

Consultation Paper **CP24/30*****

A new product information framework
for Consumer Composite Investments

December 2024

How to respond

We are asking for comments on this Consultation Paper (CP) by **20 March 2025**.

You can send them to us using the form on our [website](#).

Or in writing to:

Consumer Investments
Distribution Policy
Financial Conduct Authority
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London E20 1JN

Email:

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- a list of the names of respondents who made representations where those respondents consented to the publication of their names,
- an account of the representations we receive, and
- an account of how we have responded to the representations.

In your response, please indicate:

- if you consent to the publication of your name. If you are replying from an organisation, we will assume that the respondent is the organisation and will publish that name, unless you indicate that you are responding in an individual capacity (in which case, we will publish your name),
- if you wish your response to be treated as confidential. We will have regard to this indication, but may not be able to maintain confidentiality where we are subject to a legal duty to publish or disclose the information in question.

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Foreword



Simon Walls

Executive Director
of Markets

Consumers need to be able to invest with confidence, allowing them to save for major expenses like a property or to prepare for later life. We want to see a consumer investments market where everyone can make well-informed investment decisions, understanding how it meets their needs and the risks they are taking.

A healthy investment culture and increased participation in this market will benefit consumers and will also provide capital to drive the economy and boost growth.

The product information consumers get needs to be accurate, engaging and as simple as possible to understand. But too often that isn't the case. Many requirements for what firms must disclose are too prescriptive and don't reflect the way consumers buy products today.

The current rules stem from assimilated European Union legislation. Disclosure documents can feel tick-box and appear complex while still not giving information that investors can engage with. Both the Government and the FCA committed to replacing this legislation with a new framework tailored to UK markets and firms. We are taking the opportunity to create a more flexible and proportionate product information framework that will address concerns with the current rules.

We want to empower firms to help consumers make timely, well-informed, and effective investment decisions. This means a more flexible regime, with firms using their judgement more, focusing on consumer outcomes aligned with the Consumer Duty. We want the regime to be able to adapt over time to keep up with market changes and the way consumers buy products.

We expect firms to use this increased freedom to find the best ways to communicate with consumers, working across the distribution chain to find solutions that deliver good outcomes.

The proposals in this consultation set out our ambition towards building a new, bolder regime. While we have put forward proposals, we are open-minded about how the regime can be designed and welcome all views to inform our thinking.

This is our opportunity to work together to design an outcomes-focused regulation that is fit for many years to come.

Chapter 1

Summary

Why we are consulting

- 1.1** 12.6 million UK investors (23% of all adults) hold an investment falling within what we call a Consumer Composite Investment (CCI) (Financial Lives survey, 2024).
- 1.2** Good quality and timely information on these products is crucial to helping people make investment decisions. We know that consumers often find the current product information documents confusing or overwhelming, which can limit their ability to make effective decisions.
- 1.3** We are consulting on a new product information regime to help consumers understand the products they are buying while giving firms flexibility to innovate. It simplifies existing requirements and enables better digital communications. It also sets out detailed requirements as necessary to ensure consistency and comparability across the market.
- 1.4** This follows the Treasury's commitment to replace the Packaged Retail and Insurance-based Investment Products (PRIIPs) Regulation and the Undertakings for Collective Investment in Transferable Securities (UCITS) disclosure requirements with a domestic regime to be delivered by the FCA.
- 1.5** The Government made the legislation to give this effect on 21 November 2024. Products formerly under the PRIIPs regime and UCITS disclosure requirements, including overseas funds in the Overseas Funds Regime (OFR), will now fall under the umbrella of CCIs and all CCI product information rules will be in our Handbook.
- 1.6** Our new approach aligns with the Consumer Duty (the Duty) by shifting from an overly prescriptive disclosure regime to a more flexible, simpler approach that prioritises good consumer outcomes and looks to empower consumers to make effective, timely, and properly informed decisions.
- 1.7** Our aim is to foster innovation and allow communications that are more closely aligned with varied needs of products and consumer groups. This information can give consumers the confidence to invest, which will not only benefit consumers but also increase participation in capital markets.

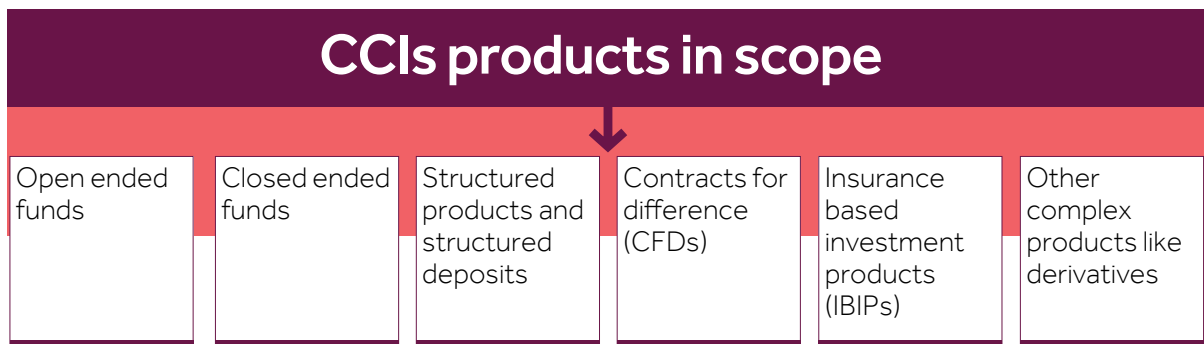
What is a Consumer Composite Investment (CCI)?

- 1.8** Under our proposed rules, a CCI is an investment where the returns are dependent on the performance of or changes in the value of indirect investments.

1.9 Our proposed rules clarify this general definition, and also set out a number of explicit inclusions. Products included are:

- a structured deposit
- a security which embeds a derivative, or includes features equivalent to a derivative contract
- a debt security with certain features
- a security issued by a fund, or rights to or interests in such a security
- a security issued by a closed-ended investment fund
- a contingent convertible security
- a contract for difference
- an insurance-based investment product.

1.10 Our draft rules provide for some explicit exclusions, including, for example, pension products and pure protection contracts of insurance.



Who this applies to

1.11 The regime will apply to any firm that manufactures or distributes a CCI to retail investors in the UK. Not all persons or entities who carry out a CCI-designated activity will be an authorised person; however, the legislation empowers the FCA to make rules that also apply to non-authorised persons in relation to their CCI activities.

- A manufacturer of a CCI is a person who creates, develops, designs, issues, manages, operates, or carries out a CCI.
- A distributor of a CCI is a person who offers, advises on, or sells a CCI, or provides investment services relating to a CCI to clients.

Who should read this consultation?

1.12 This consultation will be of interest to:

- consumers and consumer organisations
- those who manufacture PRIIPs, UCITS (including overseas funds), non-UCITS retail schemes (NURS), or non-PRIIP packaged products (excluding pensions products), including:
 - issuers or underwriters of securities that are or may be classed as PRIIPs (including businesses that do not require Part 4A authorisation under FSMA 2000)
 - fund managers, including overseas fund managers
 - issuers of structured products and derivatives
- those who advise on or sell PRIIPs, UCITS, NURS, or non-PRIIP packaged products, including:
 - wealth managers, financial advisers, and stockbrokers
 - discretionary investment management firms
 - life insurance companies
 - firms providing services in relation to insurance-based investments
 - firms operating retail investment platforms
- industry bodies that represent or provide professional services to these groups

What we want to change

1.13 We want to make significant changes to the requirements for the way product information is presented. We want to move away from the rigidly templated format of PRIIPs and the UCITS Key Investor Information Document (KIID), which does not allow firms to adapt communications as necessary to meet the information needs of retail investors. We want our regime to be simpler and more flexible.

1.14 The current PRIIPs and UCITS disclosures do not effectively help decision-making as they do not consistently engage consumers. This is partly due to the document's prescriptive format, which we believe fails to capture attention at critical decision points. Consumers who are not engaged with information are more likely to be influenced by behavioural biases. 69% of clients in a survey conducted on behalf of the German Banking Industry Committee did not read the PRIIPs Key Information Document (KID).

1.15 Where consumers do engage, the PRIIPs KID can in some cases present inappropriate information due to the prescriptive methodologies not working well across all situations. We have previously made targeted amendments to address these issues, but more action is needed.

Our approach

1.16 The principles behind our approach are to:

- ensure good quality product information that helps retail consumers make effective decisions.
- only require standardised information where it is essential to enable consumer understanding, for example to enable comparison of key aspects of investments.
- provide a flexible, technologically neutral regime, that allows firms to innovate – welcoming the use of layering or dashboards, plain language, prominent display of key information, and the inclusion of images and graphics.

1.17 We want to mitigate harm caused by consumers' limitations or biases when making decisions. Consumers tend to show decision-making biases such as anchoring their decision-making to information received early on in their journey, such as marketing materials, or favouring short-term results over longer-term rewards.

1.18 These decision-making 'shortcuts' can lead to consumers being unable to make effective decisions. They may end up choosing products that aren't right for their circumstances, paying too much in fees, and ultimately getting poor outcomes.

Our key principles for the CCI regime



Flexible, proportionate, and technology neutral to encourage firms to develop innovative and engaging ways of presenting product information to consumers.



Outcomes-focused and designed around the Consumer Duty so that firms can focus on delivering good outcomes for their customers instead of prescriptive rules.



Enable consumers to get the right information at the right time, with more emphasis on distributors embedding product information into the consumer journey to support consumer understanding.



Standardisation only where needed so consumers can effectively compare the costs and charges, risk, and performance of different products to make timely and effective decisions.

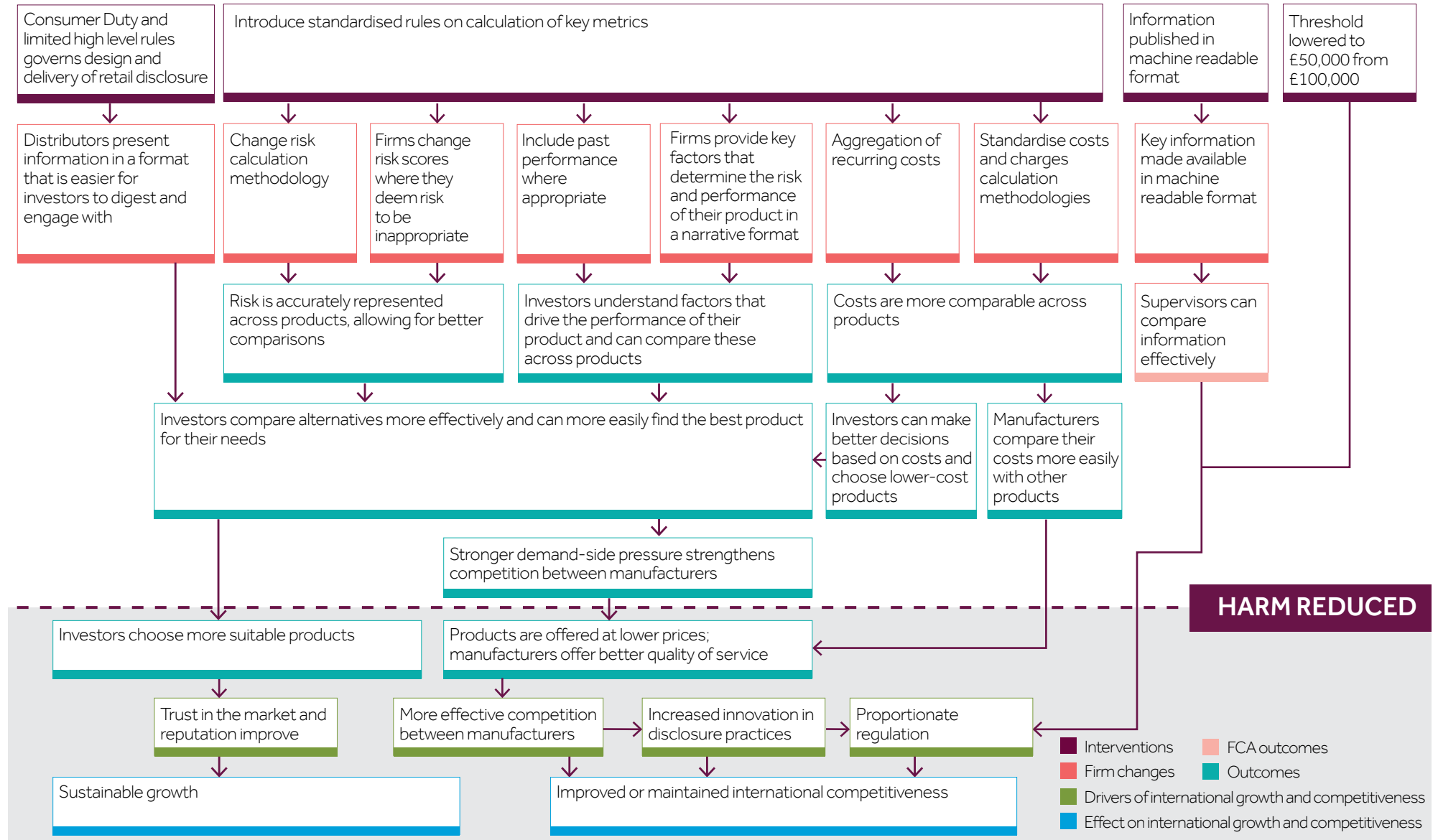
1.19 In Table 1, we summarise the changes we are proposing compared to the PRIIPs KID requirements.

Table 1: Summary of changes we are proposing in comparison to the UK PRIIPs requirements

	UK PRIIPs KID	Overview of what we are changing
Document & Format	<p>Key information Document (KID) in a standalone document with specified format/template.</p> <p>Maximum 3 sides of A4.</p> <p>Provided at point of sale.</p>	<p>Firms have freedom to design product information, removing format and template requirements.</p> <p>Provided early in the consumer journey.</p> <p>If a sale is made, firms provide a record in a durable medium which could take various forms.</p>
Cost information	<p>Any direct and indirect costs associated with an investment in the PRIIP, including one-off costs, recurring costs and incidental costs.</p> <p>A reduction in yield table showing the total impact of costs over time. It must be presented over 3 different holding periods as a single number in percentage and monetary terms.</p>	<p>Performance fees and carried interest explained using narrative and examples.</p> <p>Changing reduction in yield to summary costs over a 12-month period.</p> <p>Flexibility for firms to describe what costs mean and their impact on returns.</p>
Risk information	<p>1-7 risk metric based on credit and market risk, defined by the Cornish Fischer expansion.</p> <p>Risk information that is separated from information on performance.</p>	<p>1-10 risk metric based on product volatility.</p> <p>Flexibility to change risk indicator based on key risks or product features such as capital guarantee.</p> <p>Combined risk-reward information to help consumers understand the features of products.</p>
Performance information	<p>Descriptions of the factors that are likely to affect the performance of a product both positively and negatively, and the impact they may have on its returns.</p>	<p>A past performance graph covering a 10-year period (where this is available), to visually help consumer understanding and to provide more contextual information to consumers.</p>

Outcomes we are seeking

1.20 The causal chain below shows the outcomes that we want to achieve:



1.21 Through the CCI regime, we want consumers to:

- be presented with information that is accurate, understandable, and broadly comparable.
- engage with product information and use it in their decision-making process.
- be able to compare investments more effectively, and more easily find the best product for their needs.

1.22 By setting proportionate requirements that encourage firms to innovate in the way they communicate product information, we want more consumers to engage with retail investments, improving the competitiveness of UK capital markets and promoting growth.

1.23 Our regime will also apply to firms operating overseas who wish to promote products to UK consumers, for example through the Overseas Funds Regime (OFR), improving competition and choice in the market and ensuring a level playing field.

Measuring success

1.24 We will support firms with implementation and will carry out supervisory work following implementation to understand how our changes are working.

1.25 To measure success, we will:

- evaluate the success of our proposals by using data from a variety of sources including supervision and authorisation activities, and complaints data.
- review data on firm and Financial Ombudsman complaints to understand how these proposals are affecting consumers.
- monitor the success of this work through our ongoing monitoring of the Consumer Duty to understand how these rules interact with the Duty in practice.
- monitor our fulfilment of the secondary international competitiveness and growth objective (SICGO) by monitoring international trends relating to disclosure standards the impact on the market. We will also monitor the market trust of UK retail investors using the Financial Lives survey (FLS).

Next steps

1.26 We welcome feedback on the draft rules and questions included in this consultation by 20 March 2025.

1.27 We want to test our proposals to make sure that they are right for consumers and the wider market. So, we will continue to engage extensively with a wide range of stakeholders through the consultation period, as we develop our draft rules and guidance.

1.28 We are carrying out consumer testing of our proposals as we continue to assess consumer understanding of key product information. The results of this testing will be used alongside feedback to inform the final rules.

- 1.29** This consultation does not include draft rules relating to consequential changes to other Handbook materials or draft transitional provisions. These will be published shortly in a separate consultation.
- 1.30** We plan to issue a Policy Statement (PS) with final rules in 2025.
- 1.31** Our approach aligns with our review of Handbook requirements following the introduction of the Consumer Duty. The Call for Input (CfI) closed on 31 October 2024. We will set out next steps shortly.
- 1.32** Please respond to this CP by completing the form on our website or by emailing cp24-30@fca.org.uk.

Chapter 2

The wider context

The PRIIPs Regulation

- 2.1** The PRIIPs Regulation came into effect on 1 January 2018 and was assimilated into UK legislation following the UK's exit from the EU. It aimed to encourage competition by helping retail investors better understand the key features, risks, potential rewards, and costs- of different PRIIPs through a pre-contractual standardised disclosure document (the KID).
- 2.2** While we have supported the aims of the PRIIPs Regulation, there are areas where the KID does not work as intended. The one-size fits all, highly prescriptive nature of the current regime has had limited effect in helping consumers make well-informed decisions.

UCITS and NURS Key Investor Information

- 2.3** The UCITS IV Directive set out the framework for the stand-alone, pre-contractual KIID, which was intended to create a uniform document that communicates information about the essential characteristics of a UCITS fund to retail investors. It was also assimilated into UK legislation following the UK's exit from the EU.
- 2.4** We also have rules that require a non-UCITS retail scheme (NURS) to produce and provide a short document containing key investor information (NURS-KII), which has the same sections as the UCITS KIID. Both the KIID and the NURS-KII contain similar information and have rules that prescribe the information, formatting, presentation, and delivery. Managers of UK funds who produce a UCITS KIID or a NURS-KII are currently exempt from the requirement to produce a PRIIPs KID.
- 2.5** The proposals in this paper apply to UCITS and NURS and are intended to improve comparability and consumer understanding by bringing retail product information under one cohesive framework.

Discussion Paper (DP) 22/6 – Future Disclosure Framework

- 2.6** We published [DP22/6 – Future Disclosure Framework](#) in December 2022 as a complementary paper to [The Treasury's consultation](#). We wanted to explore what good retail disclosure should look like and to understand how we can design a new product information framework tailored to the UK market.

2.7 We received feedback from a wide range of stakeholders who were broadly supportive of our proposals. Most welcomed the retirement of the PRIIPs regime. Consumer organisations emphasised the importance of comparability for decision-making, while firms prioritised standardisation of information across substitutable products. A summary of responses to the key themes of our DP is set out below:

- **Delivery.** Our DP asked for views on the way that product information is provided to consumers and how we could ensure that the rules are future-proofed. Most respondents agreed with future-proofing our rules, emphasising the need for a technology-neutral approach, balancing digital developments with those who would prefer paper-based disclosure. Most respondents also said the responsibility for producing product information should be shared where the manufacturer calculates the core metrics, but the distributor is responsible for how the information is presented to the target market.
- **Presentation.** To be effective, retail product information should be accessible and engaging. Our rules should be flexible to allow information to be presented in the best way for the consumer. We reiterated that the key principles for effective product information communications include plain language, the prominent display of key information, and the inclusion of images and graphics. Respondents agreed with, and welcomed, the idea that information could be presented in different ways to maximise consumer understanding, including layering of information or dashboards with key information.
- **Content.** Many of the concerns raised about the PRIIPs KID were about what is felt by some to be a forced comparability between products which are not close substitutes. Our DP asked for views on what pre-contractual information should be standardised and comparable. Most respondents supported comparability on costs and charges, risk, and performance information as this would facilitate competition and consumer choice. However, some respondents wanted the existing methodologies to be amended because they felt they did not adequately account for the diversity of products in scope. There were a number of strong and conflicting views on what costs and charges should be disclosed for different product types, or how they should be presented, including from the closed-ended investment company sector.
- **Wider considerations.** Some firms viewed this as a missed opportunity for us to conduct a holistic review of retail product information more broadly including the Markets in Financial Instruments Directive (MiFID), the Insurance Distribution Directive (IDD) and pension product information requirements at the same time. We will consider this alongside responses to our Cfl on the Consumer Duty.

How it links to our objectives

2.8 The rules and guidance we are consulting on would be implemented in tandem with the Treasury's repeal, under FSMA 2023, of the assimilated law we are proposing to replace. Moving product information requirements to a domestic framework in our Handbook will allow us to ensure it is appropriate to the UK context and to make necessary changes more quickly to respond to new challenges and emerging harms.

- 2.9** We have discussed our approach with the Financial Services Consumer Panel, FCA Practitioner Panel, and FCA Smaller Business Practitioner Panel. We thank the Panels for their input and plan to engage further with them prior to finalising rules.

Consumer protection

Clear and useful information allows investors to make informed decisions that fit their lifestyle, risk tolerance and saving goals.

- 2.10** When investors engage with clear and useful information, they can make informed decisions that fit their financial circumstances, risk tolerance, and saving goals. Our proposals should advance this objective by setting appropriate standards that allow firms to do more to ensure consumers are supported in their decision-making, but without unduly burdening firms with requirements that are unlikely to help improve consumer outcomes.

Market integrity

Good and timely information increases investor trust in the market.

- 2.11** Good quality product information can further our market integrity objectives by ensuring that information is accurate and comparable, and that disclosure is designed and delivered by firms to support consumers' interests. This enables investors to buy products or services that are likely to suit their circumstances, increasing trust in the market.

Competition

High quality, well timed, and comparable information supports consumers' decision making and allows firms to compete on the merits of their products.

- 2.12** An effective product information regime should also support competition. Our proposals should result in firms providing their customers with engaging and relevant information that empowers them to make timely, well-informed decisions. It also allows firms to highlight features of their products. The proposed standardisation of key metrics will enable consumers to compare products more effectively, and efficiently, facilitating comparison across substitutable products.
- 2.13** Together this should promote effective competition in the interests of consumers, encouraging firms to attract consumers by providing good value and high-quality products.

Secondary international competitiveness and growth objective

A strong consumer investment market requires transparency and competition.

- 2.14** Enabling firms to best meet the information needs of prospective retail investors can promote an environment where consumers can interact with financial services and investments with more confidence.

- 2.15** These proposals aim to enable consumers to make well-informed investment decisions, to invest with confidence, understanding risks and protection. This will help build trust and confidence in UK financial markets, in turn increasing participation in investment and the desire to do business in the UK.
- 2.16** We are also reducing the prescriptive and templated requirements on firms. Proportionate regulation enhances competition and makes the UK a more attractive place for firms to enter, improving the UK's competitiveness as a financial hub.

Links to Other Initiatives

The Designated Activities Regime

- 2.17** The Designated Activities Regime (DAR) was introduced by FSMA 2023 via a new Part 5A to the FSMA 2000. The DAR does not involve an authorisation gateway, but gives the FCA certain rulemaking, supervisory, and enforcement powers over non-authorised persons who carry out certain activities designated by the Treasury. It enables a more proportionate form of regulation, including for those businesses that carry on some financial services activities when their primary business may not be a regulated activity.
- 2.18** We are proposing to exercise our rule-making power under this regulation (alongside our usual FSMA powers) to ensure that all persons or entities who manufacture or distribute CCIs will be subject to the final regime and FCA requirements, regardless of whether they are an authorised person.

The Consumer Duty

- 2.19** Where an authorised firm carries on CCI activities, it will need to consider its obligations under the Duty. The Duty sets high standards of consumer protection and is at the heart of the shift to outcomes-based regulation. It requires firms to act to deliver good customer outcomes. As part of this, firms have to consider the needs, characteristics and objectives of their customers, including those with characteristics of vulnerability, and how they behave, at every stage of the customer journey.
- 2.20** The Duty requires that firms' communications support and enable consumers to make effective, timely and properly informed decisions about financial products and services. We are proposing to draw support from the outcomes-based requirements in our design for a more flexible, less prescriptive regime that places a greater responsibility on firms to find the best way to meet the information needs of retail investors.
- 2.21** In July 2024, we published a [Call for Input – Review of FCA Requirements following the Consumer Duty](#), inviting responses on whether we could simplify our requirements, through greater reliance on high-level rules, while ensuring we continue to support and protect consumers. We particularly want to address potential areas of complexity, duplication, confusion, or over-prescription, which create regulatory costs with limited or no consumer benefit. The CFI closed on 31 October 2024. We intend to publish feedback in early 2025. The responses to this will feed into our final CCI proposals.

2.22 A number of our proposed rules and guidance are modelled on Consumer Duty provisions and adapted to the CCI context. This approach has advantages for non-authorized persons subject to the CCI rules, as they are not subject to the Consumer Duty more generally. Authorized firms may also find that an approach that tailors provisions to the relevant context and minimises cross-reference to other sourcebooks may make the rules and guidance more accessible. However, this does involve some duplication of rules for authorized firms. We are keeping an open mind on the best approach in light of responses received to the CFI and are interested in views from respondents. We will continue to consider this as we review responses to the CFI and consider our next steps for that work.

Advice Guidance Boundary Review

2.23 We want consumers to get the support and the advice they need at the right time alongside the information they need.

2.24 Jointly with the Government, we are examining the regulatory boundary between financial advice and other forms of support through the Advice Guidance Boundary Review. The introduction of new forms of support increases the need for consumers to get accessible and useful information to help them make good decisions with their money. The CCI framework is key to enabling more innovative forms of support for investors.

2.25 Earlier this month we published a consultation for pensions (CP24/27). We are undertaking consumer and market research and will be publishing a full consultation for investments and pensions in H1 2025. More detail is given [in our update](#).

MiFID Organisational Regulation

2.26 In March 2024, the Treasury announced its intention to repeal the assimilated MiFID Org Reg as part of work on MiFID II frameworks following on from the [Wholesale Markets Review](#). On 27 November, we published our consultation (CP24/24) proposing to transfer the firm-facing requirements of the MiFID Org Reg into our Handbook.

2.27 The MiFID Org Reg currently sets out detailed requirements for investment firms. Key disclosure, client reporting, and conduct rules in MiFID II are contained in the UK version of these requirements. We want to consider areas of crossover with the CCI regime to ensure firm-facing requirements remain consistent and cohesive, and we will consider this as we take forward any future reforms to the MiFID Org Reg requirements.

2.28 In Chapter 5 we propose changes to cost disclosure requirements currently required by the MiFID Org Regs.

Overseas products – including the Overseas Funds Regime (OFR)

2.29 We have aimed to ensure our proposals can integrate with increasingly globalised distribution networks. Our proposals will require firms to work together and share information across the distribution chain.

