with *safeguarded benefits* that make them more or less suitable for general groups of people. The *firm* also explains the cash equivalent transfer value.	
…	
(6) Before or during the course of the triage conversation with customers, the *firm* uses a form of pre-purchase	Yes. This is likely to be advice as the pre-purchasing questioning process accumulates personalised information tailored to individual

questioning (such as decision trees and RAG-rated questionnaires) as set out in *PERG* 8.30A. The *firm* leaves it to the customer to decide whether or not to take advice.	customers, which is presented in such a way that is objectively likely to influence the customer's decision to transfer or convert their *safeguarded benefits*.

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