- 2.30** The proposals apply to any person intending to distribute their CCI products to retail investors in the UK, even where they are based overseas. This will include recognised funds, including those in the OFR.
- 2.31** The OFR is a gateway to allow certain investment funds established outside the UK to be promoted in the UK, including to retail clients. If a fund applies for and is given 'recognised scheme' status under the OFR, it can be promoted in the same way as an authorised collective investment scheme established in the UK.
- 2.32** UK distributors are not always receiving the information they need from manufacturers of overseas funds to meet their UK regulatory requirements to assess price and value under the consumer duty. We expect that the CCI regime will improve the information flows between UK distributors and overseas manufacturers. Whilst the primary policy purpose of the new CCI regime is to ensure that consumers receive the information they need, a potential secondary benefit is that the metrics that will be disclosed through the CCI may assist distributors in assessing value for overseas funds. We welcome views on this.
- 2.33** Our approach ensures a level playing field for UK and overseas firms and will facilitate retail investors having access to a wide range of products.

Closed-ended investment companies

- 2.34** As an interim measure, in November Treasury passed new legislation to exclude some closed-ended investment companies from the PRIIPs regime while it remains in place. Alongside this, we issued forbearance measures in line with the Government's legislative intention. Our forbearance has now ended as the legislation has taken effect. As a result, these products are not currently subject to retail specific product information requirements.
- 2.35** We have set expectations that industry should work together to consider the information that should be disclosed to retail consumers, including considering how to apply the Duty. We have not seen industry agreement on the information closed-ended investment companies should disclose, particularly around costs. Our proposals should inform this debate as they set out our proposed direction.
- 2.36** There has also been debate about the inclusion of closed-ended investment companies in the PRIIPs regime, and how they should be treated in our new CCI regime. The Government has confirmed that its intention is for closed-ended investment companies to be subject to the CCI regime. In Chapter 3 we set out our view that all investment funds and other pooled investment structures, including closed-ended investment companies, should be subject to our requirements. We consider that disclosure of this key information is crucial to allow consumers to continue to invest in these products with confidence and enable effective competition across the market.
- 2.37** We have tailored our proposals for closed-ended investment companies to ensure they allow for a more accurate articulation of the costs and charges, risks, and performance of these funds. We expect distributors to clearly and simply articulate key issues about closed-ended investment companies, including how charges are deducted from the

consumer's investment. We would welcome views from respondents on whether our tailoring strikes the right balance or whether further adaptation, or further guidance, may be needed. We will carry out further testing on these requirements.

Environmental, social & governance considerations

- 2.38** In developing this consultation, we have considered the environmental, social, and governance implications of our proposals and our duty under s.1B(5) and 3B(c) of FSMA 2000 to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008 and environmental targets under section 5 of the Environment Act 2021.
- 2.39** We considered how these proposals relate to the Sustainability Disclosure Requirements (SDR). By reducing prescription and allowing for greater flexibility in general product information, firms could integrate the investment labels from the SDR documents or general sustainability information into product information. We welcome feedback on this aspect of our proposals.

Equality and diversity considerations

- 2.40** We have considered the equality and diversity issues that may arise from our proposal.
- 2.41** We have taken into consideration the wide range of consumers within this market.
- 2.42** 23% of all UK adults hold a CCI. Based on FLS 2024, the following groups of consumers are more likely to currently hold a CCI:
- **Older consumers** – 28% of consumers aged over 45 hold a CCI, compared to 17% of those aged under 45.
 - **Retired consumers** – 36% of retired consumers hold a CCI, compared to 19% of those who are not retired.
 - **Consumers who do not show signs of vulnerability** – 29% hold a CCI, compared to 17% of those who show at least one characteristic of vulnerability.
 - **Consumers with higher household incomes** – 35% of those with household income over £50,000 hold a CCI, compared to 18% of those with household income under £50,000.
 - **Consumers with greater financial numeracy skills** – 36% of those with higher levels of numeracy relating to financial concepts hold a CCI, compared to 14% of those with lower levels.
- 2.43** We have considered how good quality communications can improve outcomes for consumers with characteristics of vulnerability or who may be underrepresented in investing. It is important that communications are engaging and consider varying levels of financial sophistication to increase understanding and participation where appropriate.

2.44 Overall, we do not consider that the proposals adversely impact any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other anti-discrimination legislation applies). But we will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules.

2.45 We welcome feedback on this.

Question 1: Do you have any comments on our approach to applying the Consumer Duty to CCI product information?

Question 2: Do you consider the proposed CCI regime could help distributors to assess value for overseas funds? Please explain why or why not.

Question 3: Do you have any comments on the other considerations in Chapter 2, including ESG and Equality and Diversity considerations?

Chapter 3

Application of the CCI regime

- 3.1** This chapter sets out the general application and scope of the CCI regime and our proposed transitional provisions and implementation dates.

Products in scope of the regime

- 3.2** Consumer Composite Investments are broadly products where the returns that may be received by the investor are dependent on the performance of indirect investments (meaning underlying or reference assets). This covers all products in scope of the current PRIIPs and UCITS regimes. The detailed definition is set out in the draft rules in Appendix 1.
- 3.3** This means that the regime covers products such as funds, derivatives, structured deposits and structured products, insurance-based investment products (IBIPs), and other complex financial instruments. This is not an exhaustive list, and firms will need to consider whether their products are CCIs. The legislative intention is that all these products will be subject to our regime, so we do not propose excluding any from its scope.
- 3.4** We intend to carry across the PRIIPs scope clarifications in relation to debt securities, currently outlined in DISC 2.2, to the new CCI regime, subject to the amendments proposed in paragraph 3.13.
- 3.5** Some specific products are excluded from the regime by the legislation. These are set out in our draft rules and include pension schemes, deposits that are not structured deposits, pure protection contracts, and long-term insurance contracts where benefits are only payable on death or sickness.

An overview of the proposed regime

- 3.6** We propose that a CCI must be accompanied by a product summary (replacing the PRIIPs KID and UCITS KIID) whenever it is or can be distributed to a retail investor. The manufacturer must prepare a product summary for each CCI that is to be distributed to retail investors in the UK. They must provide the product summary along with the underlying core information to the distributors of the CCI in good time before the product can be distributed.
- 3.7** We propose that a distributor will have the option of creating their own product summary for a CCI, based on the underlying core information disclosures. This will enable greater tailoring of the communication to the information needs of their retail clients, which the distributor may be better placed to assess. Even where they opt to use the product summary produced by the manufacturer, a distributor would be able to use the core information disclosures to aid its own understanding of the product and to produce additional product information to support consumer understanding.

- 3.8** A distributor must not advise on the purchase of or sell (or offer to sell or arrange the sale of) a CCI to a retail investor if there is no product summary available for that CCI. The retail investor should be provided with the product summary, or the information in the product summary, at the right time in the investment journey, typically early on; they must also be given the product summary in a durable medium at the point of sale, or very shortly after.
- 3.9** Our proposed regime envisages that manufacturers and distributors would work together and share information where they have questions or concerns, to ensure the information provided to retail investors is accurate, clear, fair and not misleading. We discuss the approach further in Chapter 4.

Closed-ended investment companies

- 3.10** Closed-ended investment companies are a type of pooled investment vehicle and offer an alternative to open-ended investment fund structures. Before the introduction of the PRIIPs regime many voluntarily produced key disclosure documents for consumers.
- 3.11** We consider that accurate, reasonably comparable, and appropriate product information across similar retail investment products is vital for increasing consumer confidence in different investment structures. It should also encourage competition within the investment funds sector.
- 3.12** Our proposed regime would apply to the retail distribution of securities issued by closed-ended investment companies, such as investment trusts and venture capital trusts. We believe this will help avoid the potential for consumer harm, and promote a well-functioning, healthy, and competitive market.

Make whole arrangements

- 3.13** A 'make whole' call option is a feature commonly found in corporate bonds. This allows the issuer to redeem the bond at any time during the life of the bond by repaying to the investor an amount calculated as being the higher of (i) the par value of the bonds; and (ii) the present value of the bonds to be redeemed and their future cash flow to the original date of redemption. They offer investors an element of protection by providing a predetermined payout in the event of early redemption.
- 3.14** We have had feedback that the PRIIPs scope clarification left some uncertainty as to whether 'make whole' clauses were captured. We do not consider that typical 'make whole' clauses cause corporate bonds to fall within scope of the CCI regime. We are therefore proposing to amend the existing scope clarifications to remove the current requirement for there to be any link between exercise of a 'make whole' option and some other event or state of affairs, and to broaden the scope of the possibility of mechanisms for calculating the cash repayment amount to ensure that this does not inadvertently exclude certain 'make whole' provisions.

Insurance-based investment products – Multi-option products

- 3.15** The current PRIIPs regime covers insurance-based investment products (IBIPs), such as with-profits policies, unit-linked policies, and Holloway sickness policies.
- 3.16** Some of these products are multi-option products (MOPs) which allow consumers to create a bespoke product made up of different underlying funds. The current PRIIPs regime has options for MOPs providers to provide consumers with a generic document which covers the entire product, or individual documents for each of the underlying investment options.
- 3.17** We propose to keep this flexibility for IBIPs. Distributors would be able to provide a general summary for the wrapper along with product summary information for each of the underlying products. Alternatively, firms can show consumers the overall risk profile, costs and charges, and performance of the product after the consumer has chosen their options. Firms will also have the option of providing a general summary of the wrapper, together with links to where the product information for the underlying investment options can be found. Firms will need to consider how best to communicate the range of investments and how it influences the overall profile, including the insurance component.
- 3.18** We welcome feedback on this and the application of calculation methodologies to IBIPs discussed in Chapters 5-7.

Non-retail products

- 3.19** Our proposed regime would apply wherever a consumer composite investment is made available to retail investors. We appreciate, however, that for some products, such as listed securities intended exclusively for non-retail investors, manufacturers may not be able to fully ensure there are no sales to retail investors, particularly in the secondary markets.
- 3.20** We intend to build on the approach currently conveyed as guidance in the Product Disclosure Sourcebook (DISC) 2.3, which we propose to replace with rules that disapply our requirements to an offer of a CCI which is a readily realisable security where the offer meets the following criteria:
- the marketing materials (including prospectus, where relevant) feature clear and prominent disclosures that the product is not intended for retail investors, and the CCI is only being offered to professional clients/eligible counterparties;
 - the issuer has taken reasonable steps to ensure the offer and associated promotional communications are directed only at non-retail investors; and
 - a minimum investment of £50,000 applies for each end-investor.
- 3.21** We propose to define the minimum investment denomination for a product not within scope (currently £100,000 under PRIIPs) as £50,000 because we believe this value more accurately represents the maximum denomination of a product intended for the retail market.

Transitional provisions

- 3.22** We intend for our CCI regime to come into force when our Policy Statement is published, or shortly after, but with a substantial transitional period. Firms will be able to start moving to the new regime as soon as they are able, but existing PRIIPs KIDs and UCITS KIDs or equivalent disclosures produced and communicated in line with current obligations will be considered compliant until the end of a proposed 18-month transition period.
- 3.23** We appreciate the time and cost involved in moving to a new regime. Some firms will need to change product information for a very large number of products and most firms will need to make at least some changes to their systems or procedures. The regime must be proportionate for all types and sizes of firm. During the transitional period we are proposing, firms may follow either the CCI rules or the assimilated PRIIPs or UCITS requirements as they apply immediately before their repeal, which should coincide with the entry into force of our new rules.
- 3.24** UCITS funds are subject to an exemption from the PRIIPs disclosure regime that runs until the end of 2026. For UCITS and OFR funds, product information made in compliance with the KII Regulation will be permitted until the end of this exemption period. After this point and the end of the transition period, UCITS funds will be required to follow CCI rules.
- 3.25** The Treasury has passed interim legislation that has carved certain investment companies out of the scope of the PRIIPs Regulation. Investments in these arrangements are currently not subject to retail specific requirements. We propose that manufacturers' transitional period for investments issued by close-ended investment companies should be 12 months, given that they may not currently be using the PRIIPs KID for their products. We welcome views on this.
- 3.26** This consultation does not include draft rules for transitional provisions. We will publish these in a separate consultation in early 2025.

Table 2: Summary of transition period proposals

Product	Interim requirements	Must follow CCI requirements
PRIIPs	May continue to follow PRIIPs requirements until end of transition period	18 months after the PS and final rules are published
UCITS, NURS (Including OFR)	Exempt from PRIIPs until end of 2026 – may continue to follow KII Regulations	18 months after the PS and final rules are published
Investment companies subject to the PRIIPs exemption	Currently exempt from PRIIPs requirements	12 months after the PS and final rules are published

Question 4: Do you have any comments on the scope of products included in the CCI regime?

- Question 5:** Do you have any comments on our proposed scope clarifications? Are there any other areas where it would be helpful to clarify the application of the CCI regime?
- Question 6:** Do you agree with our proposal to allow optionality for multi-option products (MOPs)? Do you have any comments on how MOPs should be treated under the CCI regime, in particular how costs, risk and past performance should be presented to account for the range of products within them and the costs of the wrapper?
- Question 7:** Do you agree with our definition for when a CCI is not a retail product and therefore out of scope? If not, please explain why.
- Question 8:** Do you agree with our proposed transitional provisions for moving to the CCI regime? If not, please explain why.
- Question 9:** Do you agree with the proposed timeline for closed-ended investment companies moving to the CCI regime? If not, please explain what alternative timelines you would suggest and why.

Chapter 4

Responsibility across the distribution chain

- 4.1** This chapter sets out our proposals for assigning responsibility for product information between manufacturers and distributors, based on what activities each are best placed to carry out.
- 4.2** In [DP22/6](#), we discussed who is best placed in the distribution chain to produce product information, design the presentation of that information, and communicate it to retail consumers. Overwhelmingly, respondents felt that the Duty should govern the presentation and timing of communications to consumers, and distributors should have increased involvement in designing those communications. Most respondents believed that the manufacturer should have to calculate and provide the underlying information about the product, whilst the distributor should be responsible for the presentation of that information.
- 4.3** Our proposals have taken note of this feedback. We are proposing that the manufacturer creates a product summary containing the key information retail investors need about a product. They will also provide underlying core information to the distributor to support the delivery of that information in a more interactive or engaging way. Distributors may also use the core information from the manufacturer to create their own more tailored product summary or provide additional product information to support understanding.
- 4.4** This represents a shift in approach to consumer-facing product disclosure, placing more flexible but also more nuanced responsibilities on both manufacturers and distributors, to ensure product information helps consumers make effective decisions.
- 4.5** Our proposed requirements aim to better enable digital-first communications, challenging firms to move away from 'tick-box' disclosure and genuinely consider how product information can be used to engage consumers and help them make effective investment decisions. While we expect individual firms to act appropriately based on their activities and capability, over time we want to see the market innovating to present and deliver product information in ways that will reduce the perceived barriers to participating in capital markets, empowering consumers to invest with confidence.

Preparing product information

- 4.6** Manufacturers often possess unique knowledge about their own products and so we consider that they should be responsible for ensuring that accurate and relevant information about those products is made available. We propose that manufacturers will be required to prepare and make available to distributors core information that covers:
- Basic information on the CCI, such its name, objectives, and the availability of redress (see Chapter 8 for further detail). This information is necessary to allow consumers to identify the key facts about the investment.

- Information about each CCI's costs and charges, risk, and performance according to standardised rules. We are proposing more detailed requirements for this kind of information to provide clarity for firms and achieve a degree of standardisation that will help consumers understand what they are buying and compare products.

- 4.7** We are proposing that manufacturers will be responsible for preparing a stand-alone product summary reflecting the above information in a short, concise, and consumer-friendly presentation, as well as the underlying core information disclosures about the CCIs they manufacture. They will be responsible for ensuring that this information is accurate and fair, clear, and not misleading.
- 4.8** We expect manufacturers will normally be able to meet the requirement to provide the summary and underlying information by publishing the materials on their website.
- 4.9** The purpose of requiring manufacturers to share the underlying product information is to help distributors understand the product and assess whether the manufacturer prepared summary will meet potential investors' information needs. Distributors can use this to help produce a more tailored product summary or provide additional information that will help consumer understanding.
- 4.10** Chapters 5-7 set out the methodologies that must be used to produce cost, risk, and performance information, and some minimum standards about the presentation of that information to consumers, which will also be relevant for distributors.
- 4.11** Manufacturers should ensure the product summary and underlying core information they produce remains accurate as long as a CCI continues to be distributed to retail clients. We propose that the product summary and underlying core information must be reviewed and updated as necessary and at least once every 12 months. We also propose that manufactures should flag any material changes in the product information to distributors. Firms will need to be aware of specific data points that will need to be updated to a set timescale, such as past performance information (where applicable) which will have to be updated annually.
- 4.12** For some CCIs, there may be multiple firms involved in manufacturing activities. In this case, the firms' respective roles and responsibility for producing product information should be agreed between the parties.

Publishing core information

- 4.13** We propose that manufacturers make available the core product information in a machine-readable file. This will make it easier for distributors and third-party service providers to extract information and produce innovative ways of presenting this information to consumers.
- 4.14** We are not proposing a template for this requirement. Manufacturers may also include information that is not required by our CCI rules in the same file, such as information to meet our SDR requirements or any other information they believe would be useful for a distributor.

- 4.15** The machine-readable file is not intended to be provided to a retail client by a distributor or a manufacturer. This requirement aims to support the development of engaging and helpful consumer communications, rather than being a consumer communication itself.
- 4.16** We expect some distributors and third-party service providers will choose to extract the information from the machine-readable file to populate other methods of presenting product information to consumers, but they are not obligated to do so.

Product summary

Preparation

- 4.17** We are proposing that manufacturers should prepare a stand-alone, consumer-facing product summary about the CCI and make that summary available to distributors alongside the machine-readable file. The requirement for manufacturers to produce a summary will enable distributors of all sizes to offer products from across the whole market, which we consider will promote competition in the interests of consumers.
- 4.18** The product summary must include a short description of the product's investment objectives and investment policy, information about risk, past performance, and costs and charges, as well as identifying information about the product, information on who prepared the product summary and the date it was issued, and information about Financial Ombudsman and Financial Services Compensation Scheme (FSCS) eligibility.
- 4.19** Unlike in the KID or KIID in the current regimes, we are not proposing to prescribe the design or layout of the summary or any other consumer-facing document containing the core information. We do not want to limit firms' ability to design product information in ways that could be more engaging and understandable for consumers. We're proposing some Duty-aligned standards that firms must meet when preparing the product summary to ensure investors are presented with information in a way that enables them to make timely and effective decisions. These standards will be of particular relevance to firms which are not authorised persons and so not subject to the Duty.
- 4.20** Firms should take reasonable steps to ensure the product summary meets the information needs of retail investors and is likely to be understood by them. It needs to equip investors to make decisions about the product that are effective, timely, and properly informed. It should not rely excessively on cross-references to other materials and firms must take reasonable steps to ensure the contents of the product summary are clear, fair and not misleading. If the Duty applies to them, firms should also ensure the design and drafting of the product summary is in line with their obligations.
- 4.21** To make sure that investors are made aware of key information about costs and risk in the product summary, this information must be prominent in the summary. More information about prominence, including examples of good and poor practice, can be found in our existing [guidance on prominence in financial promotions](#).

4.22 We are also proposing more specific rules about the presentation of costs and risk information within the product summary:

- The product summary should contain statements emphasising the importance of costs and charges, with a clear explanation of the impact of costs and charges an investor pays on the potential growth of the CCI, and which costs are estimated and so may differ from the figures shown. It must also explain that the person selling or advising on the CCI may charge other costs and fees. Where relevant, it must cross-reference the CCI's prospectus where more detailed information on costs and charges can be found.
- The product summary may include any additional explanation, contextual information or breakdown of the costs and charges the firm considers to be useful to the retail investor in understanding the impact of costs and charges, provided this does not contradict or diminish the importance of the statements explained above.
- The risk score must be presented on a horizontal linear scale of 1 to 10.

Pre-sale

4.23 Distributors will be required to verify that an up-to-date product summary is available, and provide retail customers with either a product summary or the information within it before they may distribute any CCI. We consider that this should be done as early as practicable in the investment journey, to assist the consumer's decision making. We propose this will apply in all circumstances unless the CCI is being purchased by a discretionary manager or the investor has approached the firm to arrange the transaction. Where a consumer has approached the firm, they would still be given a copy of the product summary and encouraged to consider it.

4.24 Distributors may make their own summary. Where a distributor opts to prepare the product summary, they will be responsible for ensuring it contains all required information, meets the information needs of retail investors, and that it is clear, fair and not misleading.

4.25 The firm that prepares the summary must consider whether they should adapt, summarise, paraphrase, or supplement the core information prepared by the manufacturer to meet the needs of retail investors. However, the contents of the product summary should reflect the core product information prepared by the manufacturer without any distortion or contradiction, or any obscuring of relevant information about the product. Distributors should take care not to modify the substance of the core information prepared by the manufacturer when communicating it to the retail investor.

4.26 We propose guidance clarifying that we do not consider adapting language, providing supplementary explanations, or tailoring the information to reflect an investor's circumstances, such as the amount invested, to be a modification of substance. Under our proposed rules, firms should proactively consider how they can meet the information needs of retail investors.

- 4.27** If a distributor considers that the substance of the core information needs to be modified to avoid misleading or confusing consumers, we propose that it must first consult with the manufacturer to discuss its concerns and only proceed with the modification of the information with the written agreement of the manufacturer. Manufacturers consulted by a distributor must act reasonably and in a timely manner to address these concerns and ensure the relevant core information and product summary are accurate and comply with our proposed rules.

Post-sale

- 4.28** We propose a copy of the product summary in a durable medium must be provided to the customer if a sale is made. This may be the product summary prepared by the manufacturer, or one that the distributor has prepared. The purpose of this requirement is to ensure that retail customers have a record of the core information which they can review in their own time and for future reference.
- 4.29** We want to facilitate a digital-first approach that supports initial communications via non-durable media. We think firms should be able to send the product summary by email following a CCI sale made online. Some firms have raised concern about the limitations of 'durable media' in response to our Call for Input on the Duty. We welcome comments from firms on whether the current definition of 'durable medium', as set out in our [Handbook Glossary](#), poses a barrier to a digital-first approach, and whether any changes are needed to facilitate a more flexible regime.

Communicating CCI information

- 4.30** In line with their obligations under the Duty, distributors should consider how they can present product information in a way that supports consumer understanding and facilitates investors making well-informed decisions.
- 4.31** Platforms may choose to use layering or dashboards to present CCI information to a consumer. They can tailor the information to their consumers' circumstances (for example, by using a sliding scale tool). Alternatively, a financial adviser could provide a summary document to a retail customer, explain the information to the customer, and then provide additional explanation about features that the customer may not be familiar with. Firms will also be able to integrate sustainability information from consumer facing SDR documents where relevant.
- 4.32** In some circumstances, a distributor may decide that the product summary prepared by the manufacturer is sufficient on its own to communicate the core information to consumers. In other circumstances, a distributor may decide that, to meet their Duty obligations, they need to provide additional information alongside the product summary to support consumer understanding, for example because they know their customer base would benefit from supplementary explanations. Or a distributor might decide that they want to design a more engaging way of presenting product information to their customers, and only present the product summary to customers after the point of sale as a record of the product information.

- 4.33** We expect firms' approaches to communicating product information in innovative ways to evolve over time, rather than anticipating an instant shift when the new regime comes into effect. In line with the Duty, distributors should be able to provide evidence that, whatever method they use to present the information to consumers, they're delivering good consumer outcomes.

Co-operation with other firms

- 4.34** We think an effective product information regime requires firms across the distribution chain to work together effectively in the interests of consumers. We are therefore proposing a requirement for firms to cooperate and share information as needed to allow manufacturers and distributors to fulfil their respective duties. This will ensure that firms across the chain are well equipped to understand the characteristics of the product, understand and meet the information needs of prospective retail investors, and enable each firm to satisfy itself that they are taking appropriate steps to meet their regulatory obligations. Firms will need to ensure the information they share with other firms is accurate and does not mislead them, including by omission.
- 4.35** Manufacturers and distributors would each be responsible for the product information they prepare under our proposals. But we expect firms to work together to ensure the information needs of retail investors are met, and to remain alive to potential issues with product information, whether or not they prepared it.

Working with unauthorised firms

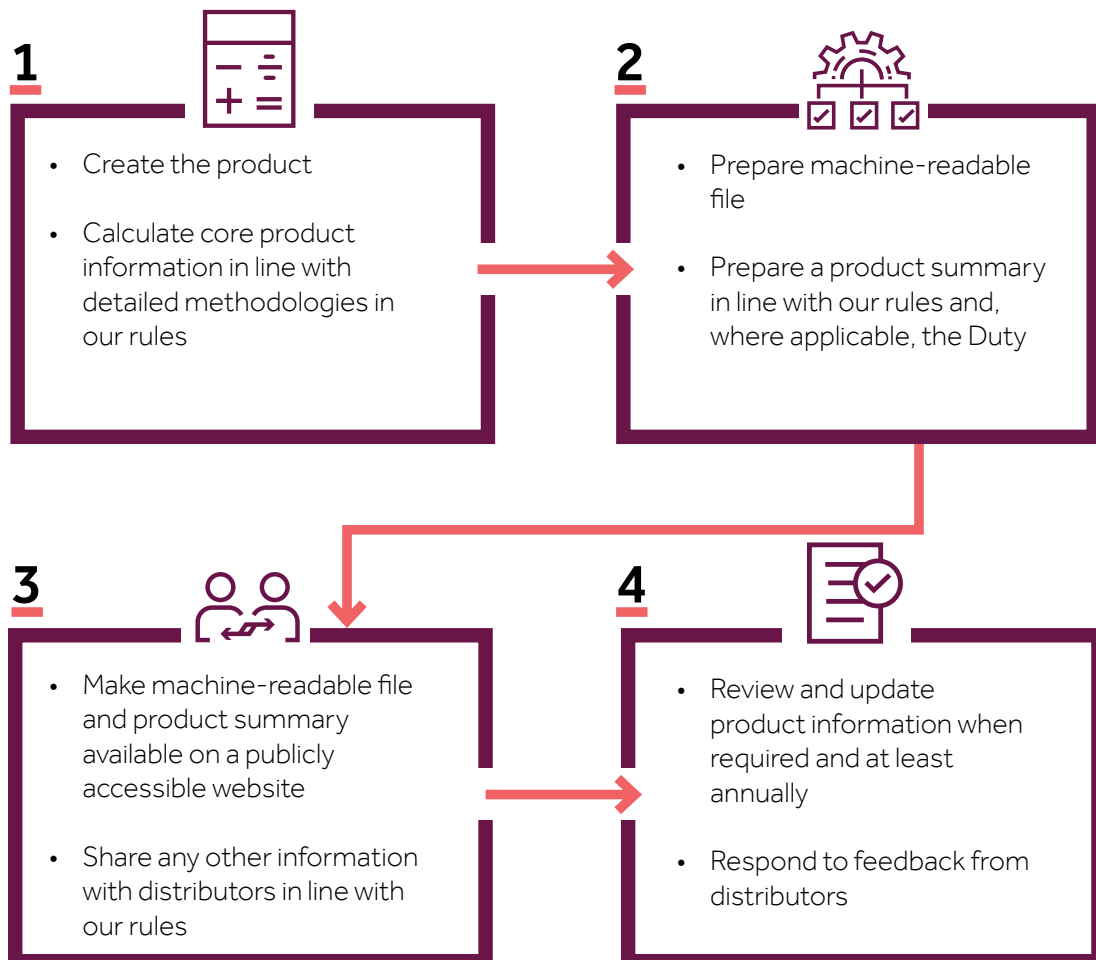
- 4.36** Many manufacturers of CCIs are not authorised firms and so not subject to the Duty. They play an important role in the investment market. For example, non-UK funds available via the OFR facilitate effective competition in the interests of UK consumers by offering a broader choice of investment funds.
- 4.37** To ensure a degree of consistency of consumer protections and give authorised distributors more confidence to offer products from unauthorised manufacturers, we are proposing to apply some high-level standards for unauthorised firms carrying on CCI activities.
- 4.38** We propose to impose basic product governance standards on unauthorised manufacturers, requiring them to establish a product approval process, ensuring that a CCI is designed to meet the needs, characteristics, and objectives of its target market, that it will provide fair value, that its risks to investors are assessed, and that the product's distribution strategy is appropriate. This is aligned with the requirements for authorised firms, who are subject to more detailed obligations under the Duty or PROD. However, we do not propose to apply the requirement concerning fair value in respect of funds which are recognised schemes
- 4.39** We also propose to require unauthorised firms to comply with rules equivalent to Principles 1, 2, 3, 10, and 11.

4.40 Distributors should also consider if they need to provide additional information to consumers or carry out additional due diligence, as unauthorised parties in the distribution chain will not be subject to our rules more generally, including the Duty.

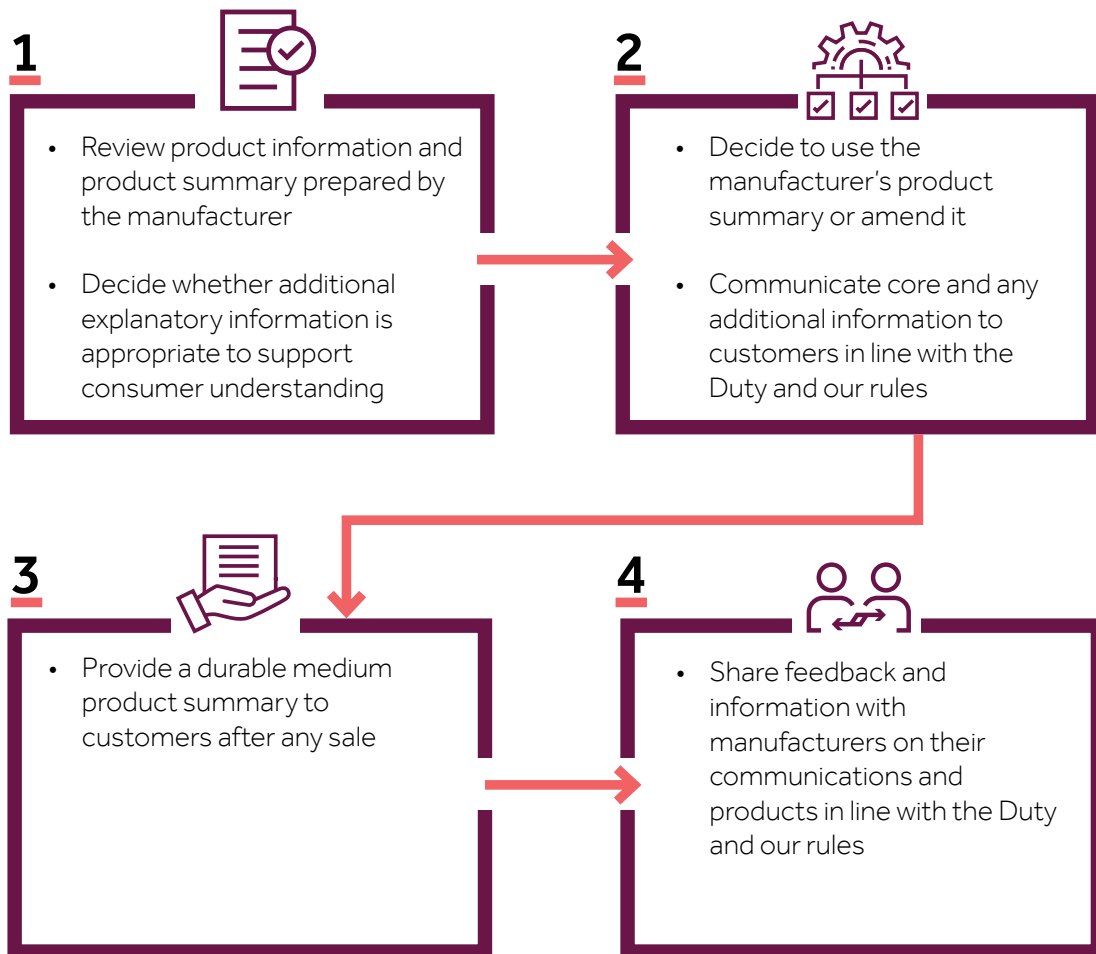
4.41 Whether a manufacturer is authorised or not may impact a consumer's access to redress if something goes wrong. Distributors should take steps to make sure consumers are aware of the protections available to them, including any regulatory protections investors may or may not have under the FSCS or the Financial Ombudsman.

Figure 1: Overview of manufacturers and distributors' roles

Role of manufacturers



Role of distributors



Question 10: Do you agree with our approach, including how responsibility is allocated across the distribution chain? If not, please explain why, and how you think responsibilities should be allocated.

Question 11: Do you agree with the core information manufacturers would be required to prepare? If not, please explain why and what alternative requirements you would suggest.

Question 12: Do you agree with our proposal that manufacturers should be required to make their underlying product information available to distributors? If not, please explain why.

Question 13: Do you agree with our proposal that manufacturers should be required to make their underlying product information machine-readable? If not, please explain why.

- Question 14:** Do you agree that manufacturers should be responsible for producing a product summary? If not, please explain why.
- Question 15:** Do you agree with the proposed requirements for the product summary? If not, please explain why. Do you agree with our proposal not to prescribe its overall design or layout? If not, please explain why and what design requirements you believe we should prescribe.
- Question 16:** Do you agree with the requirements for distributors to provide the product summary or information within it to potential investors, including the timing of delivery? If not, please explain why.
- Question 17:** Do you agree with our proposals for providing a product summary in a durable medium if a sale is made? If not, please explain why. Do you have any comments on the requirement of a 'durable medium' for this?
- Question 18:** Do you agree that we should require unauthorised firms to follow some of our principles for businesses and basic product governance standards when carrying out CCI activities? If not, please explain why. Do you have any comments on the standards that should be set for these?
- Question 19:** Do you have any other comments on what obligations manufacturers should have in the CCI regime?
- Question 20:** Do you have any other comments on what obligations distributors should have in the CCI regime?

Chapter 5

Costs and charges

- 5.1** This chapter sets out our approach to the calculation and presentation of costs and charges under the new regime.
- 5.2** Our proposals apply only to the calculation and presentation of product costs. Distributors' existing obligations relating to costs and charges for the investment services they provide are unchanged, and these proposals should be considered alongside those existing obligations.

Objectives of cost disclosure

- 5.3** We want consumers to be presented with cost information that is:
- Calculated to a clear methodology that ensures its consistency and accuracy.
 - Clear, simple, and presented in a way that is easy to identify, understand and compare.
- 5.4** It is important for potential investors to be made aware of the costs of an investment product, and to appreciate how ongoing costs might impact their returns. Consumers need an accurate, clear, and simple explanation of costs and charges to help assess the value of a product or service. They cannot be expected to evaluate longer pieces of disclosure, so effective summaries need to help consumers understand what they are paying.
- 5.5** Our research ([OP32](#)) has highlighted that disclosure does not always make consumers engage. We found that even where retail investors are shown costs and charges information, they may not pay sufficient attention to them or understand how they affect investment returns, and instead consumers often place a high weight on past performance.
- 5.6** Standardisation of this information will help consumers compare different products and choose the one that is most appropriate for them. Our starting point is that, regardless of the structure of an investment vehicle or product, similar or substitutable products should disclose costs in the same way to support this. Consumers acting effectively in response to cost disclosure should drive competition across the market.

Feedback to our DP

- 5.7** Most of the feedback to our DP on the presentation of costs and charges emphasised the need for comparability. Some responses said that cost disclosure should be flexible enough to account for products that have unique or different features. We had mixed feedback on how costs should be presented. Some respondents said that costs should be presented in a single figure to better support decision making, while others suggested a single figure is an overly simplified way to present costs. Others also suggested that layering would be an appropriate way to inform consumers about the origins of specific costs.

- 5.8** We have received different views on how cost information should be presented across the wide scope of products under the CCI regime. Our proposals attempt to balance this feedback and reflect product differences, while focusing on making it as easy as possible for consumers to engage with and compare the information. We will continue to test consumer understanding of costs. We will work with all stakeholders to ensure we have considered the range of views across the market before making final rules.

Cost disclosure under PRIIPs

- 5.9** The PRIIPs regime requires disclosure of cost in a KID, including disclosure of all direct and indirect costs associated with an investment, including one-off costs, recurring costs and incidental costs. The total aggregated costs over time must also be shown as a single number in monetary and percentage terms, assuming a nominal investment of £10,000 and moderate performance where relevant.
- 5.10** Some stakeholders have expressed concern about the PRIIPs cost disclosure regime. Consumers may struggle to engage with the tables contained in the KID, which contain a variety of figures and illustrative costs that might not relate to a consumer's specific circumstances.
- 5.11** Our review on disclosure of costs by asset managers found several issues with the way firms were calculating and displaying costs and charges under the requirements. For example, we found some firms were incorrectly calculating or presenting transaction costs or contradicting KID disclosures in other communications.
- 5.12** Some stakeholders have also raised concerns that for some investment products, in particular closed-ended investment companies, the required costs and charges disclosure under PRIIPs has not resulted in representative cost information being produced.
- 5.13** The introduction of this regime provides the opportunity to address the points outlined above, while maintaining simplicity and comparability.

Calculation of costs

- 5.14** To ensure comparability and consistency of cost disclosure across CCI products, we are proposing a detailed methodology for the calculation of costs, ensuring that all manufacturers are held to the same standard. Although firms may have different views on what constitutes a cost, and there are various methodologies that can be used to calculate them, without standardisation there is a risk that firms may be incentivised to calculate costs in the way that leads to the lowest disclosed fee for their product.

- 5.15** We have provided a baseline cost methodology for all products, and highlighted specific considerations for certain product types to ensure our expectations are clear. Firms must disclose all direct and indirect costs and charges associated with a product. The types of costs and charges to disclose will remain broadly unchanged from existing requirements:
- one-off entry, one-off exit, ongoing and transactional costs, each of which will need to be calculated and disclosed as a percentage figure, alongside an aggregated summary of these costs; and
 - performance fees and carried interests, which will need to be identified and explained in easily understandable language.
- 5.16** We consider that these are the key costs for a consumer to understand when making a decision on whether a product is right for their circumstances.

Transaction costs

- 5.17** PRIIPs requires the disclosure of explicit and implicit transaction costs. UCITS funds only have to state in their KIID where the impact of transaction costs is likely to have a material impact on returns. When the exemption from PRIIPs ends in 2026, UCITS funds will have to disclose transaction costs.
- 5.18** We propose firms should calculate and disclose transaction costs for CCIs. Transaction costs are a key cost that consumers need to be aware of as they can have a significant impact on the net returns of a product and can erode capital. Consumers should know that while an investment strategy might legitimately incur higher transaction costs in search of greater returns, these costs are relevant to their overall returns and need to be considered.
- 5.19** Some stakeholders have raised concerns about the 'slippage' methodology required under PRIIPs. Slippage is the difference between the price at which a trade is executed and the 'arrival price' when the order to trade is transmitted to the market. It captures the bid-ask spread, as well as the market impact, which is the effect that an order has on the price when buying or selling an asset. PRIIPs requires slippage to be calculated across all transactions for a product over a 3-year period. Stakeholders argue that the disclosure of these costs without context or explanation can mislead investors. However, we have not received detailed data or evidence that allows us to assess if this is correct.
- 5.20** Slippage is not intended to be a precise measure of transaction costs for each individual transaction. For each individual transaction, slippage includes both the transaction costs incurred and any market movements while the transaction has been taking place. The assumption behind slippage cost is that short-term market movements are random, and that, at the level of a portfolio, when these random components are added together, they should be close to zero.

- 5.21** We made targeted amendments to the PRIIPs regulatory technical standards (RTS) in PS22/2 to address issues arising from transaction cost reporting, including anti-dilution amendments to prevent negative transaction costs. We amended the RTS to ensure that firms using an anti-dilution mechanism disclose anti-dilution benefits in the KID, and to set out that the anti-dilution benefit must not be considered to the extent that the benefit would take the total transaction costs below zero.
- 5.22** Following the amendments we made in PS22/2, we believe the transaction cost methodology used under PRIIPs provides an appropriate representation of product transaction costs. However we acknowledge that the methodology is, in places, overly complex or ambiguous. We have included these elements of the methodology in our draft rules for illustrative purposes, but will consult on amendments in early 2025. These are signposted in our draft rules. We welcome feedback from stakeholders on our transaction costs methodology, including evidence or data that suggests alternative approaches may be more appropriate.

'Pull through' costs

- 5.23** The PRIIPs and UCITS regimes mandate that when calculating costs, funds must take account of the costs of any underlying product they invest in. Some stakeholders argue that these costs should not be pulled through, as these are not direct costs paid by investors, but a consequence of the strategy employed by the top-level fund.
- 5.24** We disagree. We consider it is important that underlying cost information is pulled through, because it reflects how underlying charges can impact an investor's returns beyond the direct costs and charges incurred by the top-level fund. Not disclosing these costs incentivises products to be set up so that costs are predominantly incurred in lower-level vehicles. We are proposing to maintain the requirement for funds to take account of the costs of underlying products they invest in.

Tracker funds

- 5.25** Funds that track an index may invest in closed-ended or open-ended investment companies whose shares are listed or admitted to trading. These investments will be subject to the CCLs regime, including cost disclosure requirements.
- 5.26** We want to avoid market distortions from making index funds that invest in investment companies appear unduly expensive. Therefore, we propose not to require funds whose objective is to replicate the composition of an index to pull through the costs of funds that they invest in.

Product specific considerations

- 5.27** The broad scope of this regime includes products with different characteristics and structures. This means the baseline cost methodology may not always account for unique product characteristics.

- 5.28** We are proposing some product specific clarifications on what component costs must be disclosed to consumers. A summary of these proposals is provided in Table 3.

Closed-ended investment companies

- 5.29** There has been debate about how closed-ended investment companies should disclose costs. We are proposing to make some changes reflecting feedback we have had from stakeholders.
- 5.30** We propose that investment companies' ongoing costs calculation would exclude costs incurred in the maintenance and commercial operation of real assets. We consider that these costs are more accurately categorised as inherent costs of the underlying assets rather than costs of the investment. We agree that their inclusion can generate distortions that are unhelpful to consumer understanding.
- 5.31** We are also proposing to exclude gearing costs from the disclosure of ongoing costs. Gearing is an important consideration for consumers as it increases volatility through greater exposure to market movements. It impacts the risk-reward profile of a product through magnifying potential gains or losses. Gearing must be disclosed, but we consider it needs to be disclosed as a risk factor, rather than an ongoing cost. To avoid potential distortions of cost disclosures and to help consumer understanding, we are proposing that the use of gearing should instead be explained in the risk-reward narrative disclosure. This is discussed further in Chapter 6. We consider that this more accurately categorises its impact on an investment decision.

Insurance-based investment products (IBIPs)

- 5.32** The nature of IBIPs, which offer a maturity or surrender value as well as an investment element, can often mean that costs are categorised differently. Costs deducted from payments upon redemption or termination of the product should be included when calculating IBIP costs.
- 5.33** Some investors in IBIPs may receive profit shares which in effect reduce the charges they pay. We propose that cost information should be calculated net of profit share arrangements. However, firms must include costs deducted from amounts not allocated to the retail investor according to a profit-sharing mechanism.
- 5.34** We are also proposing that IBIPs should include the cost component of their biometric risk premiums in their calculations. This approach carries across the corresponding requirement from the current regime.

Table 3: Product specific cost considerations

All investment funds	IBIPs	Closed-ended investment companies
Where a fund invests in an investment product, include its underlying costs	Costs calculated net of profit-sharing arrangements Include: <ul style="list-style-type: none"> • Cost of biometric risk premium • Costs deducted from payments upon redemption or termination of the product 	Do not include: <ul style="list-style-type: none"> • Operational expenses incurred when maintaining real assets • Gearing costs

Presentation of costs and charges

Ongoing costs

- 5.35** Costs and charges can sometimes be presented in a confusing way for consumers. Before the introduction of the PRIIPs requirement to aggregate costs, we saw evidence of firms using the Asset Management Charge (AMC) as the headline charge figure, making charging structures more complex by introducing additional charges that do not correspond to specific costs, or not clearly explaining what charges mean.
- 5.36** Costs should be easy to understand and to compare. We propose the presentation of a single, aggregated ongoing costs percentage for CCIs. Aggregated charges support consumer understanding by simplifying complex information into a format that enables consumers to make well-informed decisions.
- 5.37** Some industry participants have argued that aggregated ongoing costs can be misleading as they do not provide investors with enough information. We consider that disaggregating ongoing costs could confuse or overwhelm retail investors. This aligns with research which suggests that people’s tendency to focus on headline prices can make them susceptible to being misled by ‘partitioned pricing’, where the price for an item is divided into multiple components. Our proposals aim to ensure information is presented in a way consumers can engage with.
- 5.38** Under our proposals, manufacturers will have to provide distributors with the product’s aggregated ongoing cost percentage for each CCI. They may also provide a breakdown of these costs to distributors where they consider that this additional information is helpful to facilitate consumer understanding. For example, distributors may find it appropriate to use layering to provide a breakdown of costs or highlight a specific component of costs such as the annual management charge. However, the aggregated figure must remain more prominent than any breakdown.
- 5.39** We are not proposing to require that specific ongoing cost components must be highlighted to investors. As well as increasing the potential for information overload, we are concerned that this could incentivise firms to artificially reattribute and deflate specific costs.

5.40 We propose that costs should be presented prominently to potential investors, so that they are not initially drawn to other, more appealing information such as past performance. Many consumers typically do not pay sufficient attention to cost information in their decision-making process, and may also base their decision making on the information they see early on about a product.

One-off and other costs

5.41 We propose to require the separate disclosure of any one-off entry or exit costs, contingent costs like performance fees and carried interests, and transaction costs. One-off charges are typically deducted directly from the amount paid by the investor when entering or exiting a product, and so we consider they should be highlighted separately from other costs. Costs like performance fees are contingent on specific circumstances, so we consider it proportionate to highlight these separately.

5.42 We propose that transaction costs should be disclosed separately to other ongoing costs, as they are costs incurred through a fund's trading activity. However, we consider that consumers still need to understand the impact of transaction costs and that these should be transparently disclosed.

5.43 We propose that any performance fees or carried interests should be communicated through a simple explanation of how the performance fee is structured, alongside a practical example of what this fee could amount to. This will provide consumers with a clear idea of what contingent fees they may have to pay in the future. These costs can sometimes be significant, and firms should consider how this can be clearly communicated so consumers can make well-informed decisions on whether they are comfortable with a product's potential costs.

5.44 Some products, such as investment companies, deduct costs from the Net Asset Value (NAV) of the investment and not the share price. It is important that consumers understand the impact of these costs on their investment and how they are charged.

Table 4: Proposed cost disclosure for CCI's

Cost categories that must be disclosed
Ongoing costs
One-off entry costs
One-off exit costs
Performance fees – narrative and example
Carried interest – narrative and example
Transaction costs

Cost summary

- 5.45** We are proposing to amend the PRIIPs requirement requiring the calculation and presentation of “costs over time” and the reduction in yield (RIY) metrics, so that firms provide a summary cost illustration showing product costs over a single holding period.
- 5.46** We propose this summary cost consists of entry costs, exit costs, ongoing costs and transaction costs, and must be presented as a percentage and as pounds and pence figures over a 12-month period. This reflects research showing that investors understand monetary figures more readily than percentages. Distributors can tailor this basic presentation requirement to support consumer understanding, for example by explaining what this figure represents for an investor’s potential returns.
- 5.47** We are not proposing to include performance fees or carried interests in this figure, as it could be misleading to suggest these contingent costs would always be incurred. These costs and their potential impact should instead be explained clearly to consumers, as set out in 5.43.
- 5.48** When presenting costs, firms may consider tools that enable consumers to enter their own investment amount rather than displaying costs for a representative investment amount. For the purposes of the product summary, we are proposing that firms use £10,000 as the representative investment, or £1,000 each year for CCI with regular contributions.
- 5.49** We are not requiring the summary cost to be presented across multiple holding periods because this could add confusion, as the multiple cost illustrations can lead to information overload. For some products and circumstances, it may help consumer understanding to provide supplementary information showing the costs over different periods of time. Firms should consider this in line with their Duty obligations, and other applicable regulatory requirements.
- 5.50** Some products, such as IBIPs, will have costs that vary across the holding period. Firms should consider the best way to help consumers understand how the costs they pay will vary over the lifetime of a product.

MiFID cost disclosures

- 5.51** Firms carrying out MiFID business are subject to the requirements in the assimilated legislation, which are replicated across our Handbook. Distributors are subject to these requirements, so will need to consider their MiFID cost disclosure obligations in conjunction with the CCI regime. In particular, they will need to consider how they disclose their service costs (such as platform fees, or advice costs) alongside product cost information.
- 5.52** Some market participants are concerned that MiFID cost requirements create obligations that may contradict or conflict with PRIIPs or UCITS. They consider these are onerous and unhelpful. In particular, MiFID II requires investment firms recommending or marketing an investment to provide the retail investor with disclosure of aggregated

one-off and ongoing costs and charges relating to the financial instrument before point of sale (and if the firm has an ongoing relationship with the client, an annual disclosure of costs incurred).

- 5.53** In March 2024, the Treasury announced its intention to repeal the MiFID Org Reg as part of the next stage of work on MiFID II frameworks following on from the [Wholesale Markets Review](#). On 27 November, we published [our consultation](#) to transfer the requirements under the MiFID Org Reg into our Handbook.
- 5.54** When the MiFID Org Regulations are transferred into our Handbook, we plan to review and amend requirements relating to product costs and charges information firms must provide. In doing so we will ensure that those requirements do not conflict with those we are proposing or require additional product costs to be disclosed.
- 5.55** We propose to remove references to the PRIIPs KID or UCITS KIID in Articles 50 and 51 of the MiFID Org Regulations, to ensure consistency with the future regime. We also propose to remove the requirement for investment firms distributing PRIIPs or units in collective investment undertakings to disclose product costs not contained in the UCITS KIID or PRIIPs KID. We will consult on draft rules for this in early 2025.

Question 21: Do you agree with the costs and charges we are proposing to require the disclosure of? If not, please explain why and what alternative approaches you would suggest.

Question 22: Do you agree with our approach to disclosing transaction costs? If not, please explain why.

Question 23: Do you agree with adopting the PRIIPs methodology for calculating transaction costs? If not, please explain why and what alternative methodologies you would suggest.

Question 24: Do you agree with our approach to pulling through costs? If not, please explain why.

Question 25: Do you agree with our product specific cost disclosure requirements? If not, please explain why and if we should extend any of these more broadly. Are there any other product specific clarifications we should consider?

Question 26: Do you agree with our proposals for the presentation of costs and charges? If not, please explain why and what alternative approaches would you suggest?

Question 27: Do you agree with our proposed changes to MiFID costs and charges? If not, please explain why. Are there any broader comments you would like to make on cost disclosure requirements under MiFID II?

Chapter 6

Risk and reward

- 6.1** This chapter sets out our proposed approach to the calculation and presentation of risk information under the new regime.

Objectives

- 6.2** Disclosure of risk is a fundamental aspect that a consumer should consider when purchasing an investment. Getting this right can build trust and increase participation in financial markets.
- 6.3** Risk is complex and influenced by each consumer's individual attitudes and can confuse or disengage consumers. We want to create a risk metric that is transparent, comparable, and simple, while also providing important contextual information.
- 6.4** Research shows that many people do not understand the relationship between risk and reward. We want consumers to understand this relationship and be clear that taking a degree of risk (and accepting potential losses) can lead to potentially higher rewards in the medium to long term.
- 6.5** Standardised risk disclosures can provide consumers with the information they need to make assessments and comparisons on the risk profiles associated with different products. We want to enable consumers to easily compare the risk and return profiles of different products across different providers. Comparability is crucial for consumers to make informed choices among competing financial products. Consumers can use a risk metric to compare products on a like-for-like basis, which encourages effective competition.
- 6.6** Any risk scale needs to allow sufficient differentiation between products with different risk profiles, so that consumers can better match their investment decision to their risk tolerance.
- 6.7** Research shows that consumers are more likely to understand and act on risk information when it is presented in a simple and clear manner. This includes using visuals like graphs or charts and avoiding technical language. Research indicates visual representations of risk increase consumers' ability to choose a product that is appropriate for their circumstances, compared to just text. Consumer testing has shown that the use of a risk scale helps consumers correctly identify the riskiness of a product and contributes to an overall better understanding of risk and rewards.
- 6.8** Evidence from TISA research suggests that risk warnings can deter the investing activity of traditionally underrepresented groups, or those with additional characteristics of vulnerability, when not provided with appropriate context. For example, women tended to increase the amount they invested by 21% when presented with the long term returns in addition to a risk disclosure. We agree that it is important to contextualise standardised risk metrics and explain the relationship between risk and reward.

DP feedback

- 6.9** Responses to our DP indicate stakeholders believe it is important to have a standardised risk disclosure. There was broad consensus that there should be requirements that ensure risk is assessed consistently and accurately, to allow consumers to understand and compare risks across different products easily.
- 6.10** There was also feedback that volatility does not represent a holistic view of the product risk and that there should also be room for adjusting risk ratings based on volatility. There is no single perfect way to measure the risk for all financial products, but our aim is to present a comparable and wider view of risk, balancing simplicity and accuracy, whilst also giving firms the flexibility to bring all relevant risks to the customer's attention.

Current harms

- 6.11** The PRIIPs Summary Risk Indicator (SRI) has been criticised by industry and consumer groups. The methodology is seen as rigid and inadequate in capturing a diverse range of products. This has led to instances where the SRI does not accurately reflect the true level of risk of a product, or does not account for the characteristics of certain products, leading to inconsistent or misleading results.
- 6.12** PS22/2 made some minor amendments to correct for the most misleading risk calculations and to allow for longer format narrative descriptions of risk.

Example:

The SRI was found to consistently return misleadingly low scores for Venture Capital Trusts (VCTs). Responses to our [2019 Call for Input on PRIIPs](#) showed that VCTs consistently were placed in a low-medium risk range, despite features which may only make them suitable for consumers with a tolerance to high risk. We now can make changes to the underlying methodology.

- 6.13** The current PRIIPs SRI and UCITS Synthetic Risk and Reward Indicator are presented on the same 1-7 scale, despite having different calculation methodologies. This means that they would produce a different risk figure for the same product, and may confuse consumers. We want to harmonise PRIIPs and UCITS under CCIs and have a corresponding risk and reward measure that more accurately reflects the risk of different product types, without causing unnecessary bunching along the scale.

Policy overview

- 6.14** We want to make broader changes to better reflect the risk of products while maintaining the goals of simplicity, transparency, and comparability for consumers.

- 6.15** We propose to maintain a standardised risk and reward metric, calculated by the manufacturer. This will focus on volatility and measured on the standard deviation of returns. Research has shown that standard deviation provides the most accurate representation of risk across the widest range of asset classes. We propose that this calculation will form the basis of the risk metric. Manufacturers would be required to consider whether they need to amend the risk score where they consider the number is inappropriate, based on their understanding of the product and its material risks or other relevant characteristics. For example, if there is credit or liquidity risk that may result in a consumer being unable to realise their investment, a manufacturer should consider if the score should be increased.
- 6.16** We propose that the risk score is accompanied by descriptions which balance the material risks and potential rewards of the product, presenting a more holistic picture of the risks involved and the factors that might affect performance.
- 6.17** We plan to move to a 1 to 10 scale to increase granularity and address issues of bunching of certain products on the scale. This will let consumers see more differentiation between funds than the PRIIPs SRI scale, allowing for a more precise differentiation of risk between a wide set of financial products. We are conducting consumer testing to validate that this does not negatively impact understanding.
- 6.18** We propose that standard deviation of returns over the past 5 years will form the basis for the scale, or the returns of an appropriate benchmark or proxy which conveys the volatility of the underlying asset class. There will need to be amendments and exceptions made for products with unique characteristics. We have taken considerations in the methodologies for these products, specifically high-risk products. We discuss these proposals in more detail in paragraphs 6.25-6.41.
- 6.19** Volatility may form an adequate basis for the initial assessment of risk, but the product may also carry other material risks that should be captured. In addition to market risk which can be perceived via volatility, credit and liquidity risk are usually the most important risks for consumers to understand, as these can affect the ability of investors to access their initial investment and any returns.
- 6.20** Products which contain some form of capital guarantee may be formulated specifically for more risk averse investors. This may be appropriately reflected in the risk metric. We propose issuing handbook guidance on how firms can lower the initial risk classification of the product where it provides a minimum of 90% protection of a consumer's initial investment.

Narrative requirements

- 6.21** Manufacturers will need to write the risk description of the product, in addition to preparing the risk and reward metric. Risk and performance are closely related, and the factors which create risk can often help generate performance. We propose combining the descriptions of risk and reward, to give consumers a more rounded view of the product. These descriptions should be written concisely, in a way that consumers can understand and engage with. They should describe factors that could potentially

impact the risk and reward profile of the product and affect performance. They could for example explain that producing higher returns usually requires more risk to be taken, compared to products with the aim of achieving more modest returns. This will be of particular importance to consumers when considering products without a full history of past performance.

- 6.22** Distributors should consider how to make descriptions more engaging and increase consumer understanding of risk. Interactive disclosure that accommodates hover-over buttons, hyperlinks or pop-ups could help improve understanding. For example, terminology such as 'transaction costs,' 'volatility,' or 'liquidity risk' could be accompanied by a simple and clear explanation. This would help inform retail investors while keeping disclosures succinct. Our work on [Smarter Customer Communications](#) may help firms.
- 6.23** For advised sales, distributors may explain the types of risk inherent in the product or provide additional materials to aid in understanding of risk and what that might mean for an investor.
- 6.24** In instances in which a manufacturer is unauthorised, and not subject to the Duty, the distributors of these products should take particular care to ensure the information they are providing to retail investors is conducive to good outcomes for those customers. Though this applies more generally, it is particularly important to risk and reward information.

Example:

Firm A, an overseas manufacturer, produces a description of the risk and reward that includes language which may be confusing to a UK retail investor. When displaying this information, Distributor B, a platform, simplifies this language or includes hover-overs or links which further explains any technical points. Distributor C, an independent financial advisor, provides the disclosure information created by the manufacturer to their customer and takes due care to explain any jargon to their client.

Product specifics

- 6.25** In this section we describe how we expect the determination of the risk score will work for specific product types, including high risk products, structured products, and IBIPs. In general, the volatility record for the product, proxy, or underlying asset class should apply with a principles-based approach. However, we are seeking feedback as to whether this is sufficiently future-proofed to accommodate innovation and new products, or alternatively where the methodology may not work for particular products.

High risk products

6.26 Products we consider to be high risk include:

- highly leveraged products
- products that are structured so that you could lose more than you invest
- derivatives
- contracts for difference
- contingent convertible securities
- VCTs
- products with very low liquidity or that are not regularly priced.

6.27 Given their inherent risk and the difficulties retail investors face in understanding and evaluating these products, many are subject to restrictions or rules relating to their marketing or distribution. For these products we think it is appropriate that they remain in the highest risk scores, regardless of what risk indicator may be generated by a calculation of volatility.

6.28 We propose that products which meet any of these criteria should be automatically assigned a minimum of 9 on the risk scale. We propose that this should also apply for products which do not have historical performance or an appropriate benchmark or proxy from which a volatility calculation could be performed.

6.29 For high-risk products, we propose that the firm should consider the risk profile of the product in the round when choosing whether to assign it a risk score of 9 or 10. Products which are structured so that a consumer could lose more than their principal investment must be assigned a 10 and include a warning to that effect. Products with very low liquidity or that are not regularly priced should also receive a warning that it may impact a consumer's ability to redeem their investment.

Structured products

6.30 In this section we set out how we see the determination of the risk score working for complex products. For this purpose, we use the example of structured products.

6.31 Survey data conducted by the European Commission shows that complex products like structured products and derivatives are the least understood by customers. This complexity presents a risk of its own to retail investors, in addition to the underlying investment risk. Any risks inherent to the product may then be compounded if a consumer fails to understand the circumstances which could lead to losses, or erroneously compares the product to products with a linear return structure.

6.32 Using volatility to measure the risk of structured products has limitations. Structured products are complex instruments, and their risk profile can be influenced by several factors. Structured products often have non-linear returns, making standard deviation insufficient for capturing their potential risks. For example, a product may have little to no volatility until a certain market condition is met at which point it could experience significant gains or losses.

- 6.33** We expect that the vast majority of structured products fall within two broad groups: capital guaranteed notes and unprotected income/growth notes.
- 6.34** **Capital guaranteed notes:** The main feature of these products is a guarantee of the return of the original investment if held to maturity, providing exposure to the upside of a market or asset class. These can be complex and may be difficult for retail investors to fully understand. They also pose a liquidity risk as investors may not be able to sell the note before maturity without incurring a loss.
- 6.35** For these types of products we would expect a manufacturer to determine the risk score initially on the basis of the underlying asset class, or mix of asset classes. The manufacturer must consider if it is necessary to adjust the risk score in order for it to appropriately convey the level of protection, as well as any credit and liquidity risk. The issuer should consider the product in the round when adjusting the score. Similarly, they should also convey the trade-offs between risk, reward, and protection in the description, for example the potential impact of inflation.
- 6.36** For structured deposits, where the initial capital is subject to the same protections as a bank account, we consider these to be the lowest end of the risk scale and propose that manufacturers can automatically assign a 1, subject to any specific features that may change the risk profile.
- 6.37** **Structured capital-at-risk products:** sometimes known as enhanced income or growth notes, are designed to provide consumers with higher returns than traditional fixed-income securities, and may be of higher risk. These products can combine features of derivatives and fixed-income products. There are a wide variety of these products offering varying features and risk profiles. These notes are often complex with complicated derivatives or 'worst of' features that make it difficult for retail investors to fully understand the risks. We set out in the rules that the FCA would generally expect complex products with returns tied to the performance of multiple indices or featuring gearing to be given a risk score of at least 9. These types of products should also have a label to highlight the complexity and risk of consumers misunderstanding, to complement the description of the risk and reward profile of the product.
- 6.38** Where relevant and to support consumer understanding, we would consider it appropriate for manufacturers or distributors of structured products to provide alternative, industry standard measures of risk, such as Value-at-Risk. This may be used to support the description of the risk and reward profile but should not be given prominence over or detract from prescribed risk metrics.
- 6.39** Manufacturers of all structured products should accurately describe the risk features of the product, including the conditions under which potential losses will be realised.

Insurance-based investment products

- 6.40** For IBIPs, where the investor can select from multiple investment components, we propose that the consumer should be provided with either the volatility for each of the components, or a calculation of the overall volatility for the product after the selection of the underlying components.

- 6.41** As with other products, the volatility should form the basis of the initial assessment of risk. Firms should then consider whether it is necessary to amend this risk rating on the basis of any capital guarantees, the benefits of diversification, or other material risk factors. Firms should also consider whether a range of the risks of the underlying products are required to aid consumer understanding.
- 6.42** For with-profits policies, the volatility shall be calculated based on the underlying investment, including any smoothing applied.

Conversion to 1-10 scale

- 6.43** We welcome views on our proposed conversion from a 1-7 to a 1-10 scale. This should offer a more granular risk differentiation, while preserving the relationship between the original market risk measure (MRM) classes and their associated risk levels. Each new class represents a range of standard deviation that aligns with the original Value-at-risk Equivalent Volatility (VEV)-based MRM classifications.
- 6.44** We are conducting consumer testing to understand if a change from 1-7 to 1-10 in the scale could affect consumer's perception of the product risk. The results of this testing will inform our final rules. We think this scale allows for better differentiation of financial products with high volatility, enabling investors to better distinguish between higher risk products.
- 6.45** Whilst these changes provide increased granularity at the upper end of the scale, they also provide smaller ranges for low to moderate risk products. The upper ranges (8-10) should provide more detailed differentiation. For example, the range for score 9 is narrowed to 30%-50%, and Class 10 starts at 50%, capturing products with high volatility. The lower classes maintain a smaller range to provide clarity for low and moderate risk products for investors who are more risk averse.
- 6.46** Explanation of Conversion:
- **Scores 1-2:** The lowest-risk categories are narrow, as the difference between very low volatilities can be significant in risk-sensitive contexts.
 - **Scores 3-5:** These classes cover moderate risk levels.
 - **Scores 6-7:** These are consistent with the MRM 4's range, allowing for finer differentiation in this important segment.
 - **Classes 8-10:** The highest-risk categories have broader ranges, as volatility increases significantly. This helps to distinguish between high-risk products.
- 6.47** We are seeking feedback on whether these categories and our proposed conversion work in practice for products, or if there are other factors that require consideration.

Conversion of SRI to CCI Risk and Reward Metric:

New Score	Standard Deviation Range (%)	Corresponding Old MRM Score
1	< 0.5	1
2	0.5 – 2.0	2
3	2.0 – 5.0	2
4	5.0 – 9.0	3
5	9.0 – 12.0	3
6	12.0 – 16.0	4
7	16.0 – 20.0	4
8	20.0 – 30.0	5
9	30.0 – 50.0	6
10	> 50.0	6-7

- Question 28:** Do you agree that we should maintain a standardised horizontal risk score for CCIs? If not, please explain why.
- Question 29:** Do you agree with our proposals for narrative risk and reward requirements? If not, please explain why.
- Question 30:** Do you agree that the starting basis for this risk score should be the standard deviation of volatility of the product’s historical performance or proxy over the past 5 years? If not, please explain why.
- Question 31:** Do you agree that we should expand the risk metric from 1-7 to 1-10 to differentiate a larger range of products? If not, please explain why.
- Question 32:** Do you agree that firms should consider amending the risk class where they deem it does not accurately reflect the risk of product specifics? If not, please explain why.
- Question 33:** Do you agree with the proposals for products within the high-risk category? If not, please explain why.
- Question 34:** Do you agree with the proposals for how to apply the risk score to different types of structured products? If not, please explain why.

Chapter 7

Past performance

- 7.1** This chapter sets out our proposed approach to the calculation and presentation of past performance information under the new regime.

Objectives

- 7.2** Past performance can help illustrate volatility and potential value, and can be a useful visual aide to help consumers make informed decisions. One persistent concern is consumers often heavily rely on past performance as predictive of future performance. Past performance bias can be strong, and being asked to disregard this information when making investment decisions can be difficult and counterintuitive.
- 7.3** We consider, on balance, that it is important to present standardised past performance information to consumers in the CCI regime.
- 7.4** We propose that all products with relevant past performance data should provide this in a standardised graph covering a 10-year period (or a shorter period if that is all that is available). We believe this should be provided in a manner that is reasonably comparable, to help consumers assess similar products.
- 7.5** Whether or not past performance information is available, all products will be required to provide more general information about their investment objectives and strategy, and about the main factors likely to affect future returns and determine the outcome of the investment.

Current rules

- 7.6** Under UCITS KII requirements, manufacturers are required to include a bar graph that shows a fund's past performance. The European PRIIPs KID requires the presentation of future performance scenarios, which sometimes led to potentially misleading indications of future performance, due to issues with the methodology. As a result of the amendments we made to the assimilated PRIIPs RTS in 2022, the PRIIPs KID in the UK does not include past performance or performance scenarios, but instead only a description.

Feedback to DP22/6

- 7.7** Most respondents to our DP agreed that past performance information should be prescribed to provide comparability of performance between similar products. They said this would help to provide a consistent methodology across the industry and

ensure a level playing field. Those who were not in favour of standardisation preferred an approach based on high level principles that require the presentation of information to be fair and reasonable.

- 7.8** Respondents noted several benefits of including historical data as part of the information disclosed, for example it could give an indication of the product provider's ability to achieve good returns and to minimise volatility and losses.

Policy overview

- 7.9** We propose that past performance information must be presented for products that have such information available, and that this must be calculated by the manufacturer and provided to the distributor. It should be shown as a line graph, over a 10-year period (where 10 years of data is available). We believe line graphs are often the most helpful visual representation to help consumers consider the historic trends of the investment.
- 7.10** Typically, a 10-year period is more likely to cover a full market cycle, and is more likely to capture the product's volatility and performance over time. We propose to require the use of full 12-month performance data periods, to provide consistency across the market and avoid the selection of favourable periods of performance.
- 7.11** We consider it appropriate to require a minimum number of data points in the graph, to avoid the perception of a reduced volatility through an artificial smoothing of the data. Manufacturers should provide the past performance information using at least a quarterly data point. Firms should consider whether more frequent performance data would better support consumer understanding, particularly where the investment is priced on a more frequent basis.
- 7.12** Where a product has less than 10 complete years of performance data, we propose firms will have to provide data covering the period available.
- 7.13** Where a CCI has less than 12 months of performance data, firms must provide the available performance data with an appropriate frequency to enable a retail investor to make an informed investment decision. We also propose to require a prominent statement to be included, explaining that the performance shown is for a short period of time and may not be representative of performance in the longer term. We propose that firms will have the option of not showing past performance for products that have less than a quarter's worth of data. The product summary for such products will also be required to include a statement that there is insufficient past performance data to reliably illustrate the historic performance of the product.
- 7.14** To give consumers a point of comparison when viewing the past performance of a product, we propose to require that benchmarks be included in the line graph where applicable. In [PS19/4](#) we set out our benchmark requirements and our rationale for authorised funds. We want to maintain consistency with these requirements, and where possible create a level playing field between authorised funds and other CCIs.

- 7.15** We propose that manufacturers of UK UCITS and NURS must include in their graph the benchmarks contained in their prospectus, where they have at least one.
- 7.16** If manufacturers of recognised schemes, qualified investor schemes, and long-term asset funds have used one or more benchmarks, we propose that they will have to be included in the graph regardless of whether they have been included in their prospectus.
- 7.17** For other types of CCIs, we propose that the graph should include a relevant benchmark to allow consumers to compare and assess the product's performance, and to support their understanding of the performance information.
- 7.18** We are not requiring manufacturers to choose a benchmark, if the manufacturer considers that there is not a suitable one. Therefore, some CCIs' past performance graphs may not display a benchmark.
- 7.19** Finally, we propose that manufacturers of all the products mentioned above must include a statement explaining the reasons for the benchmarks chosen. Where no benchmark has been used, we propose that manufacturers must provide a short explanation of how investors can otherwise assess the product's performance.
- 7.20** As mentioned in Chapter 4, we propose that distributors will have the option of creating their own, more tailored product summaries for the CCI products they distribute. A distributor may also opt to prepare additional product information to aid consumer understanding. A distributor might consider, for example, adding an appropriate cash benchmark to the graph to provide more context and help consumers understand the risk/reward of investing over holding cash savings.
- 7.21** We propose that the line graph is based on an initial investment of £10,000 for both the product and benchmark. For a product that is denominated in a currency other than pounds sterling, the £10,000 would be replaced by the equivalent amount in that currency. Distributors may opt to amend this figure (for example, in personalised illustrations) to reflect an investor's actual investment sum. Manufacturers should work with distributors in response to reasonable requests to support an adjustment of the initial investment.
- 7.22** The past performance graph should be displayed net of all product costs and charges, to ensure consumers see a realistic reflection of the return. The graph should show how the initial investment amount has changed for both the benchmark and the product value over the period.
- 7.23** We propose that the graph is supplemented with information on the past performance, including:
- A warning explaining that past performance is not a guide to future performance.
 - The exchange rate used to convert the reference investment figure to an equivalent amount, where the product is not priced in pound sterling.

Proposed treatment of material changes

- 7.24** Where a material change occurs to a CCI's objectives and strategy during the period displayed in the graph, its past performance must still be shown in the 10-year reporting period. The period prior to the material change should be highlighted and labelled with a clear warning that the performance was achieved under circumstances that no longer apply, for example where a fund switches the types of assets it tracks.
- 7.25** Where there is a merger between two or more products to create a new CCI, the graph must show the data of each of the pre-merger products. This must be highlighted to the consumer to help them understand the circumstances in which the performance was achieved.

Structured products, derivative instruments

- 7.26** The requirement to present past performance in a line graph will not be relevant to products that do not have past performance data, such as structured products and other fixed-term investments (with the exception of IBIPs, where past performance information is normally available). These products will be required to provide a narrative explanation of the factors that are likely to produce negative or positive performance, and other factors that may impact their risk and returns (see 6.21).

With-profits products

- 7.27** For with-profits products, we propose that past performance information must reflect the past performance values including final and/or terminal bonus amounts, and any market value reductions that would have applied at any point in the past performance period.

Closed-ended investment companies

- 7.28** Closed-ended investment companies are listed on an exchange and their trading value is reflected in the share price, which can be presented to consumers to meet the past performance requirements. However, these companies also typically present the NAV alongside this information, as it reflects the underlying value of the assets and allows the firm to show the premium or discount of the share price at any given time. These companies should continue to provide this useful information to consumers, and may add a separate line graph to the product summary that compares share prices against NAV per share over the relevant period. Manufacturers and distributors can also provide additional information to help consumers understand the interaction between share price and NAV.

Feeder fund past performance

- 7.29** We propose that the past performance information used to produce the line graph for a feeder fund be specific to the feeder fund, rather than information relating to the performance record of the master fund.

Summary of proposed requirements for product types

7.30 Table 5 is a summary of the past performance requirements for different products.

Table 5: Performance disclosure required for types of CCI

	Description	Past performance data – line graph
All investment funds	Yes	Yes
IBIPs	Yes	Yes
Structured products	Yes	No
Other fixed term investments	Yes	No
Closed ended Investment companies	Yes	Yes
Products with less than 3 months of past performance data	Yes	Optional

Question 35: Do you agree with our proposals to require showing past performance? If not, please explain why.

Question 36: Do you agree with our proposed requirements for a line graph for products that have past performance? If not, please explain why.

Question 37: Do you agree with our proposal to require up to 10 calendar years of past performance data to be shown where data is available? If not, please explain why.

Question 38: Do you agree with our proposed requirements for the inclusion of benchmarks in the line graph? If not, please explain why.

Chapter 8

Other required information

- 8.1** In this chapter we propose other important information that consumers need to know about the features of an investment, in addition to the costs, risk, and performance information. Table 6 summarises these proposals.

Identity information

- 8.2** We propose that the product summary must include the name and type of the CCI, any international securities identification number (ISIN) or unique product identifier that applies to the CCI, the legal name of the manufacturer, and the date on which the core information was produced or most recently revised. This information is needed to ensure consumers have access to fundamental product information in case something goes wrong.

Product characteristics

- 8.3** Consumers need to know the aims and objectives of what they are investing in, as well as how the product works. We propose that manufacturers describe the product's aims and strategy, any underlying investment assets or reference values, any markets to which the value of the CCI has material exposure or sensitivity, and any environmental or social objectives of the CCI.
- 8.4** We also propose that manufacturers explain how the return will be determined, and factors that will contribute to its performance. They should be clear how the underlying or reference assets relate to the value of the investment and, where the return is determined by a formula, provide a clear explanation of how the formula works.
- 8.5** Where the product offers insurance benefits, manufacturers should give details of the benefits and the circumstances in which they would be payable. Firms should consider their regulatory obligations such as Solvency II Directive information.

Complaints and redress

- 8.6** We propose that manufacturers must provide clear information on how to make a complaint about either the product or the manufacturer. They should disclose whether cover may or may not be available from the Financial Ombudsman Service, the FSCS, or another alternative dispute resolution scheme or compensation scheme and the conditions under which these protections would apply.

- 8.7** Where there is no access to redress via the Financial Ombudsman or the FSCS, for example because the firm is not authorised, or, in the case of the FSCS, the complaint is not related to a regulated activity, we propose to require that the product summary make clear that this is the case and highlight the risks this poses.
- 8.8** If a distributor prepares the product summary, it would be required to disclose similar information in respect of its service.

Holding or exiting the investment

- 8.9** Consumers will need to exit their investments eventually, and some may need to sell their investment sooner than expected. We therefore propose that the summary includes information on any fixed term or recommended holding period for their investment. If a minimum holding period applies, we propose a warning must be included that makes clear that the CCI may not be appropriate for investors who plan to withdraw their money within that time period.
- 8.10** Where investors may be subject to any penalties or fees for early exit, these must be made clear. Penalties may take an explicit form, such as an early exit fee or cost. There may also be implicit penalties, for example where early exit results in the loss of a guarantee. Some life policies may also result in reduced benefits if regular contributions are reduced or stopped.

Other relevant information

- 8.11** We propose that firms should disclose where the investor can find additional information about the CCI product, such as a prospectus or other offer documents, contractual information, and regular reports.

Table 6: Summary of required basic information proposals

Basic information	Notes
Product identification information	The CCI's name, any ISIN or unique product identifier, a fund's authorisation status
The name of the manufacturer	
What the product is and its aims	Information on the CCI's characteristics, including: <ul style="list-style-type: none"> • Its type • Its investment objectives and strategy • A description of any underlying investment assets • Any ESG objectives • Any insurance benefits • For a feeder fund, details about its master fund
Complaints	How to complain about the product or manufacturer and contact details to do so

Basic information	Notes
Redress information	Whether cover may be available from the Financial Ombudsman or FSCS Details of any (non-UK) alternative dispute resolution or compensation schemes that may be applicable, and the conditions for this
Information on holding or exiting the CCI	For example, information on holding period, maturity date, and any relevant fees or penalties for exiting the investment
Additional information	Any additional information that may be provided, such as the prospectus or regular reports, and how these may be obtained.
Date of production or latest revision of core information	

Question 39: Do you agree with our proposals for required basic information that must be disclosed? If not, please explain why.

Question 40: Is there any other basic information you think should be communicated to consumers?

Chapter 9

Consequential Handbook changes & FSMA powers

- 9.1** There are several other areas of the Handbook that will be impacted by the replacement of requirements relating to PRIIPs or the UCITS KIID with requirements relating to CCIs.
- 9.2** These changes are consequential in nature. They are needed to reflect that references to PRIIPs or the UCITS KIID will no longer be applicable when these regimes are no longer in force.
- 9.3** We have identified consequential changes to the sourcebooks in Table 7.

Table 7: Sourcebooks where consequential changes are required

Sourcebook
Banking Conduct of Business (BCOBS)
Collective Investment Schemes (COLL)
Conduct of Business (COBS)
Decision Procedure and Penalties Manual (DEPP)
The Enforcement Guide (EG)
General Provisions (GEN)
Investment Funds (FUND)
Prospectus Regulation Rules (PRR)

- 9.4** We will consult on these changes separately in early 2025, including draft instrument text. That consultation will also include draft rules for the transitional provisions (see Chapter 3).
- 9.5** DEPP and EG detail FCA policy on the use of Part 11 and Part 14 FSMA powers. We intend that those policies will be the same whether they are being exercised in connection with a regulated activity or a designated activity. We will include proposals for our use of powers in relation to CCIs in our early 2025 consultation.

Annex 1

Questions in this paper

- Question 1:** Do you have any comments on our approach to applying the Consumer Duty to CCI product information?
- Question 2:** Do you consider the proposed CCI regime can help distributors to assess value for overseas funds? Please explain why or why not.
- Question 3:** Do you have any comments on the other considerations in Chapter 2, including ESG and Equality and Diversity considerations?
- Question 4:** Do you have any comments on the scope of products included in the CCI regime?
- Question 5:** Do you have any comments on our proposed scope clarifications? Are there any other areas where it would be helpful to clarify the application of the CCI regime?
- Question 6:** Do you agree with our proposal to allow optionality for multi-option products (MOPs)? Do you have any comments on how MOPs should be treated under the CCI regime, in particular how costs, risk and past performance should be presented to account for the range of products within them and the costs of the wrapper?
- Question 7:** Do you agree with our definition for when a CCI is not a retail product and therefore out of scope? If not, please explain why.
- Question 8:** Do you agree with our proposed transitional provisions for moving to the CCI regime? If not, please explain why.
- Question 9:** Do you agree with the proposed timeline for closed-ended investment companies moving to the CCI regime? If not, please explain what alternative timelines you would suggest and why.
- Question 10:** Do you agree with our approach, including how responsibility is allocated across the distribution chain? If not, please explain why, and how you think responsibilities should be allocated.
- Question 11:** Do you agree with the core information manufacturers would be required to prepare? If not, please explain why and what alternative requirements you would suggest.

- Question 12:** Do you agree with our proposal that manufacturers should be required to make their underlying product information available to distributors? If not, please explain why.
- Question 13:** Do you agree with our proposal that manufacturers should be required to make their underlying product information machine-readable? If not, please explain why.
- Question 14:** Do you agree that manufacturers should be responsible for producing a product summary? If not, please explain why.
- Question 15:** Do you agree with the proposed requirements for the product summary? If not, please explain why. Do you agree with our proposal not to prescribe its overall design or layout? If not, please explain why and what design requirements you believe we should prescribe.
- Question 16:** Do you agree with the requirements for distributors to provide the product summary or information within it to potential investors, including the timing of delivery? If not, please explain why.
- Question 17:** Do you agree with our proposals for providing a product summary in a durable medium if a sale is made? If not, please explain why. Do you have any comments on the requirement of a 'durable medium' for this?
- Question 18:** Do you agree that we should require unauthorised firms to follow some of our principles for businesses and basic product governance standards when carrying out CCI activities? If not, please explain why. Do you have any comments on the standards that should be set for these?
- Question 19:** Do you have any other comments on what obligations manufacturers should have in the CCI regime?
- Question 20:** Do you have any other comments on what obligations distributors should have in the CCI regime?
- Question 21:** Do you agree with the costs and charges we are proposing to require the disclosure of? If not, please explain why and what alternative approaches you would suggest.
- Question 22:** Do you agree with our approach to disclosing transaction costs? If not, please explain why.
- Question 23:** Do you agree with adopting the PRIIPs methodology for calculating transaction costs? If not, please explain why and what alternative methodologies you would suggest.

- Question 24:** Do you agree with our approach to pulling through costs? If not, please explain why.
- Question 25:** Do you agree with our product specific cost disclosure requirements? If not, please explain why and if we should extend any of these more broadly? Are there any other product specific clarifications we should consider?
- Question 26:** Do you agree with our proposals for the presentation of costs and charges? If not, please explain why and what alternative approaches would you suggest.
- Question 27:** Do you agree with our proposed changes to MiFID costs and charges? If not, please explain why. Are there any broader comments you would like to make on cost disclosure requirements under MiFID II?
- Question 28:** Do you agree that we should maintain a standardised horizontal risk score for CCIs? If not, please explain why.
- Question 29:** Do you agree with our proposals for narrative risk and reward requirements? If not, please explain why.
- Question 30:** Do you agree that the starting basis for this risk score should be the standard deviation of volatility of the product's historical performance or proxy over the past 5 years? If not, please explain why.
- Question 31:** Do you agree that we should expand the risk metric from 1-7 to 1-10 to differentiate a larger range of products? If not, please explain why.
- Question 32:** Do you agree that firms should consider amending the risk class where they deem it does not accurately reflect the risk of product specifics? If not, please explain why.
- Question 33:** Do you agree with the proposals for products within the high-risk category? If not, please explain why.
- Question 34:** Do you agree with the proposals for how to apply the risk score to different types of structured products? If not, please explain why.
- Question 35:** Do you agree with our proposals to require showing past performance? If not, please explain why.
- Question 36:** Do you agree with our proposed requirements for a line graph for products that have past performance? If not, please explain why.

- Question 37:** Do you agree with our proposal to require up to 10 calendar years of past performance data to be shown where data is available? If not, please explain why.
- Question 38:** Do you agree with our proposed requirements for the inclusion of benchmarks in the line graph? If not, please explain why.
- Question 39:** Do you agree with our proposals for required basic information that must be disclosed? If not, please explain why.
- Question 40:** Is there any other basic information you think should be communicated to consumers?
- Question 41:** Do you agree with our Cost Benefit Analysis? If not, please explain why.

Annex 2

Cost benefit analysis

Introduction

1. The Financial Services and Markets Act (2000) requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.
2. We propose to create a new regime governing how firms disclose information to retail customers for investment products that are dependent on a reference value, that they manufacture and distribute. These are known as Consumer Composite Investments (CCIs). Manufacturers will need to provide distributors with three core metrics (costs and charges, performance, and risk), the calculation of which we will specify, as well as other key information about the product. In place of a prescribed document, the distributors will be able to present this information more flexibly, in line with requirements under the Consumer Duty, subject to some limited rules to set a minimum standard. We are also proposing to reduce the threshold at which products are "made available" to retail investors from £100,000 to £50,000 and requiring manufacturers to publish their disclosure metrics online in a machine-readable format.
3. The Treasury has laid legislation to provide us with powers to create a CCI regime that replaces the Packaged Retail and Insurance based Investment Products (PRIIPs) Regulation. PRIIPs will be repealed by the Treasury. The CCI regime also includes Undertakings for the Collective Investment in Transferable Securities (UCITS) and non-UCITS retail schemes (NURS) and will replace both the PRIIPs Key Information Document (KID) and UCITS Key Investor Information Document (KIID). PRIIPs requires those who produce, advise on, or sell PRIIPs to retail investors in the UK to prepare and provide investors with a standardised 3-page Key Information Document (KID) in accordance with prescriptive requirements in the Level 2 Regulatory Technical Standards (RTS). For simplicity, and the avoidance of doubt, the CBA refers to the PRIIPs and UCITS KID/KIID as the KID to refer to both of the current disclosure documents.
4. Any firm that sells a PRIIPs or UCITS product to UK investors is currently subject to the PRIIPs regulation or UCITS KII regulation, regardless of whether they are engaging in financial services activities requiring authorisation. This means that some firms doing business in the UK are subject to PRIIPs and UCITS even though they are not carrying out regulated activities and do not need to be authorised by the FCA under Part 4A of FSMA.

5. The following analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide a qualitative explanation of their impacts. Our proposals are based on weighing up all the impacts we expect and reaching a judgement about the appropriate level of regulatory intervention.
6. The CBA has the following structure:
 - The CCI Market
 - Problem and rationale for intervention
 - Options assessment
 - Our proposed intervention
 - Baseline and key assumptions
 - Summary of impacts
 - Benefits
 - Costs
 - Wider economic impacts
 - Monitoring and Evaluation

The CCI Market

7. CCIs are investment products that are linked to an underlying reference value, such as an equity or index, and sold to retail investors. The amount repayable to the retail investor is subject to fluctuations based on this reference value and not directly purchased by them.
8. This is a large market, with 23% of adults (12.6m¹) holding an investment that could be classed as a CCI. This includes those who reported holding any of a stocks and shares Individual Savings Account (ISA), stocks and shares Lifetime ISA, investment fund, structured deposit, insurance bond, or contracts for difference investments in the 2024 Financial Lives survey (FLS, 2024). Based on FLS 2024, the following groups of consumers are more likely to currently hold a CCI:
 - **Older consumers** – 28% of consumers aged over 45 hold a CCI, compared to 17% of those aged under 45.
 - **Retired consumers** – 36% of retired consumers hold a CCI, compared to 19% of those who are not retired.
 - **Consumers who do not show signs of vulnerability** – 29% hold a CCI, compared to 17% of those who show at least one characteristic of vulnerability.
 - **Consumers with higher household incomes** – 35% of those with household income over £50,000 hold a CCI, compared to 18% of those with household income under £50,000.

1 Based on UK adult population (FLS, 2024)

- **Consumers with greater financial numeracy skills** – 36% of those with higher levels of numeracy relating to financial concepts hold a CCI, compared to 14% of those with lower levels.

9. Market-wide data is not easily available on the size of the market for products affected by our proposals, but the following provides an indication of salient market features and characteristics:

- For Structured Retail Products, a data provider reported that £1.5bn of publicly offered structured products were sold in 2022, up 53% from 2021.
- The Investment Association reported in Table 9 of their gross retail sales² of funds managed by their members of £307bn in 2023, largely unchanged from £306bn in 2022.
- Internal FCA data on retail product sales suggested over £22bn of investments during 2022 through 278,000 transactions, rising to £34bn through 282,000 transactions in 2023.
- According to latest regulatory returns, in 2023 investment platforms administrated £767bn of assets, up from £690bn in 2022, many of which would fall within retail disclosure frameworks.
- In 2023, contracts for difference providers held £2.9bn of client money, down from £3.3bn in 2022, however this includes non-retail investors and may not all be invested in products in scope of our proposals.

10. Together, this data describes a large market of retail investment products which are subject to disclosure requirements. In addition, the market is growing as it becomes easier to invest online, shown by the increasing use of platforms. While this creates more opportunities for consumers to benefit from investments, there are more opportunities for unadvised investments in products that may not be appropriate for their needs.

Business models

11. There are two parties involved in the production and sale of CCIs to UK retail investors:

- **Manufacturers** design and manage the CCI. They are responsible for preparing key information and sharing it with distributors. This includes entities such as fund managers, investment firms, and credit institutions. We estimate there are currently 778 manufactures (see the Baseline section for details).
- **Distributors** sell the CCI to retail investors, and includes advisors, intermediaries, and platforms. The FCA regulate over 5,000 firms with these permissions.

12. Manufacturers are responsible for the production of a wide range of products, from specific and tailored instruments for investment strategies, to index trackers. These products have different objectives and can offer retail investors opportunities across the risk spectrum.

2 For more information about the IA's data please see page 4 in their 2022 Fund Market in Review Report

- 13.** Distributors offer either advised or unadvised sales of these products to a variety of investors. The main groups of these firms are:
- **Advised sales** – traditionally financial advisers offered investment advice and execution to clients in person but there has been a rise in online advice and robo-advice (online applications that provide automated financial guidance and services) in recent years. There are currently around 5,000 advisers and intermediaries according to internal FCA data.
 - **Unadvised sales** – direct to consumer platforms and other fintech have enabled consumers to invest in CCIs directly more easily. There are currently around 50 platforms actively using these permissions according to internal FCA data.
- 14.** A distributor and manufacturer can be integrated and provide both services if the manufacturer sells the product directly to consumers. As we do not directly regulate all firms subject to our proposals, we estimate the number of firms in each of these in the baseline section.
- 15.** Both manufacturers and distributors earn fees from consumers on the sale and management of products. These fees can be charged as a percentage of the investment amount or as a fixed fee and can be charged both at the point of sale and on an ongoing basis, depending on the product. Some products have additional fees or charges during their life cycle or upon early exit, for example exit charges or performance bonuses.

Market structure and competition

- 16.** Manufacturers and distributors compete on price, but also on product features and performance. Different products provide different value propositions, often dependent on risk tolerance. There are both complementary and substitutable products, for example one may act as a hedge while another offers exposure to the same reference value.
- 17.** Investor choice is therefore dependent on getting the right product for their situation, rather than necessarily the one at the lowest price point. In order to make this informed choice investors need to engage with and be able to access and assess all relevant information. Current engagement with disclosure is low, and the information provided may not be as decision-useful. Information may not be presented in a timely or comparable way to aid consumer understanding or promote shopping around. This means investors may not be making investments aligned with their preferences or suitable for their needs.

Problem and rationale for intervention

- 18.** Disclosure rules govern the information firms are required to present to consumers during the sales process. They intend to make salient the information required for investors to make an informed decision, through both the metrics and delivery. For example, KIDs include the underlying investment their product is linked to, costs and charges, risk involved, potential returns, and other information.

- 19.** Disclosures aim to address harm arising from information asymmetries and behavioural distortions. However, research³ has shown that consumers are subject to behavioural biases when considering information that can affect their decision-making when making an investment, limiting their ability to make an informed and effective investment decision. For example:
- Framing effects – How information is presented and in what context affects how consumers interpret that information.
 - Overconfidence and optimism bias – Consumers tend to be overconfident in their own abilities and expect to do better than average.
 - Anchoring – Consumers “anchor” decisions around the information they think is the most important or interpret information through the lens of previously received information.
 - Information overload – If consumers are faced with too many or complex choices, they may ignore possible options or choose not to choose.
- 20.** These can lead to consumers making investments that are unsuitable for their situation or choices they would not make with better disclosure. This can generate harm in the form of an inefficient use of their capital leading to lower returns, facing unnecessarily high fees, and experiencing a reduction in wellbeing from purchase regret.

Drivers of harm – Limitations of the existing regulatory regime

- 21.** The current regime fails to adequately address these problems due to market failures around disclosure: consumers do not engage with disclosures, and disclosures present inaccurate or inappropriate information. We have based these findings on previous research, which we discuss below, and will be supplementing this with consumer testing on comprehension during the consultation period.

Consumers do not engage with disclosures

- 22.** Despite the large number of consumers with investments in CCI, research shows that very few engage with disclosure information:
- Our 2017 asset management study found that under 3% of retail investors read regulated pre-contractual fund disclosure documents.
 - Six studies by the Australian regulator found that, on average, only 20% of people read disclosures.
 - 69% of clients in a survey conducted on behalf of the German Banking Industry Committee did not read PRIIPs disclosures.
 - Only 54% of mystery shoppers in an EU report were referred to a KID at first contact with an advisor and a third did not take steps to ensure the document was read.
 - A behavioural experiment conducted by the EU showed that KID disclosures had a limited impact on the consumer making the right decision.

³ See for example OECD (2018) Improving online disclosures with behavioural insights and MBIE (2015) Financial Product Disclosure: Insights from Behavioural Economics

- 23.** We consider that the prescriptive KID document is a contributor to this lack of engagement as the prescribed format is not sufficiently attention-grabbing. The KID is designed to be read as a paper document rather than engaged with through technology in an increasingly digital landscape.
- 24.** An [EOPIA report](#) suggested that information disclosures should not overwhelm consumers, and be tailored where possible. This is not possible under current prescriptive rules. By the time investors receive a KID, at the end of the consumer journey, consumers have likely already made a decision or anchored to the first information they received. This then contributes to the asymmetric information problem where consumers are not properly informed, and firms can exploit this informational advantage.

Disclosures present inaccurate or inappropriate information

- 25.** Even where consumers engage with disclosure, current regulations do not necessarily require accurate or appropriate information to be provided.
- 26.** We are primarily concerned about three areas:
- **Costs and charges** – The current inflexible methodology may drive inaccuracies by conflating explicit charges with different costs which non-PRIPs competitors might not have to disclose. This means that consumers cannot make effective decisions as they are not being presented with decision-useful or comparable information. An [EU study found](#) that it can be difficult to disentangle costs and premium, total product costs differ across category, and there is limited information provided on indirect distribution fees.
 - **Risk** – Current methodologies for calculating risk are inflexible and do not account for all risks of various products. We know that some product types return inappropriately low risk figures and acted to implement a quick fix, as reported in our previous [policy statement \(PS22/2\)](#). Finally, we need to now enable comparison of PRIPs and UCITS and harmonise the two different risk scales, while supporting firms to meet their Consumer Duty obligations in the presentation of risk.
 - **Performance** – Uniformity of performance information across all products results in misleading information in some cases. The requirement to use only a narrative description can prevent sufficient information being provided to investors. This can lead to investors seeking information from alternative, and potentially misleading, sources.
- 27.** Together, this means that current disclosures are not engaged with, and when they are, do not effectively communicate the different characteristics of products. As a result, inaccurate information may be communicated to consumers. Ultimately, this results in consumers making inappropriate investment decisions for their situation.

Impact on consumers

- 28.** We believe that absent intervention, these issues can result in consumers investing in products that are not suitable for their needs. This can lead to financial loss to

consumers, beyond that they were prepared to sustain, due to a lack of understanding of the product in which they invested.

- 29.** Consumers may also experience a reduction in wellbeing from both unexpected financial loss and the stress associated with an investment not performing as anticipated. It is not clear the extent to which wellbeing is impacted by an adverse investment, nor how much of these investments may be because of poor disclosure. However, there is potential for sizeable harm to wellbeing if this is the case.
- 30.** It is difficult to estimate how many consumers may have been harmed by investing in unsuitable products as investment performance is not necessarily linked to suitability. A product may be unsuitable and still provide a positive return or it may be suitable and provide a negative return. Any unsuitable purchases then need to be further disaggregated by those caused by a shortcoming in disclosure.
- 31.** To attempt to identify this group, we rely on two sources of complaints made by retail investors and the redress paid:
- Official complaints made to firms and the Financial Ombudsman Service (FOS), recorded in FCA data.
 - Redress paid to consumers by firms related to disclosures.
- 32.** We note that these complaints are likely to underestimate the total amount of unsuitable investments due to poor disclosure because investors who benefitted from their mistake are unlikely to complain.

Official complaints

- 33.** To quantify the harm to consumers from official complaints, we estimate the number of complaints related to disclosures from regulatory returns for in-scope products and the time it takes for them to submit these complaints.
- 34.** Consumers submit complaints directly to firms when they are unhappy with a product or service. In the DISP Annex 1R regulatory return, complaints related to “Product Disclosure Information” are grouped into the wider “Information, sums/charges or product performance” section as in Figure 1.

Figure 1: Complaint types

E	F	G
Information, sums/charges or product performance		
Disputes over sums/charges	Product performance/features	Product disclosure information

- 35.** From 2016-23 we estimate that there were 20,000 complaints, an average of 2,400 a year, explicitly related to “Product disclosure information”. While this may be an overestimate of the quantity as granular data on each complaint are not available, there are also many consumers who will not complain despite suffering from poor disclosure.

- 36.** If complainants are not happy with the firm's response, they can refer their complaint to the FOS. Significantly fewer complaints are submitted through this channel, an average per year of 100 related to terms and conditions or supplementary documentation. We add these complaints to those above.
- 37.** The process of making a complaint incurs a cost to consumers, whether or not it's upheld, through both
- the time taken to submit the complaint, and
 - the distress leading up to and during the submission of the complaint.
- 38.** To estimate the cost of these complaints to consumers, we follow the methodology in CP21/1: Restricting CMC charges for financial products and services claims. While this analysis estimated the length of time for a complaint to be considered by the FOS, we instead use the responses to estimate the time taken in making a complaint to firms before referral to the FOS. We believe that this is the better measure as almost all complaints we have identified only go this far. On average, claims management firms took 17 hours to submit a savings & investment complaint to firms on behalf of consumers. In-line with CP21/1 we assume it will take consumers twice as long to submit a complaint alone, leading to an estimated average 34 hours per savings & investment complaint.
- 39.** To this estimate, we apply the Department for Transport's value of time of £7.05 (uprated to 2023 prices) to find an average cost of complaint to a consumer of £240.
- 40.** Applying these costs to the average annual complaints estimated above leads to an estimated annual cost to consumers of £0.6m. If complaints were to remain at this level over the 10-year appraisal period, this would lead to total harm to consumers of £5.2m (present values).

Redress

- 41.** Firms pay redress to consumers where their complaints have been upheld with the basic objective to put the complainant in the same position had the inappropriate advice not been given. Using the same data as above, the DISP Annex 1R regulatory return, from 2016-23 firms paid £9.7m, an average of £1.2m per year, to consumers explicitly categorised as "Product disclosure information". Again, this may be an overestimate of the amount paid directly as granular data is not available on the exact nature of each redress payment for investments.

Options

- 42.** Before arriving at our proposals, we considered different policy options. We set these, and their relative limitations that led us to dismiss them, out below.

Delivering entirely through the Consumer Duty

- 43.** We considered delivering entirely through the Consumer Duty and not providing prescriptive rules for the calculation of costs and charges, risk, and performance. However, prescription of core information is necessary to facilitate consumer understanding and competition. If firms were able to use their own methodologies to calculate these metrics, due to the coordination problem, we believe comparability between substitutable products would be hindered. This could lead to difficulties in consumers making suitable investment decisions. Specifically, in each of these areas:
- Costs and charges – Firms may believe that displaying their fees in a certain way is the best for their specific product, but this can prevent comparability across products. For example, TR14/07 found that funds using different cost methodologies can lead to consumer confusion. Firms may also be commercially incentivised to choose methodologies that minimise their costs.
 - Risk – A firm may think about the risk of their product in relation to their own offerings, rather than across the whole spectrum of retail investments.
 - Performance – Firms may choose to use different, but still appropriate, data from one another which hinders comparability.
- 44.** An outcomes-based approach like the Consumer Duty would not sufficiently address these issues and others like them. Implementing rules in targeted, specific areas ensures standardisation and facilitates comparability across products while allowing firms the flexibility to innovate where appropriate.
- 45.** In addition, many firms that manufacture CCIs are outside of the FCA's regulatory perimeter and therefore the Consumer Duty. While these firms will be required to follow our rules on calculations to sell products in the UK, they would not be subject to the Consumer Duty. As such, the scope of the Consumer Duty on its own would not meet our objectives.

Delivering entirely through prescriptive rules

- 46.** Another alternative approach was to continue to provide prescriptive rules in both the calculation and delivery of disclosure information, as is the case in the PRIIPs regime. While new rules would address the current shortcomings in delivery, a fully prescriptive approach would limit firms' abilities to innovate in their disclosures. They will be unable to use current and future technological advances and research to influence the design of their disclosures. This may increase the chance that a rule change will be required in the future.

Our proposed intervention

- 47.** We propose to deliver the CCI regime through a hybrid approach utilising both distributors' obligations under the Consumer Duty and standardised rules where appropriate. We set this out in Table 1 below.

Table 1: Our proposed intervention

Standardised rules	Changes to calculation and display of costs and charges, risk, and performance
	"Made available" threshold reduced to £50,000 from £100,000
	Manufacturers required to publish machine-readable disclosure information
Consumer Duty and limited high-level rules	Governs design and delivery of disclosures

- 48.** Disclosures will consist of 3 core metrics: costs and charges, risk, and performance, alongside key general information on the product. We will create prescriptive rules for the calculation of these metrics and rely mostly on the Consumer Duty for the design and delivery of disclosures. We are conducting testing of these core metrics to understand their impact on comprehension during the consultation period.
- 49.** In addition, we propose to reduce the threshold for products being "made available" to retail investors to £50,000 and require manufacturers to make their disclosure information machine-readable. We discuss these in more detail below.

Standardised rules

- 50.** We propose to make prescriptive rules for three key metrics (costs and charges, risk, and performance), the "made available" threshold, and a requirement to publish information in a machine-readable file:

Costs and charges

- 51.** We are proposing to provide prescriptive and standardised costs and charges methodologies to manufacturers across all markets which can be amended dependant on the idiosyncratic characteristics of some product types. This will allow meaningful comparison across products while acknowledging cases where it is not appropriate.
- 52.** In addition, we are proposing manufacturers aggregate recurring costs, to ensure costs are presented in a simple format consumers can understand and use to make decisions.
- 53.** We are also proposing that costs and charges information is presented prominently to retail investors.
- 54.** By implementing rules that present costs and charges in a simple, aggregated format, consumers will be able to compare the charges and choose which product can offer them the best value fee.

Risk

- 55.** We are proposing to change the initial calculation of risk score by manufacturers to a methodology based on standard deviations and presented on a linear 1-10 scale, aligned with the UCITS Synthetic Risk and Reward Indicator (SRRI). We are also proposing to implement a minimum risk score for certain high-risk products and products of

unknown volatility, and to include a narrative identification of key risks. In addition, we are proposing that risk score is prominently displayed.

56. More appropriate risk information, in particular alignment with the SRRI, will allow for comparison across all products in scope of CCIs. This will remove the confusion that can exist from different products being scored on what appears to be the same scale but is not. Consumers will be able to assess products against their own risk tolerance and face a reduced risk of financial loss from purchasing outside of their risk appetite.

Performance

57. We propose that, where possible, manufacturers provide past performance of products graphically and a narrative description of the key factors that determine the performance of a product as part of a risk and reward narrative.
58. Combining a narrative and quantitative approach to performance information will improve both comparability and comprehension by consumers. By explaining what the data means, consumers will be better able to correctly interpret information rather than relying on outside and potentially unreliable sources. This will lead to consumers making appropriate decisions for their risk tolerance and ensure that they are selecting the appropriate investment.

Reducing "made available" threshold

59. The current PRIIPs regime refers to a concept of 'made available' which describes instances when a product could be considered to be potentially available to retail consumers whether or not intended by the manufacturer, by way of secondary markets. Products with a minimum denomination of £100,000 or more would be considered exempt.
60. We are proposing to reduce the exemption to £50,000 from £100,000. By reducing this threshold for exemption, manufacturers will have to produce disclosure information for fewer products which were never intended to be sold to retail investors but could be, theoretically, "made available" on secondary markets.

Requirement to publish a machine-readable file

61. Manufacturers must publish a file in a machine-readable format on a public website containing all the information they are required to disclose. This will improve our ability to supervise these firms through ensuring there is a record of the information that manufacturers have disclosed to distributors.

Consumer Duty

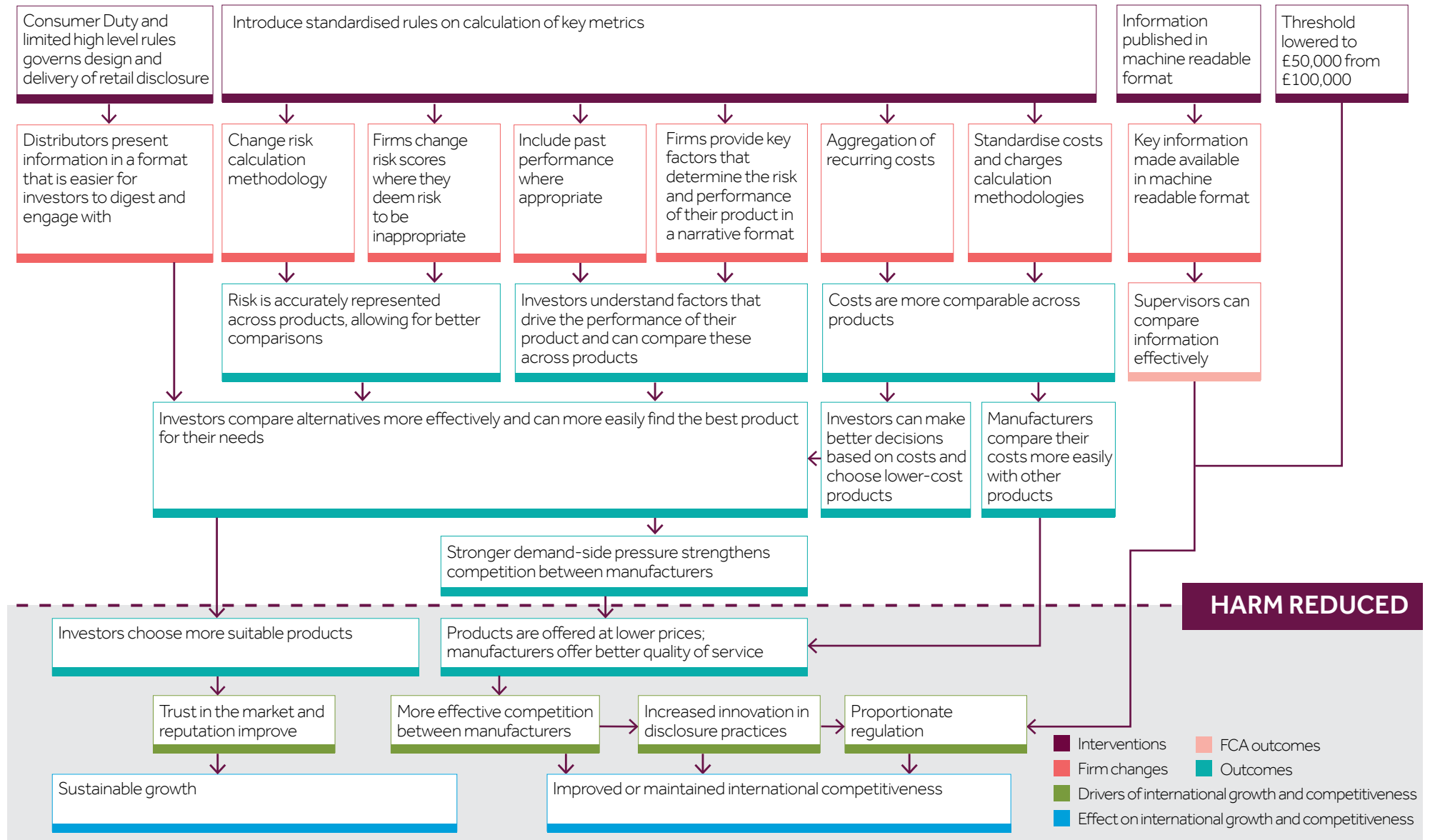
62. The Duty aligned rules, and some limited rules on distribution and presentation, will primarily govern the design and delivery of retail disclosure, affecting firms that distribute CCIs. Under the Consumer Duty (specifically PRIN 2A.5) we will expect firms to provide information in a format that is best understood by their target market. This may include layering of additional information and interactive disclosures.

63. As discussed in *Drivers of harm*, consumers are subject to behavioural biases that limit their ability to make effective investment choices. Our proposals aim to address these limitations by enabling firms to present information in a way that overcomes these shortcomings.
64. By explicitly encouraging distributors to create more engaging disclosures, our proposals should increase the number of consumers that use disclosure information prior to making an investment decision. While these obligations are being met under the Consumer Duty, firms have been continuing to produce KIDs while the PRIIPs regulations are still in force as assimilated law.
65. Once firms are no longer required to produce KIDs, in accordance with the Consumer Duty, they will display information in a way that will encourage engagement. We anticipate that firms will seek to address the behavioural distortions discussed earlier, and others, through designing disclosures that act in consumers' best interests.
66. Previous research from the EU found that different designs and content of KIDs can affect consumers' ability to select and identify the best products and contribute to better informed decision-making. More research by the EU commission found that using plain language, layering information, using reference points and comparators, and personalisation can all enhance comprehension.

Causal chain

67. The following Figure 2 presents the causal way we expect the above changes will improve client outcomes. Benefits in terms of our secondary international competitiveness and growth objective are discussed in more detail at the end of this CBA.

Figure 2: Causal chain



Baseline and key assumptions

- 68.** The costs and benefits of our proposals must be assessed against a baseline. A baseline is a reasonable assessment of the way the world would look like without the proposed intervention (the counterfactual). The counterfactual is not necessarily the state of the world as it is now. This section covers our assumptions for the baseline.

Baseline

- 69.** The baseline for this CBA is the continuation of the current disclosure requirements under PRIIPs supported by the Consumer Duty. Under this baseline, manufacturers would continue to calculate disclosure information in the KID as they currently do, and distributors would provide this information to consumers under their obligations to the Consumer Duty. While delivery is currently in the format of a KID, we consider that, absent our proposals, firms would have an obligation to produce more engaging disclosures as part of their commitments under the Consumer Duty. As such, we do not monetise the costs and benefits of these disclosures as they have already been considered in the [Consumer Duty CP 21/36](#). We do, however, discuss narratively the costs and benefits we expect to arise from moving to the Consumer Duty.
- 70.** UCITS, though technically PRIIPs, are currently exempt from providing the PRIIPs KID through legislation which expires at the end of 2026. At this time UCITS funds would need to provide a PRIIPs KID. This CBA uses the PRIIPs KID as the baseline, but also accounts for the costs and benefits of changing from the UCITS KIID. Although our baseline assumption for the purposes of this CBA is that the PRIIPs regime will fall away, in practice UCITS firms will be preparing to transition to PRIIPs when their exemption expires at the end of 2026.

Firms

- 71.** Our rules will apply to both manufacturers and distributors, as described earlier. Below we estimate the number of firms we expect to be in-scope of our proposals.

Manufacturers

- 72.** Manufacturers can include many firms, both inside and outside of our regulatory perimeter. Therefore, it is not sufficient to rely only on our firm register and permissions to estimate the number of manufacturers in the market, particularly as all firms with appropriate permissions may not be active in the manufacture of products.
- 73.** To overcome this, we combine 5 data sources:
- Internal *Product Sales Data* which contains transaction level data on all sales of regulated retail investment products to retail and private customers but excludes platforms – 121 manufacturers.
 - Data on all PRIIPs, NURS and UCITS products, overseas and domestic, offered by 2 of the largest platforms in the market by assets under management (AUM), accounting for 32% of the market – 882 manufacturers.

- Internal data on regulated Contract for Difference (CFD) providers – 125 manufacturers.
- Internal data on asset managers not included in the above and with retail permissions – 83 manufacturers.
- Data from the Prudential Regulatory Authority on products sold by investment-based insurance providers not included in the above – 14 firms.

- 74.** For each of these datasets we group firms where they are manufacturing through more than one entity to provide a single manufacturer. For example, some firms issue products through both a UK-based and Luxembourg-based entity. Firms are matched based on the name of the entity and checked manually. We then cross-reference across datasets to avoid double-counting.
- 75.** Based on this approach we estimate there are 778 total manufacturers of products that will be affected by our proposals. We consider this to provide a reasonable estimate for manufacturers of products subject to our proposals.

Distributors

- 76.** The FCA regulates over 5,000 firms with permissions to sell investment products to retail customers, including advisers, intermediaries, and platforms. We consider this to be an upper estimate of the number of firms that may be impacted by our proposals for the following reasons:
- There is no guarantee firms are actively using their permissions.
 - Permissions can lack the specificity needed to determine whether firms are involved in distributing CCl.

Key assumptions

- 77.** Our analysis is based on a number of key assumptions which we set out in this section.
- 78.** We expect our proposals to directly affect firms that manufacture products in scope of our proposals as they are responsible for calculating the information for which we are creating prescribed rules.
- 79.** Costs and benefits related to distributors and advisors are delivered through the Consumer Duty, for which the costs and benefits were already considered in the Consumer Duty CP 21/36. Therefore, we do not estimate additional costs and benefits for these firms.
- 80.** We estimate that there are 778 manufacturers, as described in paragraphs 92-95. These firms are assigned size based on their largest match by name within the Standardised Costs Model (SCM), firms with no match are assumed to be small. This provides the firm size as in Table 2.

Table 2: Estimated number of manufacturers by size

Firm size	Number of manufacturers
Large	37
Medium	150
Small	591
Total	778

- 81.** A proportion of PRIIPs KID production is outsourced to companies who can change the template at a minimal cost. We are unable to estimate the exact proportion of KID production that is outsourced. Thus, we have taken a conservative approach and assumed no firms outsource the production of their KID and so firms will face compliance costs.
- 82.** In line with Article 15 of the assimilated PRIIPs RTS, we can also assume that manufacturers already review and update their KID every 12 months. We assume manufacturers will continue this monitoring and there will therefore be no additional ongoing costs as a result of the proposal.
- 83.** We also make the following assumptions:
- Unless stated otherwise, all references to 'average' are the mean average.
 - All price estimates are in nominal terms.
 - When estimating net present value of costs and benefits, we use a 3.5% discount rate as per The Treasury's Green Book.
 - We assume that all firms will fully comply with our proposed rules.
 - Firms' regulatory returns have been filled out correctly and the data provided are accurate.
 - Costs and benefits are analysed over a 10-year period following implementation.
- 84.** We note that the per-firm estimates we set out in this CBA have been generated purely to increase the robustness of industry-level estimates. Per-firm cost estimates correspond to the mean cost, and do not capture the potentially wide range of costs that a particular firm may incur. For the avoidance of doubt, individual firms may in practice bear costs greater or lower than the per-firm averages used to estimate overall costs to the industry. This will depend, among other things, on the firm's individual size, makeup, and current practices. Firms should consider our proposals in relation to their specific operation and provide feedback on this basis, supported by evidence where they believe costs differ.

Summary of Impacts

- 85.** Over our 10-year appraisal period we estimate costs to manufacturers of £48.8m (present value (PV)) and benefits to consumers of £2.6m (PV), leading to a net cost of £46.2m (PV), as set out in Table 3. These costs and benefits are related only to our prescriptive rules as those related to the Consumer Duty were considered in CP21/36. We note that there are additional benefits that we have not quantified which would be substantial and impractical to measure, including increases in comprehension,

engagement and, ultimately, suitable investments by consumers. We intend to increase our understanding of some of these benefits using consumer testing in the consultation period.

86. As noted in The Market section, there are a substantial number of transactions in products that will be governed by the CCI regime. Most of these market sizes are expressed in terms of value which means it is not possible to estimate the required benefit per transaction. We do have volumes of transactions for the PSD data, recording 282,000 transactions in 2023. Comparing this cost to the EANDCB of £5.7m implies an annual required benefit per transaction of £20.21. Given the median transaction size of £2,700 and the additional transactions happening elsewhere, we consider this an achievable benefit to realise.

Table 3 – Summary table of benefits and costs

Group affected	Item description	Benefits (£)		Costs (£)	
		One off	Ongoing	One off	Ongoing
Firms (Manufacturers)	Familiarisation and legal costs (Direct)			£1.8m	
	IT costs (Direct)			£19.9m	
	Change costs (Direct)			£27.1m	
	Savings in production (Direct)		Negligible		
	Opportunities for competition (Indirect)		Unquantified		
	Reduction in complaints handling and redress (Direct)		Unquantified		
Consumers	Reduction in purchases of unsuitable product (Direct)		Unquantified		
	Reduction in processing costs (Direct)		Unquantified		
	Increase in search costs (Direct)				Unquantified
	Reduction in complaints (Direct)		£0.3m		
	Increase in wellbeing (Indirect)		Unquantified		
	Lower prices through enhanced competition (Indirect)		Unquantified		
Total			£0.3m	£48.8m	

* Include any unquantifiable impact

** Highlight transfers in italic

Table 4 – Present Value and Net Present Value

	PV Benefits	PV Costs	NPV (10 yrs.) (benefits-costs)
Total impact	£2.6m	-£48.8m	-£46.2m
-of which direct		-£48.8m	-£48.8m
-of which indirect	£2.6m		£2.6m
Key unquantified items to consider	Consumers are expected to make more suitable investment purchases.		

Table 5 – Net direct costs to firms

	Total (Present Value) Net Direct Cost to Business (10 yrs.)	Estimate Annual Net Direct Cost to Business (EANDCB)
Total net direct cost to business (costs to businesses – benefits to businesses)	£48.8m	£5.7m

Benefits

87. In this section, we describe the ongoing benefits to consumers, firms, and the FCA from our proposals.

Benefits to consumers

88. We expect our proposed measures to address the drivers of harm in retail disclosures discussed above and thus reduce consumer harm. We expect this to occur through two channels:

- First, by ensuring that information provided in disclosures is decision-useful and allows appropriate comparison across products, and
- Second, by explicitly encouraging distributors to use more engaging disclosures than the KID under their Consumer Duty obligations.

89. These channels will enable consumers to better engage, access, and assess information required to compare alternatives and make a more suitable purchase. This increased availability of information will also promote competition between firms, leading to a reduction in price and increase in quality of offerings. A discussion of how we expect these benefits to materialise follows below.

90. We also expect that through the intermediary of better information and greater consumer engagement, this may encourage consumers to engage in mainstream investing. We know that the opportunity cost of not investing is real, though not directly quantifiable. Consumers with investable assets who do not invest their

savings bear this cost through inflation and difficulty accruing wealth in the long-term or saving for important goals. We expect these proposals to reduce these costs for investors by engaging them in the investment journey and encouraging participation in capital markets.

More suitable investments

91. The prescriptive changes to costs and charges, risk, and performance will enable consumers to better compare products and effectively select the best investment for their situation. Due to the different needs of individual consumers, and the opacity of this information, it is not clear how many consumers have invested in products inappropriate for them as a result of disclosures. As a result, we do not consider it reasonably practicable to directly estimate the benefit of a more suitable investment.
92. Instead, we estimate how our proposals may bring consumers benefits through:
- A reduction in the number of complaints submitted,
 - A reduction in fees paid by consumers on aggregate,
 - Increases in consumer wellbeing, and
 - A reduction in processing costs of information.
93. However, as discussed in the *Impact on consumers* section earlier, we can capture some of this through the number of complaints made related to disclosures.

A reduction in the number of complaints submitted by consumers

94. We anticipate that the prescriptive elements of our proposals will reduce complaints made by consumers related to disclosures. We estimated the harm incurred through complaints in paragraphs 38-45 as £5.2m over the 10-year appraisal.
95. While it is not clear the extent to which complaints will be reduced by our proposals, due to a lack of granularity in the reasons complaints are submitted, we provide illustrative scenarios for a reduction of between 25% and 75%, with a central estimate of 50%. Applying these proportions to the estimated £5.2m (PV) of consumer harm over the 10-year appraisal period leads to a benefit to consumers of £1.3m to £3.9m, with a central estimate of £2.6m (all PV).
96. We note that this may be an underestimate of the number of consumers that have been dissatisfied with disclosures due to the burden of the complaints process. Given that investments are often substantial, with 55% of individual purchases valued over £1,000 in 2023 according to PSD data, we believe a greater level of saving is achievable.

Reduction in fees paid by consumers

97. Greater clarity on the fees consumers face may allow them to select products that provide similar opportunities at a lower cost. A study by the US Federal Reserve on the effect of a 2012 reform mandating fee disclosures on pension plans found that sensitivity to fees increased after the reform and actively moved money away from expensive funds (Kronlund et al., 2020). Given the scale of the market, these cost savings can add up significantly.

98. We do not consider it reasonably practicable to estimate the size of this saving as fees can vary significantly across products and providers. But, based on the evidence above, consumers do react to changes in the display and calculation of fees. If an average fee saving of 0.0001% was made on all £34bn of PSD transactions in 2023, our proposal would be net beneficial in that year. Given the small saving required, we consider this level of savings achievable because of this policy.

Reduction in processing costs

99. As disclosures are more comparable and easier to understand, consumers may make savings on the amount of time they spend processing the information presented. While we do not have evidence on the amount of time consumers currently spend processing this information, we are intending to conduct testing in the consultation period to address this gap.

Increase in wellbeing

100. Government research⁴ has found that a 1-point change in an individual's subjective wellbeing per year on a 0-10 scale is equivalent to £15,500 (uprated to 2023 prices). While there are many factors that contribute to this wellbeing score as a general measure of life satisfaction, financial wellbeing has been found to be a contributor. For example, FCA research has found causal evidence that increases in debt can have negative impacts on wellbeing. While investments are not necessarily related to debt, and so we cannot make point estimates, this shows that consumers' finance can affect their overall wellbeing. Some evidence suggests that consumers exhibit "loss aversion" and place a greater impact on losses than gains, meaning that losses will have an outsized impact on their wellbeing.
101. These results cannot be generalised to CCIs, but across the market, our proposals would need to cumulatively improve consumer wellbeing by 2,751 points to break even. Given the volume of consumers in the market, we believe this is feasible.

Benefits to firms

102. Increased flexibility relative to the current regime in how firms present core product information will allow disclosures to better represent their products' merits, providing opportunities to innovate and differentiate them from competitors to gain an advantage and improving their position in the market.
103. Firms may also benefit from some small cost savings, as below, but we consider these to be negligible overall:
- A reduction in the threshold for products being "made available" to retail investors to £50,000 will reduce the number of products that firms need to produce disclosure information for, leading to some minor cost savings.

4 HM Treasury (2021), Wellbeing Guidance for Appraisal: Supplementary Green Book Guidance

- Manufacturers may avoid a small portion of KID production costs as they need only provide the calculations to distributors to present as they see fit. However, we understand that most costs come from calculating the mandated figures, which will remain (albeit adjusted).
- Manufacturers may enjoy some savings in legal costs as some of the disclosure liability will shift to the distributor.
- Distributors may save on some costs of distributing KIDs to investors because they may not need to produce physical copies. However, these are likely negligible as distributors typically just provide a link to the KID on their webpage.
- Firms may also face a reduction in the costs of addressing complaints and providing redress should there be fewer complaints following our proposals.
- As discussed in the baseline, manufacturers of UCITS will no longer be required to produce the PRIIPs KID in 2026 when their exemption ends. As The CCI regime is intended to be simpler, less prescriptive, and more flexible than PRIIPs, we expect the cost for UCITS firms to implement the new CCI regime is likely to be lower in practice compared to the implementation of the PRIIPs requirements.

Benefits to the FCA

- 104.** The requirement to upload disclosure information in a machine-readable format will allow for easier supervision of CCIs as supervisors will be able to compare the features disclosed by manufacturers at scale. This will make it easier to compare the products offered by manufacturers and intervene where necessary.

Costs

- 105.** This section outlines the costs to firms, the FCA, and consumers.

Costs to manufacturers

- 106.** Firms will face some costs of compliance where we introduce new rules, we set these out below.
- 107.** Overall, we anticipate that firms of varied sizes will incur different costs. We categorise firms as Large, Medium, or Small based on our Standardised Costs Model (SCM).

Familiarisation and gap analysis

- 108.** We expect that the new rules and guidance would be contained in a standard FCA publication. Firms will incur costs in resources needed to familiarise themselves with the rules in accordance with our SCM to identify and address any compliance gaps.

- 109.** We use standard assumptions from our SCM to produce an estimate of familiarisation costs. There are 65 pages of policy documentation excluding the legal instrument. Assuming 300 words per page and a reading speed of 100 words per minute, it would take around 0.8 hours to read the document. We assume that the document will be read only by compliance staff; 20 staff in large firms, 5 in medium and 2 in small. The hourly compliance staff salary assumption is based on the Willis Towers Watson 2016 Financial Services Report, adjusted for subsequent annual wage inflation, and including 30% overheads. We expect all firms in scope to incur familiarisation costs. For an individual firm, this cost translates to approximately:

Small firm – £330
Medium firm – £1,000
Large firm – £4,300

- 110.** Hence, for the 778 firms affected, the total familiarisation cost is estimated to be £0.5m.

Legal costs

- 111.** The legal instrument is 63 pages. We anticipate that 4, 2 and 1 legal staff will read the legal instrument in large, medium, and small firms respectively, taking 7 hours each. Basing the legal staff salary on the Willis Towers Watson 2016 Financial Services Report, updated for wage inflation, we calculate total legal costs for individual firms, translating to approximately:

Small firm – £600
Medium firm – £3,800
Large firm – £10,900

- 112.** Hence, for the 778 firms affected, the total legal cost is estimated to be £1.3m.

Implementing new calculation methodologies

- 113.** All manufacturers of products that require KIDs will need to update their systems to meet our new disclosure proposals. We expect that firms will largely be able to use existing systems to produce the necessary information, with some relatively minor changes to calculation methodologies. Specifically, for each of the 3 key metrics we expect the following changes:

- **Costs and charges:** We anticipate that firms already have the information required and updating any methodologies to be relatively simple.
- **Risk:** As we are providing the updated formula and firms already have the required data, we do not expect significant costs.
- **Performance:** We expect firms to already have data readily available on past performance, with few additional costs.

- 114.** New calculation methodologies will incur a one-off cost to firms which we estimate using standard assumptions for a small project from our SCM. We assume that the project will require, across the standard IT project team structure, 60 person days for large firms, 40 person days for medium firms, and 6 person days for small firms. For an individual firm, this cost translates to approximately:
- Small firm – £1,900
Medium firm – £66,000
Large firm – £240,000
- 115.** This is calculated by taking the daily salary for each of the various staff members involved in IT changes and multiplying this by the total number of days each member is involved in the project. Applying this to firms required to switch accounts as detailed above leads to total estimated IT costs of £19.8m.
- 116.** Firms may also need to change their internal processes and governance for our proposals. They will need to agree the new calculation methodologies and ensure that they meet our new requirements.
- 117.** In line with our SCM, the total number of person days for the project team and manager are assumed to be 540 for large firms, 280 for medium firms, and 6 for small firms, with additional board and executive committee review.
- 118.** For an individual firm, this cost translates to approximately:
- Small firm – £2,200
Medium firm – £114,000
Large firm – £234,000
- 119.** As above, these costs are calculated by taking the daily salary cost for four different teams within each firm type (project manager, project team, board oversight, and executive committee oversight) and multiplying this by how many days each team spends on the proposed changes. This results in the following total one-off cost of process changes to the industry of £27.1m.
- 120.** Together, the process changes and IT changes are anticipated to bring a total one-off cost to the industry of £47m. Some firms may outsource their production of KIDs which would lead to an overestimate of this cost as these firms would likely face the same price from their provider for new information compliant with our proposals.
- 121.** We note some that closed-ended investment companies were granted forbearance from the PRIIPs regime in September 2024. While these firms may not be producing KIDs at the time of the implementation of the CCIs regime, we consider that their current processes will still be sufficiently recent that they do not face additional costs as a result of this.

Requirement to publish a machine-readable file

- 122.** Manufacturers will be required to publish a machine-readable file that contains the data they must submit to distributors. We anticipate the cost for this change to be negligible as firms are largely already doing this to comply with their MiFID obligations, such as the European MiFID Template (EMT) or European PRIIPs Template (EPT). Additionally, as we are not prescribing a template for this change firms will be able to continue to use their existing standards.

Costs to distributors

- 123.** Distributors may initially perceive additional costs once they are required to disclose information to consumers in a way that is compliant with the Consumer Duty. While these distributors have been enjoying an exemption to the Consumer Duty as it relates to the PRIIPs KID, because the KID is a regulated prescribed document that would not meet Consumer Duty standards. However, we expect distributors should be disclosing much of the key information contained in the KID through other channels compliantly, regardless of our proposals. As such, we believe these costs were already accounted for in CP21/36.
- 124.** However, we recognise that this consultation may be the first time that some firms have been challenged to apply the Consumer Duty to a specific area of previously highly regulated information. We expect that firms have already been communicating much of this information to consumers in their general communications, given the requirement that information should not contradict the PRIIPs KID. Therefore, we expect that presenting information compliantly may not necessarily be particularly onerous in comparison to the status quo. As long as disclosures are being made at appropriate times and with the correct information, the delivery is up to distributors, and should be in line with their current business models and modes of customer communications. We recognise that compliance with the Duty is an iterative process which will take time to bed in.

Indirect costs to firms

- 125.** Some firms may lose profits if investors liquidate their currently unsuitable positions or choose to invest in the product of a different manufacturer. While this may create winners and losers between products or firms, this will come as a consequence of retail investors making more informed decisions from greater access to more accurate information. We therefore consider this a transfer to other manufacturers and consumers and do not quantify it.

Costs to consumers

- 126.** There may be an increase in the amount of time consumers spend engaging with disclosure information, if they now consider disclosures when they did not before. While there are costs associated with the time spent on this engagement, we consider these to be included in consideration of the Consumer Duty and so do not quantify them here. In addition, increased engagement is a desired outcome of our proposals, and this cost is therefore considered proportionate.

- 127.** Some consumers may incur search and switching costs in finding a more suitable investment if it becomes evident through better disclosure that their current positions do not suit their needs. We do not consider it reasonably practicable to estimate these costs as it is unclear how many consumers are in unsuitable positions and how many of these would change as a result of our proposals. As above, we consider this a desired outcome of our proposals and consider these costs proportionate.
- 128.** The “made available” rule threshold change may result in higher information costs for a small number of retail consumers investing in products with a minimum investment between £50,000 and £100,000. We believe the number of retail consumers investing in such products to be negligible and in any case, they are likely to be sophisticated or in receipt of advice.

Costs to the FCA

- 129.** There are no expected additional resource implications relating to our activities from the proposals. Compliance will be monitored through business-as-usual processes within existing resources dedicated to monitoring the current PRIIPs regime.

Wider economic impacts, including on our secondary objective

- 130.** Our proposals will help to support competitiveness and growth in the UK through influencing four of our seven drivers. Specifically:
- **Effective competition:** Competition between manufacturers may increase as consumers’ engagement and understanding of products rise, leading them to compare more products and choose the best for their situation. Firms will also be able to more easily compare their products to one another. Together, this will increase competitive pressure on firms to reduce their prices or innovate in other ways such as through creating new products.
 - **Trust and reputation:** We expect our proposals to enhance the trust in and reputation of the UK’s financial markets in two ways. Firstly, by improving the transparency of financial products, retail consumers will better understand their investments and feel more confident in making them. Secondly, as consumers make more suitable investments, they will feel more comfortable in the outcomes and are less likely to be aggrieved should a product not act as expected.
 - **Innovation:** By leveraging the Consumer Duty to allow firms to innovate in the way they present disclosures beyond the KID, firms will be able to draw customers in through novel communication of their products.
 - **Proportionate regulation:** By relying on the Consumer Duty alongside fewer prescriptive rules we hope to ensure we put clear baseline requirements in place around what firms disclose, while at the same time providing them the flexibility to innovate and compete in the way they choose to present and deliver the information. We note that distributors are currently subject to the Consumer Duty in any event.

Monitoring and evaluation

- 131.** We will undertake a number of exercises to ensure that our proposals are having their desired effect. We intend to monitor consumer outcomes, market impacts, and firms' implementation as a result of our proposals.

Consumer outcomes

- 132.** We hypothesise that our prescriptive rules will lead to consumers' having a better understanding of disclosures, leading to them making more suitable investments. We initially plan to test this hypothesis in a behavioural experiment including a potential implementation of new design rules. To evaluate these outcomes further, we intend to test how they change following firms' implementation compared to a baseline KID. Testing will likely be through additional behavioural experiments and surveys using the findings from our current research to inform the baseline metrics. This experimental approach is favoured due to the difficulty of measuring these outcomes observationally.
- 133.** In addition, we anticipate that the application of the Consumer Duty will lead to greater engagement with disclosures. To understand whether this has been effective, we intend to undertake consumer testing and surveys alongside engagement with firms.
- 134.** As these factors impact consumer choice, we may also undertake further behavioural experiments to evaluate whether investors are selecting different investments compared to a baseline KID. We will monitor both fund characteristics and investment choices through changes in price, inflows, and outflows within the market. This may inform us on which measures have the greatest impact on consumers' decisions.

Firm implementation

- 135.** To understand how firms are implementing our proposals, we are planning a cross-sectoral supervisory review in the year following implementation. This will help us to understand how these changes are embedding and where we can consider further refinement.

Question 41: Do you agree with our Cost Benefit Analysis? If not, please explain why.

Annex 3

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).
2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules (a) is compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA, and (c) complies with its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA. The FCA is also required by section 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.
3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (section 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.
4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under section 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.
5. This Annex includes our assessment of the equality and diversity implications of these proposals.
6. Under the Legislative and Regulatory Reform Act 2006 (LRRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of protecting consumers. Effective disclosure is critical in the retail investment market. Consumers need to receive necessary information to make informed decisions on whether and how to invest their savings. Failure to disclose key information properly can lead to consumer harm, through loss of confidence, failure to invest, or making inappropriate investments for their circumstances.
8. We consider our proposals are also relevant to the FCA's market integrity and competition objectives. We believe that good and timely information increases investor trust in the market, by ensuring that information is accurate and comparable. In bringing together PRIIPs, UCITS and NURS-KII disclosure into one bespoke regime tailored to the UK market, this allows firms offering retail investment products to compete on a level playing field. The proposed standardisation in our draft rules will enable consumers to compare products more effectively and the transparency will enable firms to compete on the merits of their products. The flexibility of the rules will enable firms to disclose the necessary information to consumers in a timely and effective manner.
9. We believe our proposals are compatible with our secondary international competitiveness and growth objective (SIGCO). Our proposals are designed to help drive a healthy investment culture. Increased participation in this market will benefit consumers and should provide capital to drive the economy and boost growth.
10. The new CCI regime will allow firms to innovate and present new options to consumers and removes many of the prescriptive or templated requirements of the previous regimes. Proportionate regulation enhances competition and makes the UK a more attractive market to enter, improving the UK's competitiveness as a financial services hub.

The need to use our resources in the most efficient and economic way

11. We have had regard to this objective when replacing the existing PRIIPs, UCITS and NURS disclosure requirements set out across our handbook. In using the Consumer Duty as a starting point, we are able to introduce new rules in a more proportionate manner and reduce complexity in the Handbook.

The principle that a burden or restriction should be proportionate to the benefits

12. The cost benefit analysis in Annex 2 presents the significant costs and benefits for the proposals in the CP. Firms can tailor their disclosures to better fit their products and the consumer's needs. Though there will be costs incurred by firms due from compliance, we have consulted on a longer transition period to give firms time to update their systems in line with their annual review of the current disclosure documents. We think that proportionate and less prescriptive disclosure will benefit firms in the long run,

as well as providing direct benefits to consumers by enabling them to better engage, access and assess the information required to compare alternatives and make a more suitable purchase

The need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target) [and section 5 of the Environment Act 2021 (environmental targets)]

13. In developing this consultation, we have considered the environmental, social, and governance implications of our proposals and our duty under s.1B(5) and 3B(c) of FSMA 2000 to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008 and environmental targets under section 5 of the Environment Act 2021.
14. We considered how these proposals relate to the Sustainability Disclosure Requirements (SDR). By reducing prescription and allowing for greater flexibility in general product information, firms could integrate the investment labels from the SDR documents or general sustainability information into product information.

The general principle that consumers should take responsibility for their decisions

15. Disclosure should enable consumers to make better financial decisions and to understand the costs, rewards, and potential risks of their financial product. Better disclosure allows consumers to understand and take responsibility for their decisions.

The responsibilities of senior management

16. We consider that our proposals are likely to enhance the ability of senior management of in-scope products to take responsibility for their decisions by providing clear standards for disclosure and integrating it into their Consumer Duty responsibilities. This should enable them to consider better how to meet the information needs of their customers.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons, including mutual societies and other kinds of business organisation

17. Our proposals are specifically designed to be proportionate and build on existing Consumer Duty obligations. The obligations under the Consumer Duty and in our rules, such as testing of communications, apply proportionately on the basis of the size and resources of the firm. These proposals and the impact on different firms is explained further in paragraphs 4.31 – 4.36.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

18. Our proposals require firms to make disclosures publicly available on their websites and provided to consumers in their customer journey. We do not propose that the information is reported to the FCA.

The principle that we should exercise of our functions as transparently as possible

19. In developing these proposals, we have acted as transparently as possible. We published a Discussion Paper (DP 22/6) in December 2022 seeking early views on a new disclosure regime and feedback on PRIIPs. We have since engaged extensively with industry and consumer group stakeholders as we developed our proposals. We have attended the FCA statutory panels for early views on our policy development and with more developed proposals.
20. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s 1B(5)(b) FSMA).

Expected effect on mutual societies

21. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies. Our proposed rules will apply equally to all persons carrying on a designated CCI activity. We have considered in developing these proposals mitigation of any potential differential impact on smaller firms.

Compatibility with the duty to promote effective competition in the interests of consumers

22. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers. We believe that these proposals promote effective competition in the interests of consumers for the reasons set out in paragraphs 2.12 and 2.13.

Equality and diversity

23. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation, and any other conduct prohibited by or under the Act, advance equality of opportunity between

persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.

- 24.** As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraph 2.44 of the consultation.

Legislative and Regulatory Reform Act 2006 (LRRRA)

- 25.** We have had regard to the principles in the LRRRA for the parts of the proposals that consist of general policies, principles, or guidance. We consider that our proposals are transparent, accountable, proportionate, and consistent. For example, our interventions create important standardisations for the core metrics while providing for flexibility in the presentation of disclosure to consumers to maintain proportionality.
- 26.** We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles, or guidance. We consider that our proposals are consistent with the principles of the code. For example, we have included examples where appropriate to help firms meet their responsibilities to comply.

Annex 4

Abbreviations used in this paper

Abbreviation	Description
AMC	Asset management charge
AUM	Assets under management
CBA	Cost benefit analysis
CCI	Consumer composite investment
CFD	Contract for difference
CFI	Call for Input
CP	Consultation Paper
CSV	Comma-separated values
DAR	Designated Activities Regime
DISC	Product disclosure sourcebook
DP	Discussion paper
EANDCB	Estimate annual net direct cost to business
EMT	European MiFID template
EOPIA	European Insurance and Occupational Pensions Authority
EPT	European PRIIPs template
ESG	Environmental, social and governance
EU	European Union
FCA	Financial Conduct Authority
FLS	Financial lives survey
FOS	Financial Ombudsman Service

Abbreviation	Description
FSCS	Financial Services Compensation Scheme
FSMA	Financial Services and Markets Act 2000
IBIP	Insurance-based investment product
IDD	Insurance Distribution Directive
ISA	Individual savings account
ISIN	International securities identification number
KID	Key information document
KIID	Key investor information document
LRRA	Legislative and Regulatory Reform Act
MiFID	Markets in Financial Instruments Directive
MOP	Multi-option product
MRM	Market risk measure
NAV	Net asset value
NURS	Non-UCITS retail schemes
NURS-KII	Non-UCITS retail scheme key investor information
OFR	Overseas funds regime
PRIIP	Packaged retail and insurance-based investment products
PV	Present value
RIY	Reduction in yield
RTS	Regulatory technical standards
SCM	Standardised costs model
SDR	Sustainability disclosure requirements
SICGO	Secondary international competitiveness and growth objective
SRI	Summary risk indicator

Abbreviation	Description
SRRI	Synthetic risk and reward indicator
UCITS	Undertakings for collective investment in transferable securities
UK	United Kingdom
VCT	Venture capital trust
VEV	Value-at-risk equivalent volatility

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Appendix 1

Draft Handbook text

CONSUMER COMPOSITE INVESTMENTS INSTRUMENT 202X

Powers exercised

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the following powers and related provisions in or under:
- (1) the following sections of the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 71N (Designated activities: rules);
 - (b) section 137A (The FCA’s general rules);
 - (c) section 137D (FCA general rules: product intervention);
 - (d) section 137T (General supplementary powers);
 - (e) section 139A (Power of the FCA to give guidance);
 - (f) section 247 (Trust scheme rules); and
 - (g) section 261I (Contractual scheme rules);
 - (2) regulation 6 of the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228); and
 - (3) regulation 6 of the Consumer Composite Investments (Designated Activities) Regulations 2024 (SI 2024/1198).
- B. The rule-making powers listed above are specified for the purposes of section 138G(2) (rule-making instruments) of the Act.

Pre-conditions to making

- C. The FCA has consulted the Prudential Regulation Authority in accordance with section 138I of the Act.
- D. A draft of this instrument has been approved by the Treasury.

Commencement

- E. This instrument comes into force on [*date*].

Amendments to the Handbook and modifications

- F. The Glossary of definitions is amended in accordance with Annex A to this instrument.
- G. The Product Disclosure sourcebook (DISC) is amended in accordance with Annex B to this instrument.

Interpretation

- H. In this instrument, any reference to direct EU legislation is a reference to it as it forms part of assimilated EU law.

Notes

- I. In the Annexes to this instrument, the “notes” (indicated by “**Note:**” or “*Editor’s note:*”) are included for the convenience of readers, but do not form part of the legislative text.

Citation

- J. This instrument may be cited as the Consumer Composite Investments Instrument 2024.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

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

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

<i>additional product information</i>	any information provided to a <i>retail investor</i> about a <i>consumer composite investment</i> that is additional to the information provided in the <i>product summary</i> .
<i>assumed investment amount</i>	a hypothetical assumed investment amount of: <ol style="list-style-type: none"> (1) £10,000 for <i>consumer composite investments</i> other than regular premium <i>consumer composite investments</i>; or (2) £1,000 annually for regular premium <i>consumer composite investments</i>.
<i>consumer composite investment</i>	the <i>investments</i> set out in <i>DISC 1A.2.1R</i> .
<i>Consumer Composite Investments Regulations</i>	the Consumer Composite Investments (Designated Activities) Regulations 2024 (SI 2024/1198).
<i>core information disclosures</i>	together, <i>general product information</i> , <i>costs and charges information</i> , <i>performance information</i> , <i>risk information</i> , and <i>risk and reward information</i> as set out in <i>DISC 5</i> .
<i>costs and charges information</i>	the information required by <i>DISC 6.2.1R</i> .
<i>DISC</i>	the Product Disclosure sourcebook.
<i>general product information</i>	the information in <i>DISC 5.2.1R</i> .
<i>one-off entry costs</i>	the costs and charges set out in <i>DISC 6.3.1R(2)</i> .
<i>one-off exit costs</i>	the costs and charges set out in <i>DISC 6.3.1R(3)</i> .
<i>ongoing costs</i>	the costs and charges set out in <i>DISC 6.3.4R</i> .
<i>one-off entry costs figure</i>	the sum of all <i>one-off entry costs</i> rounded to the nearest whole number.

<i>one-off exit costs figure</i>	the sum of all <i>one-off exit costs</i> rounded to the nearest whole number.
<i>ongoing costs figure</i>	the sum of all <i>ongoing costs</i> rounded to the nearest whole number.
<i>performance information</i>	the information and statements required by <i>DISC</i> 5.3.1R(1).
<i>product summary</i>	the document required to be prepared by <i>DISC</i> 3.2.1R.
<i>retail investor</i>	(in <i>DISC</i>) a <i>person</i> meeting the criteria in <i>DISC</i> 1A.1.4R.
<i>risk information</i>	the risk score, narrative explanations and risk warnings or statements required by <i>DISC</i> 5.4.1R.
<i>risk and reward information</i>	the information required by <i>DISC</i> 5.6.1R.
<i>summary costs illustration</i>	the sum of the <i>one-off entry cost figure</i> , <i>one-off exit cost figure</i> , <i>ongoing cost figure</i> and <i>transaction cost figure</i> .
<i>transaction costs figure</i>	the sum of all <i>transaction costs</i> rounded to the nearest whole number.

Amend the following definitions as shown.

<i>closed-ended investment fund</i>	(in <i>UKLR</i> , and <i>ESG</i> and <i>DISC</i>) an entity: <ol style="list-style-type: none"> (a) which is an undertaking with limited liability, including a company, limited partnership, or <i>limited liability partnership</i>; and (b) whose primary object is investing and managing its assets (including pooled funds contributed by holders of its <i>listed securities</i>): <ol style="list-style-type: none"> (i) in property of any description; and (ii) with a view to spreading investment risk.
<i>comparator benchmark</i>	(1) <u>(in relation to a <i>UCITS scheme</i> and a <i>non-UCITS retail scheme</i>) as defined in <i>COLL</i> 4.2.5R(3)(c-b)(iii).</u> (2) <u>(in relation to a <i>qualified investor scheme</i>, a <i>long-term asset fund</i>, and a <i>recognised scheme</i>) as defined in <i>DISC</i> 3.4.6R(6)(c).</u>
<i>constraining benchmark</i>	(1) <u>(in relation to a <i>UCITS scheme</i> and a <i>non-UCITS retail scheme</i>) as defined in <i>COLL</i> 4.2.5R(3)(c-b)(ii).</u>

	(2)	<u>(in relation to a <i>qualified investor scheme</i>, a <i>long-term asset fund</i>, and a <i>recognised scheme</i>) as defined in <i>DISC</i> 3.4.6R(6)(b).</u>
<i>distribute</i>	...	
	(6)	...
	(7)	<u>(in <i>DISC</i>)</u>
	(a)	<u>in relation to an <i>authorised person</i>, means to carry on any of the following activities:</u>
	(i)	<u><i>sell</i>, or offer to <i>sell</i>, an <i>investment</i>;</u>
	(ii)	<u><i>deal</i>, or <i>arrange a deal</i> in an <i>investment</i> with or for an investor where the investor is to enter into the <i>deal</i> as buyer; or</u>
	(iii)	<u><i>advise</i> on the merits of entering an <i>investment</i>, including to recommend the <i>investment</i>;</u>
	(b)	<u>in relation to an <i>unauthorised person</i>, means to carry on any of the designated activities specified by regulation 5(1)(b), (c) and (d) of the <i>Consumer Composite Investments Regulation</i>.</u>
<i>distributor</i>	...	
	(5)	...
	(6)	<u>(in <i>DISC</i>) a person who <i>distributes a consumer composite investment</i>.</u>
<i>efficient portfolio management</i>		(in <i>COLL</i> and <i>DISC</i>) techniques and instruments which relate to <i>transferable securities</i> and <i>approved money-market instruments</i> and which fulfil the following criteria:
	...	
<i>feeder fund</i>		(in <i>ESG</i> and <i>DISC</i>) any of the following:
	...	
<i>firm</i>	...	
	(13)	...
	(14)	<u>(in <i>DISC</i>) either:</u>
	(a)	<u>an <i>authorised person</i>: or</u>

- (b) an unauthorised person carrying on a designated activity specified by regulation 5 of the Consumer Composite Investments Regulations.
- fund*
- (1) (other than in DISC) an AIF or a collective investment scheme.
- (2) (in DISC) an AIF, a collective investment scheme, or a closed-ended investment fund.
- insurance-based investment product*
- (1) (other than in DISC) a contract of insurance which offers a maturity or surrender value and where that maturity or surrender value is wholly or partially exposed, directly or indirectly, to market fluctuations, and does not include:
- ...
- (2) (in DISC) a policy which offers a maturity or surrender value payable on terms that meet the criteria for a consumer composite investment including, for example:
- (a) a unit-linked policy;
- (b) a with-profits policy; and
- (c) a Holloway sickness policy.
- manufacture*
-
- (5) ...
- (6) (in DISC)
- (a) in relation to an authorised person, it means to create, develop, design, issue, manage, operate or carry out a consumer composite investment, including being able to make changes to a term, condition or feature of a consumer composite investment;
- (b) in relation to an unauthorised person, it means to carry on the designated activity specified by regulation 5(1)(a) of the Consumer Composite Investments Regulation.
- manufacturer*
-
- (5) ...
- (6) (in DISC) a person who manufactures a consumer composite investment.
- master fund*
- (in ESG and DISC) any of the following:
- ...

- transaction costs* (1) (for the purposes of *COBS* 19.5 and *COBS* 19.8) means costs incurred as a result of the buying, selling, lending or borrowing of *investments*.
- (2) (in *DISC*) the costs and charges incurred as a result of the buying or selling of *investments* underlying or otherwise in relating to a *consumer composite investment*, calculated in accordance with the requirements set out in *DISC* 6.4.
- target benchmark* (1) (in relation to a *UCITS scheme* and a *non-UCITS retail scheme*) as defined in *COLL* 4.2.5R(3)(c-b)(i).
- (2) (in relation to a *qualified investor scheme*, a *long-term asset fund*, and a *recognised scheme*) as defined in *DISC* 3.4.6R(6)(a).

Annex B

Amendments to the Product Disclosure sourcebook (DISC)

DISC 1 (Application) is deleted in its entirety. The deleted text is not shown but the chapter is marked [deleted] as shown below.

1 **Application [deleted]**

Insert the following new chapter, *DISC 1A*, after *DISC 1 (Application)*. All of the text is new and is not underlined.

1A **General**

1A.1 **Purpose and application**

Purpose

- 1A.1.1 G (1) This sourcebook sets out *rules and guidance* for *authorised persons* and *unauthorised persons* who are *manufacturers* or *distributors* of *consumer composite investments*.
- (2) The *rules and guidance* relate, in particular, to the content of and manner in which information relating to *consumer composite investments* must be disclosed:
- (a) by *manufacturers* to *distributors*; and
- (b) by *manufacturers* and *distributors* to *retail investors*.
- 1A.1.2 G The *rules and guidance* in *DISC* replace analogous requirements previously imposed by:
- (1) the *UK* version of Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs); and
- (2) the European Parliament and Council Directive of 13 July 2009 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (No 2009/65/EC) and the *UK* version of the Commission Regulation (EU) No 583/2010, specifying the form and contents of key investor information.

Application

- 1A.1.3 R This sourcebook applies to an *authorised person* and to an *unauthorised person* in relation to activities carried on in relation to a *consumer*

composite investment that is or may be *distributed* to a *retail investor* in the *United Kingdom*.

- 1A.1.4 R In this sourcebook, a *retail investor* is:
- (1) a *person* to whom an *investment* is sold, or who is the recipient of an offer or *advice* about an *investment*, and who is or would be categorised as a *retail client* under the *rules* in *COBS 3*; or
 - (2) a *person* who would meet the criteria in (1) if the selling, offer or *advice* on an *investment* involved the carrying on of a *regulated activity* or a *controlled activity*.
- 1A.1.5 G
- (1) In *DISC*, references to a *firm* also include a *person* who is not authorised to carry on *regulated activities* but carries on an activity specified as a designated activity by regulation 5 of the *Consumer Composite Investments Regulations*.
 - (2) The *rules* in *DISC* do not apply in relation to a *consumer composite investment* insofar as it is *distributed* to an investor who is not a *retail investor*, or who is not in the *United Kingdom*.
- 1A.1.6 R The requirements in *DISC* do not apply to an offer of a *consumer composite investment* which is a *readily realisable security* in respect of which all of the following conditions are met:
- (1) the marketing materials for the *consumer composite investment* (including the prospectus, if there is one) feature prominent and clear disclosures to the effect that the *consumer composite investment*:
 - (a) is being offered only to investors who are or would be categorised as *professional clients* or *eligible counterparties* under the *FCA's* rules in *COBS 3*; and
 - (b) is not intended for *retail investors*;
 - (2) the *issuer* of the *consumer composite investment* or, in relation to secondary market offers, the *distributor*, has taken reasonable steps to ensure the offer and any associated promotional communications are directed only to investors eligible for categorisation as *professional clients* or *eligible counterparties*; and
 - (3) a minimum investment requirement of £50,000 in the *consumer composite investment* applies in respect of each end investor (not including *platform service providers* or other nominee arrangements), or in each case an equivalent amount for a *consumer composite investment* denominated in another currency, where the equivalent amount is calculated not more than 3 business days before the date of issue of the *consumer composite investment*.

1A.1.7 G *DISC* 1A.1.6R is intended to disapply obligations in *DISC* in respect of an offer of a *consumer composite investment* which is a *readily realisable security* where the *manufacturer* and any *distributors* have taken reasonable steps to ensure the *consumer composite investment* is not made available to *retail investors*.

1A.1.8 R This sourcebook applies to *Gibraltar-based firms* and *TP firms* in relation to activities carried on in relation to a *consumer composite investment* that is or may be *distributed* to a *retail investor* in the *United Kingdom*.

Unauthorised persons carrying on designated activities

1A.1.9 R In relation to an *unauthorised person*, this sourcebook only imposes obligations to the extent that the relevant *consumer composite investment* falls within the definition set out in regulation 4 and to the extent the obligation relates to an activity specified as a designated activity by regulation 5 of the *Consumer Composite Investments Regulations*.

- 1A.1.10 G (1) Regulation 5 of the *Consumer Composite Investments Regulations* specifies the following activities as designated activities under section 71K of the *Act*:
- (a) manufacturing a *consumer composite investment* which is, or is proposed to be, made available to a *retail investor* located in the *United Kingdom*;
 - (b) advising on a *consumer composite investment* if the advice is given to a *retail investor* located in the *United Kingdom*, or an agent for that investor;
 - (c) advising on a *consumer composite investment* if the advice is given to a *retail investor* located in the *United Kingdom*, or an agent for that investor; and
 - (d) selling a *consumer composite investment* to a *retail investor* located in the *United Kingdom*.
- (2) Regulation 6 of the *Consumer Composite Investments Regulation* confers the power on the *FCA* to make *rules* in respect of those specified activities, including in relation to *unauthorised persons*.
- (3) This supplements the *FCA*'s other powers under the *Act* and enables it to make *rules* in relation to *consumer composite investments* that apply to both *authorised persons* and *unauthorised persons*.

Application of general provisions to unauthorised persons

1A.1.11 R The *rules* and *guidance* in *GEN* 1.3, *GEN* 2.1, *GEN* 2.2.1R to *GEN* 2.2.16G and *GEN* 2.2.18R to *GEN* 2.2.25G apply to *manufacturers* and *distributors* who are not *authorised persons* as they apply to *authorised persons*.

1A.1.12 G *GEN* does not apply to *manufacturers* and *distributors* who are not *authorised persons* in respect of the *rules* and *guidance* in *DISC*, except as provided for in *DISC* 1A.1.11R.

1A.2 Scope rules

- 1A.2.1 R (1) The following are *consumer composite investments*:
- (a) a *structured deposit*;
 - (b) a *security* or *financial instrument* which is or embeds a *derivative*, or which includes features equivalent to a *derivative* contract;
 - (c) a *debt security* which meets the criteria in *DISC* 1A.2.2R;
 - (d) a *security* issued by a *fund*, or rights to or interests in such a *security*;
 - (e) a *contingent convertible security*;
 - (f) a *contract for differences*;
 - (g) an *insurance-based investment product*; and
 - (h) any other *investment* where the returns are dependent on the performance or changes in the value of indirect investments.
- (2) For the purposes of (1)(h):
- (a) investment returns include, in particular, payment or repayment obligations to the investor, the maturity value or *surrender value* of a *policy*, changes in the value of a *unit*, and the resale value of a *security* on a secondary market;
 - (b) the investment return is dependent on performance or changes in the value of indirect investments if it is wholly or predominantly linked to, contingent on, sensitive to or otherwise determined at least in part by the actual or anticipated performance or changes in value;
 - (c) indirect investments are one or more *investments* or assets, including in particular commercial assets held or operated for investment purposes, which are not purchased or held by the investor directly or at all; and
 - (d) it is immaterial whether the performance or changes in value are measured directly or via one or more market index or indices.

Consumer composite investment debt securities

- 1A.2.2 R (1) A *debt security* is a *consumer composite investment* if the level of interest payable, any conditionality of principal repayment, or the *issuer's* default risk, is linked to or materially dependent on one or more of the following, whether or not modified by a pre-determined formula:
- (a) fluctuations in reference indices or benchmarks relating to *investments* or a class of *investments*, for example a stock market index;
 - (b) the value or performance of a *financial instrument* or a basket of *financial instruments*, or one or more specified *commodities* or foreign exchange rates; or
 - (c) the value or performance of *investments* held by the *issuer* or by a *person* connected to the *issuer*.
- (2) For avoidance of doubt, the following are excluded from *DISC* 1A.2.2R(1)(a):
- (a) the Bank of England official Bank Rate or any equivalent rate from another central bank;
 - (b) any benchmarks or indices tracking the rate of inflation; and
 - (c) the Sterling Overnight Index Average (SONIA), or any other equivalent risk-free reference rate in any currency.
- (3) In *DISC* 1A.2.2R(1)(c):
- (a) examples of *investments* include one or more *derivatives*, real estate holdings, a pool of receivables, one or more *financial instruments*, or a portfolio of *financial instruments*; and
 - (b) a *person* is connected to the *issuer* if it is a member of the same *group* as the *issuer*, has a relevant business relationship with the *issuer*, or otherwise does not have an arm's-length relationship with the *issuer*.

Non-consumer composite investment debt securities

- 1A.2.3 R (1) Insofar as it might meet the description of a *consumer composite investment* as set out in *DISC* 1A.2.1R(1)(h), a *debt security* meeting all the following conditions is excluded from being a *consumer composite investment*:
- (a) it does not fall within *DISC* 1A.2.2R(1);
 - (b) the *issuer's* default risk is wholly or predominantly determined by the economic performance of the commercial

or industrial activities of the *issuer* (or, where the *debt security* is guaranteed by a *group person*, that *person*); and

- (c) the terms of the *debt security* do not impose any modification, structuring, or conditionality on the *issuer's* obligation to pay interest or repay the principal, save for the effect of any feature listed under *DISC 1A.2.4R*;
- (2) For the purposes of (1)(b), lending, investment, and any other financial sector activities are not commercial or industrial activities.

Debt securities – neutral features

1A.2.4 R Inclusion of a feature listed below does not cause a *debt security* to become a *consumer composite investment* in *DISC 1A.2.1R(1)(h)* or *DISC 1A.2.2R(1)*, nor to be excluded from being a *consumer composite investment* under *DISC 1A.2.3R*:

- (1) a fixed *coupon* rate, including where:
 - (a) a set *coupon* rate applies until maturity, including a nil or zero rate; and
 - (b) the interest payable is not subject to any additional modification or structuring such as, for example, a cap, or a floor other than zero;
- (2) a floating or variable *coupon*, provided that:
 - (a) the interest payable is determined by an index or benchmark of the kind described by *DISC 1A.2.2R(2)*, with or without a spread reflecting the credit risk of the *issuer*; and
 - (b) the interest payable is not subject to any additional modification or structuring such as, for example, a cap, or a floor other than zero;
- (3) a put *option* giving the investor a discretion to demand early repayment of the *debt security* on pre-agreed terms, or giving the investor the choice to convert or exchange their *debt security* into one or more *shares* of the same *issuer* at a pre-determined price;
- (4) a call *option* allowing the *issuer* to redeem a *debt security* early at a price higher than or equal to par, where:
 - (a) the *option* is exercisable otherwise than in response to fluctuations, price movements or performance of an index, benchmark, specified asset or underlying asset falling within *DISC 1A.2.2R(1)*; and

- (b) the mechanism to calculate the cash repayment amount is made clear to the investor in the terms of the *debt security*;
 - (5) a perpetual or indefinite term;
 - (6) the *debt security*'s subordination in the creditor hierarchy in the event of the *issuer*'s insolvency.
- 1A.2.5 G
- (1) *DISC 1A.2.2R* sets out the kind of *debt security* which is a *consumer composite investment*.
 - (2) *DISC 1A.2.3R* sets out the kind of *debt security* which is excluded from being a *consumer composite investment*.
 - (3) *DISC 1A.2.4R* sets out the sorts of features of a *debt security* that are neutral for the purposes of determining whether it meets the criteria for a *consumer composite investment*.

Other exclusions

- 1A.2.6 R
- Insofar as they might meet the description of a *consumer composite investment* as set out in *DISC 1A.2.1R(1)(h)*, the following are excluded from being a *consumer composite investment*:
- (1) a *long-term insurance contract* where the benefits under the contract are payable only on death or in respect of incapacity due to injury, sickness or infirmity;
 - (2) a *pure protection contract*;
 - (3) a *deposit*, other than a *structured deposit*;
 - (4) non-equity transferable securities meeting the criteria set out at paragraphs (c), (d) and (e) of regulation 4 of the *Consumer Composite Investments Regulations*;
 - (5) non-fungible shares of capital whose main purpose is to provide the holder with a right to occupy any immovable property or a part thereof and where the shares cannot be sold without this right being given up;
 - (6) a *pension scheme*, including a *stakeholder pension scheme*;
 - (7) a *pension annuity*;
 - (8) a *funeral plan product*;
 - (9) shares in the capital of any central bank; and

- (10) transferable securities meeting the criteria set out at paragraphs (l) and (m) of regulation 4 of the *Consumer Composite Investments Regulations*.

DISC 2 (Scope rules under article 4A of the PRIIPs Regulation) is deleted in its entirety. The deleted text is not shown but the chapter is marked [deleted] as shown below.

2 Scope rules under article 4A of the PRIIPs Regulation [deleted]

Insert the following new chapters, DISC 2A, DISC 3–DISC 4, after DISC 2 (Scope rules under article 4A of the PRIIPs Regulation). All of the text is new and is not underlined.

2A General obligations

2A.1 Cooperation and information-sharing duties

- 2A.1.1 R *Firms* involved in the *manufacture* or *distribution* of a *consumer composite investment* must cooperate and share information with each other on a timely basis, as appropriate to enable each *firm* to act to meet the information needs of *retail investors* and otherwise discharge its regulatory obligations in connection with the *consumer composite investment*.
- 2A.1.2 G (1) The regulatory obligations in *DISC* 2A.1.1R include, for an *authorised person*, relevant obligations under *rules* in *DISC* as well as other *FCA rules*, for example under *COBS*, *PROD*, *COLL* and *Principle 12* and *PRIN 2A* (the Consumer Duty), as applicable.
- (2) The duty in *DISC* 2A.1.1R relates, in particular, to information sharing in the context of the preparation of the *product summary*. It also relates to other sharing of information, proactively or on reasonable request, about the *consumer composite investment* and about the characteristics and information needs of the *retail investors* in the *consumer composite investment's* target market. This enables each *firm* involved with the *manufacture* or *distribution* of *consumer composite investments* to satisfy itself that it is taking appropriate steps to meet the information needs of *retail investors* and otherwise meet its regulatory obligations.
- (3) For the avoidance of doubt, a *firm* is not required to act in a way that may amount to a breach of its legal obligations. For example, the duty in *DISC* 2A.1.1R does not require a *firm* to disclose or receive commercially sensitive information which may be in breach of competition law, or the unnecessary sharing of customers' personal data in contravention of data privacy law.
- 2A.1.3 R In complying with its obligations in *DISC*, a *firm* must:

- (1) ensure that the information it provides to another *firm* involved in the *manufacture* or *distribution* of a *consumer composite investment* is accurate, clear, fair, and not misleading; and
- (2) take reasonable care to avoid causing another *firm* involved in the *manufacture* or *distribution* of the *consumer composite investment* to be misled, or cause it to mislead *retail investors*, via the omission of information relevant to that *firm's* regulatory obligations.

2A.1.4 R In this Chapter, references to a *manufacturer* and to *manufacturing* a *consumer composite investment* include, respectively, a *firm* who makes a material contribution to the *manufacture* of a *consumer composite investment* in collaboration with other *manufacturers* and the making of such a contribution.

2A.1.5 R Where *firms* collaborate in *manufacturing* a *consumer composite investment*, they must set out in a written agreement their respective roles and responsibilities in relation to the obligations under *DISC*.

2A.2 Manufacturing and pre-distribution stage

- 2A.2.1 R (1) A *manufacturer* who is an *unauthorised person* must ensure, in relation to each *consumer composite investment* it *manufactures* that:
- (a) there is a product approval process in place that ensures the *consumer composite investment*:
 - (i) is designed to meet the identified needs, characteristics, and objectives of the *retail investors* in its target market; and
 - (ii) will provide fair value to the *retail investors* in its target market;
 - (b) an appropriate assessment is carried out of all relevant risks posed by the *consumer composite investment* to *retail investors*, including in particular *consumers* with characteristics of vulnerability; and
 - (c) the distribution strategy for the *consumer composite investment* is appropriate having regard to the *consumer composite investment's* target market and to the risks posed by the *consumer composite investment* to *retail investors*.
- (2) The requirement in (1)(a)(ii) does not apply if the *consumer composite investment* is an investment in a *recognised scheme*.
- 2A.2.2 G For the purposes of compliance with *DISC* 2A.2.1R(1)(b), the *rule* in *PRIN* 2A.4.1R applies to an *unauthorised person* as if it were *guidance*.

- 2A.2.3 G A *manufacturer* who is an *authorised person* is subject to the more comprehensive obligations under *Principle 12* and *PRIN 2A* (the Consumer Duty), in particular in *PRIN 2A.3* (product governance) and *PRIN 2A.4* (fair value), and in *PROD*, as applicable.
- 2A.2.4 R (1) In respect of each *consumer composite investment* it manufactures, a *manufacturer* must ensure the *product summary* and *core information disclosures* are prepared in good time ahead of the *consumer composite investment* being made available for distribution.
- (2) A *distributor* may opt to prepare its own *product summary* for a *consumer composite investment* based on the *core information disclosures* prepared by the *manufacturer*.
- 2A.2.5 R A *manufacturer* must ensure the following are provided to each *distributor* in good time before the *distributor* commences the *distribution* of the *consumer composite investment* to *retail investors*:
- (1) the *product summary*, except if the *distributor* has opted to prepare its own;
- (2) the *core information disclosures*; and
- (3) sufficient and appropriate information about:
- (a) the *consumer composite investment's* target market, including the identified needs, characteristics, and objectives of *retail customers* in the target market;
- (b) its assessment, including any relevant assumptions, in relation to the value to be provided by the *consumer composite investment* to *retail investors* in the target market;
- (c) any relevant risks it has identified in relation to *retail investors*, including in particular *retail investors* with characteristics of vulnerability; and
- (d) its distribution strategy for the *consumer composite investment*.
- 2A.2.6 G (1) For the purposes of compliance with *DISC 2A.2.4R* and the related requirement in *DISC 4.1.1R* in relation to updating and revising product information, it will normally suffice for the *manufacturer* to make the required information and documents available on its website, provided they are easily accessible to all *firms* who may distribute the *consumer composite investment*.
- (2) *Manufacturers* are reminded of the obligation in *DISC 4.1.1R* to carry out regular reviews of the *core information disclosures* and *product summary* and to provide *distributors* with revised or

updated *core information disclosures*, including a reasonable summary of material changes, and a revised or updated *product summary*.

- 2A.2.7 G (1) The purpose of the *core information disclosures* is to:
- (a) assist the *distributor* in familiarising itself with the information underpinning the *consumer composite investment's product summary* and assessing whether the *product summary* is likely to meet the information needs of the *retail investors* to whom the *distributor* may distribute the *consumer composite investment*; and
 - (b) facilitate any further steps the *distributor* may consider appropriate to take to meet the information needs of *retail investors*, for example by:
 - (i) electing to prepare a more tailored *product summary* (see *DISC 2A.2.4R(2)*); or
 - (ii) providing *additional product information*, for example further explanations, illustrations, or information that is more granular, or presented in a way that is more likely to be understood by the relevant *retail investors*.
- (2) Examples of further steps for the purposes of (1)(b) include layering of information along the pre-sale investment journey, supplementary product literature such as personalised illustrations of past performance and costs based on the *retail investor's* intended investment amount, hover-over information that explains what different types of risk are and how they may be relevant to the *retail investor*, or the use of graphics or images that support consumer understanding.
- 2A.2.8 R A *firm* must ensure that any *additional product information* in marketing materials, product documentation, or other communications with or for the *retail investor* is consistent with the *core information disclosures* and with the *product summary*, and does not contradict or downplay the information in the *product summary*.
- [**Note:** *DISC 3.2.1R(2)* sets additional requirements in relation to information within the *product summary*.]
- 2A.2.9 G See *DISC 3.2.6R* for how *firms* should deal with concerns about the content of *core information disclosures* or the *product summary*.

2A.3 Distribution and promotion of consumer composite investments

- 2A.3.1 R (1) A *firm* must not *distribute a consumer composite investment* to a *retail investor* unless the conditions in (2) and (3) are met.

- (2) The *firm* must verify that an up-to-date *product summary* for the *consumer composite investment* is available for provision to *retail investors*.
 - (3) The *firm* must take reasonable care to ensure it provides the *retail investor* with:
 - (a) the *product summary*, or the information within the *product summary*, at an appropriate stage in the provision of the service or carrying on of the distribution activities so that the information within the *product summary* is able to assist the *retail investor's* consideration of the merits of investing in the *consumer composite investment*; and
 - (b) a copy of the *product summary* in a *durable medium*, at the time the sale is concluded or as soon as reasonably practicable afterwards and in any case before the *retail investor* is bound by any agreement to buy or otherwise invest in the *consumer composite investment*.
- 2A.3.2 G (1) In the *FCA's* view, the appropriate stage for providing a *retail investor* with the *product summary*, or the information within the *product summary*, will normally be early on in the investment journey and before the investor has initiated the transaction to buy or otherwise invest in the *consumer composite investment*, or provided instructions to the *firm* to arrange it for them.
- (2) If it is not reasonably practicable to provide the *product summary*, or the information within the *product summary*, at an early stage in the investment journey, the *firm* should endeavour to provide the *product summary*, or the information within the *product summary*, to the *retail investor* as soon as it is practicable in the investment journey.
- 2A.3.3 R (1) Where the conditions in (2) apply, the *firm's* obligations under *DISC 2A.3.1R* will be met by the *firm* if it complies with *DISC 2A.3.1R(3)(b)* and takes reasonable steps to encourage the *retail investor* to consider the information within the *product summary* before they are bound by the agreement to buy or otherwise invest in the *consumer composite investment*.
- (2) The conditions are that:
- (a) the *retail investor* has approached the *firm* to buy or otherwise invest in the *consumer composite investment* or to give instructions for the *firm* to *arrange a deal* in the *consumer composite investment* for the *retail investor* to enter into as buyer; and

(b) the *firm* has not promoted the *consumer composite investment* to the *retail investor* or *advised* the *retail investor* on the merits of investment in the *consumer composite investment*.

2A.3.4 G (1) The modified application in *DISC* 2A.3.3R is intended to cater for the situation where a *firm* is approached by a *retail investor* who has already made a decision to buy or otherwise invest in a *consumer composite investment* through their own research and not in response to any invitation or inducement communicated by the *firm* in relation to the *consumer composite investment*.

(2) In such a situation, the consumer outcome intended by *DISC* 2A.3.1R(3)(a) can be met by compliance with *DISC* 2A.3.1R(3)(b) together with appropriate engagement by the *firm* with the *retail investor* to encourage them to take the information in the *product summary* into account while there is still time for the *retail investor* to cancel or modify their investment decision if they change their mind.

2A.3.5 R A *firm* is not required to comply with *DISC* 2A.3.1R where the *consumer composite investment* is *distributed* to or through a *discretionary investment manager* acting on behalf of a *retail investor*.

2A.4 Multi-option products

2A.4.1 R In relation to a multi-option *consumer composite investment*, ie, a product which is a combination of a wrapper and underlying investment options which are *consumer composite investments* and where the wrapper and the selected underlying *consumer composite investments* must be purchased together, the following conditions apply instead of those in *DISC* 2A.3.1R:

(1) the *firm* must verify that an up-to-date *product summary* for the underlying *consumer composite investment* options is available for provision to *retail investors*, as well as a general summary of the wrapper including, as a minimum, an explanation of the wrapper's general terms and conditions and information on the wrapper's costs and charges as well as any benefits; and

(2) the *firm* must take reasonable care to ensure it, or another *person* in the distribution chain for the multi-option *consumer composite investment*, will provide the *retail investor* with:

(a) the general summary of the wrapper as well as the *product summary*, or the information within the *product summary*, for each of the underlying *consumer composite investment* options, at an appropriate stage in the provision of the service or carrying on of the distribution activities, so as to assist the *retail investor*'s consideration of the merits of investing through the wrapper and the investor's consideration of the

merits of investing in the underlying *consumer composite investment* options; and

- (b) any of the following, in a *durable medium*, at the time the sale is concluded or as soon as reasonably practicable afterwards and in any case before the *retail investor* is bound by any agreement to buy or otherwise invest in the *consumer composite investment*:
 - (i) the general summary of the wrapper together with the *product summary* for each of the options selected by the retail investor;
 - (ii) the general summary of the wrapper together with links to where the relevant *product summaries* for each of the options selected by the *retail investor* are to be found; or
 - (iii) a bespoke *product summary* comprising the information and links in (ii), together with relevant information about the underlying *consumer composite investments* chosen by the *retail investor* and including, as a minimum, information on costs and charges as well as the *risk information* for the underlying options or the overall investment, such as in the *firm's* reasonable judgment may meet the *retail investor's* information needs.

3 Preparing the product summary

- 3.1.1 R In this chapter, references to a *firm* are references to the *person* who is responsible (or takes responsibility) for preparing the *product summary*, ie, the *manufacturer* of a *consumer composite investment* or, where *DISC 2A.2.4R(2)* applies, the relevant *distributor*.
- 3.1.2 G
 - (1) The *manufacturer* is required by *DISC 2A.2.4R* and *DISC 2A.2.5R(1)* to prepare and provide a *product summary* to the *distributor* in good time before the commencement of *distribution* of the *consumer composite investment* to *retail investors*.
 - (2) The *distributor* may opt to prepare its own *product summary* for the *consumer composite investment* (see *DISC 2A.2.4R(2)*), for example, if it wishes to tailor it to its particular customer base of *retail investors* so as to better meet their information needs.
 - (3) If no *product summary* is available for a *consumer composite investment*, for example, because neither the *manufacturer* nor the *distributor* has yet prepared one, then *DISC 2A.3.1R* has the effect of prohibiting the *distribution* of the *consumer composite investment* to *retail investors*.

3.2 General requirements for the product summary

- 3.2.1 R (1) A *firm* must prepare a short and concise document in English, titled ‘*product summary*’ and setting out appropriate information about the essential characteristics of the *consumer composite investment*, including in particular:
- (a) *general product information*;
 - (b) *costs and charges information*;
 - (c) *risk information*;
 - (d) *performance information*; and
 - (e) *risk and reward information*.
- (2) The contents of the *product summary* must:
- (a) reflect the underlying *core information disclosures* prepared by the *manufacturer* without any distortion or contradiction, or any obscuring or downplaying of the information in those disclosures about the *consumer composite investment*; and
 - (b) be consistent with the terms and conditions applicable to the *consumer composite investment*, the contents of any offer documents, and any contractual documents governing the operation of the *consumer composite investment*.
- [**Note:** see *DISC 2A.2.8R* for requirements in relation to *additional product information* and other communications with the *retail investor*.]
- (3) (a) The *product summary* should be clearly separate from other marketing materials and contain enough information within itself, without relying on cross-references to other materials, to enable *retail investors* to achieve at least a reasonable and sufficient understanding of the nature, investment objectives, risks, and costs of the *consumer composite investment*.
- (b) The requirement in (a) is modified in relation to a multi-option product (see *DISC 2A.4.1R*), in that the *product summary* may rely on cross-references to the wrapper’s general summary and need not be separate from it.
- (4) Information on risk and on costs and charges must be presented prominently in the *product summary*.
- 3.2.2 R (1) A *firm* must take reasonable care to ensure the *product summary*:
- (a) meets the information needs of *retail investors*;

- (b) is likely to be understood by *retail investors*; and
 - (c) equips *retail investors* to make decisions about the *consumer composite investment* that are effective, timely, and properly informed.
 - (2) A *firm* must ensure the contents of the *product summary* and any *additional product information* are clear, fair and not misleading.
- 3.2.3 G *Firms* who are *authorised persons* are reminded of the corresponding requirement in *PRIN 2A.5.3R*, which applies not only to the *product summary* but to any other information provided to or communications with the *retail investor*.
- 3.2.4 R
- (1) In preparing the *product summary*, a *firm* must consider whether any adaptation, summarising, paraphrasing or supplementation of the *core information disclosures* may be appropriate or necessary in order to comply with *DISC 3.2.1R* and *DISC 3.2.2R*.
 - (2) If the *distributor* adapts, summarises, paraphrases or supplements the *manufacturer's core information disclosures* for a *consumer composite investment*, either in a *product summary* (if it opts to prepare one) or in *additional product information*, it must take care not to modify the substance of that information in any way.
 - (3) Any information that is required by a *rule* in *DISC* to be presented or expressed in the *product summary* in a prescribed way may be supplemented but not replaced with an adapted, summarised, or paraphrased version.
- 3.2.5 G An adaptation, summary, paraphrasing or supplementation would be deemed to modify the substance of the *core information disclosures* if it alters the underlying information or data about the *consumer composite investment* rather than how the information or data are presented or expressed.
- 3.2.6 R
- (1) If a *distributor* considers that the substance of any element of the *core information disclosures* or the *product summary* needs to be modified in some way in order to avoid misleading or confusing the *retail investor*, it must first consult with the *manufacturer* to discuss its concerns and only proceed with the modification of the information with the written agreement of the *manufacturer*.
 - (2) A *manufacturer* who is consulted by a *distributor* about concerns relating to the *core information disclosures* or the *product summary* must act reasonably and in a timely manner to address those concerns and to ensure the *core information disclosures* and *product summary* are accurate and comply with the requirements in *DISC*.

- (3) *Manufacturers and distributors* must keep a record of any revision to the *core information disclosures* or to the *product summary* prompted by the preparation of the *product summary* or any other documents or communications.
- 3.2.7 G For avoidance of doubt, an adaptation of *cost and charges information* or of *performance information* which consists of a tailored presentation of costs and charges or past performance based on the actual sum the *retail investor* is considering investing (or has decided to invest) does not amount to a modification of the substance of the *costs and charges information* or the *performance information* (as applicable).
- 3.2.8 G (1) A *firm* preparing a *product summary* should have regard to the information needs and characteristics of the *retail investors* to whom the *consumer composite investment* is likely to be *distributed* so as to ensure compliance with *DISC* 3.2.2R, which applies the more general requirement in *PRIN* 2A.5.3R to the *person* preparing the *product summary*.
- (2) The guidance in *PRIN* 2A.7.2G is relevant to the degree of care required of a *firm* in complying with *DISC* 3.2.2R. A *firm* should consider the following factors in particular:
- (a) the nature of the *consumer composite investment*, in particular the risks of the investment, its relative complexity, and its costs, fees and charges;
- (b) the characteristics of the *retail investors* to whom the *consumer composite investment* is intended to be *distributed* or is in fact being *distributed*, to the extent the *firm* knows this information or reasonably should know it or be able to obtain it, including:
- (i) their financial objectives or reasonable expectations in relation to the *consumer composite investment*; and
- (ii) their resources, degree of financial capability or sophistication, or any characteristics of vulnerability;
- (c) whether the *firm* has provided or will provide advice to the *retail investor*.

The reasonable steps defence to an action for damages

- 3.2.9 R If, in preparing it, a *firm* takes reasonable steps to ensure a *product summary* complies with the requirement in *DISC* 3.2.2R(2), a contravention of that *rule* does not give rise to a right of action under section 138D of the *Act*.

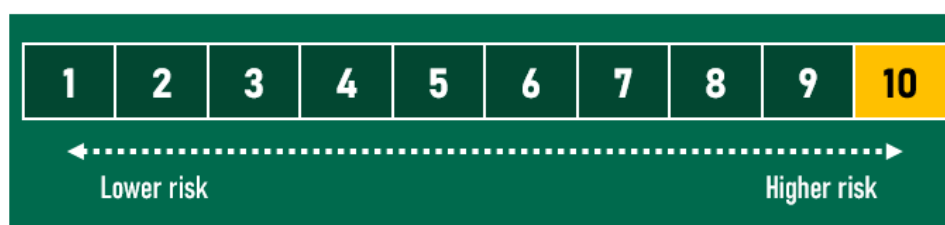
3.3 Product summary – additional requirements

Costs and charges information

- 3.3.1 R (1) The *product summary* must contain an explanation of the following matters:
- (a) the importance of costs and charges with a clear explanation of the impact of the costs and charges an investor pays on the potential growth of the *consumer composite investment*; and
 - (b) that the person selling or advising on the *consumer composite investment* may charge the *retail investor* other costs and charges.
- (2) The requirement in (1)(b) is modified where the *product summary* is prepared by the *distributor*, in that the *distributor* should instead provide the information on other costs and charges, or signpost to where that information may be found.
- 3.3.2 R A *firm* must ensure that the *costs and charges information* included in the *product summary* is clear as to which costs and charges are estimated.
- 3.3.3 R Where relevant, the *product summary* must include a cross-reference to those parts of the *consumer composite investment's prospectus* where more detailed information on costs and charges can be found, including information on performance fees and how they are calculated.
- 3.3.4 R The *product summary* may include any additional explanation, contextual information or breakdown of the costs and charges the *firm* considers to be useful to the *retail investor* in understanding the impact of costs and charges, provided this does not contradict or diminish the importance of the information provided under *DISC 3.3.1R*.

Risk information

- 3.3.5 R The risk score for the *consumer composite investment* must be presented on a horizontal linear scale of 1 to 10, in the manner shown:



Identity of the product summary preparer and information on access to the Financial Ombudsman Service and FSCS

- 3.3.6 R The *product summary* must also include the following information:

- (1) identification of the *firm* who prepared it, and the date on which the *product summary* was issued; and
 - (2) for a *distributor*-prepared *product summary*, the information in *DISC 5.2.1R(7)* as though references to the *manufacturer* were references to the *distributor*.
- 3.3.7 G
- (1) *DISC 5.2.1R(7)* requires the *manufacturer* to provide information to *distributors* about the availability of cover under the *compensation scheme*, access to the *Financial Ombudsman Service*, and applicability of any alternative dispute resolution or compensation scheme from a country outside the *UK*, in each case in respect of its activities.
 - (2) The effect of *DISC 3.2.1R(1)(a)* is that the information in (1) is already required to be included in the *product summary*, irrespective of who prepares it.
 - (3) The requirement in *DISC 3.3.6R(2)* concerns the additional information to be provided in the *product summary* about compensation and complaints resolution in relation to the *distributor*, where it opts to prepare a *product summary*.
 - (4) *Firms* who are *authorised persons* are reminded of the additional obligations in *COBS 6.1.16R* and *COBS 6.1ZA.22R* (as applicable) to make available to *clients* information relating to cover by the *compensation scheme* and the obligations in *DISP 1.2* to publish information about the *Financial Ombudsman Service*.

3.4 Past performance graph

- 3.4.1 R Where past performance information is available for a *consumer composite investment*, and subject to *DISC 3.4.3R*, the *product summary* must include a line graph for the relevant period covered by the *performance information*, prepared in accordance with the requirements of this section.

[**Note:** see *DISC 5.3.1R(2)* for the relevant period for *performance information*.]

- 3.4.2 R The line graph must be accompanied by:
- (1) a prominent warning to the *retail investor* explaining that past performance is not a guide to future performance;
 - (2) where the relevant period is 1 year or less, a warning that the performance shown is for a short period of time and that it will not necessarily be representative of the performance of the *consumer composite investment* in the longer term; and
 - (3) the information and warnings in *DISC 5.3.5R*.

3.4.3 R Where the relevant period for a *consumer composite investment* comprises less than 3 *months*, the *firm* preparing the *product summary* may:

- (1) opt not to prepare a line graph; and if so
- (2) state in the *product summary* that there is insufficient performance information to usefully illustrate the performance of the *consumer composite investment*.

The line graph

3.4.4 R (1) The line graph must show the performance of a hypothetical investment in the *consumer composite investment* of £10,000 invested at the start of the relevant period for the duration of that period with at least 1 datapoint for the last day of each quarter during the relevant period.

(2) The past performance shown in (1) must be net of any actual costs and charges for that *consumer composite investment*.

(3) Where the relevant period is 1 year or less, the line graph must show the performance of the investment amount in (1) with at least 1 data point per *month* of the relevant period, or more granular where the *firm* preparing the *product summary* considers this appropriate to assist *retail investor* understanding.

(4) Where the *consumer composite investment* is a *with-profits insurance contract*, the performance shown in (1) must include the effect of any bonus amount or market value reduction during the relevant period.

(5) For the purposes of (4), a bonus amount or market value reduction is an adjustment to a *retail investor's* investment return under a mechanism in the *with-profits insurance contract* for the purpose of evening out the effect of volatility on investment returns.

(6) Where *DISC 5.3.1R(5)* applies, the *firm* preparing the *product summary* may add a separate line graph comparing historical share prices against historical net asset value per share over the relevant period.

3.4.5 R (1) The line graph must meet the following requirements:

- (a) it must be legible;
- (b) the units:
 - (i) on the Y-axis must be the currency in which the *consumer composite investment* is priced; and
 - (ii) on the X-axis must be calendar years; and

- (c) the scale of the Y-axis must:
 - (i) be linear; and
 - (ii) not be logarithmic; and
 - (d) values showing amounts of currency must be rounded to whole numbers.
- (2) In relation to a *consumer composite investment* priced or denominated in a currency other than pounds sterling, the £10,000 investment amount referred to in *DISC 3.4.4R(1)* may be replaced by the equivalent amount of the other currency and a statement of the exchange rate used to calculate the equivalent amount.

Benchmarks: authorised funds and recognised schemes

- 3.4.6 R (1) This rule applies where a *consumer composite investment* is an investment in a *fund* which is an *UCITS scheme*, a *non-UCITS retail scheme*, a *recognised scheme*, a *qualified investor scheme*, or a *long-term asset fund*.
- (2) In the case of a *UCITS scheme* or a *non-UCITS retail scheme*, where one or more of a *target benchmark*, a *constraining benchmark*, or a *comparator benchmark* has been referred to in the *prospectus* for that fund, the line graph must include lines tracking the performance of any benchmarks referred to over the same period and on the same basis as illustrated for the past performance of the *consumer composite investment*.
- (3) In the case of a *qualified investor scheme*, a *long-term asset fund* or a *recognised scheme*, where the *fund* has a *target benchmark*, *constraining benchmark*, or *comparator benchmark* (whether this use is disclosed in its *prospectus*, if it has one, or not), the line graph must include lines for any benchmarks used tracking the performance of that benchmark over the same period and on the same basis as illustrated for the past performance of the *consumer composite investment*.
- (4) Where a *firm* preparing the *product summary* includes a line in the line graph for any benchmark under this *rule* it must include a statement in the *product summary* explaining why the relevant benchmark was chosen.
- (5) Where a *firm* preparing the *product summary* does not include a line in the line graph for a benchmark it must provide in the *product summary*:
- (a) a statement to that effect; and

- (b) a short explanation as to how *retail investors* can assess the performance of the *consumer composite investment*.
- (6) For the purposes of (3):
- (a) a *target benchmark* is where a target for a *fund's* performance has been set, or a payment out of the assets of the *fund* is permitted, by reference to a comparison of one or more aspects of the *fund's* assets or price with fluctuations in the value or price of an index or indices or any other similar factor;
 - (b) a *constraining benchmark* is where, without being a *target benchmark*, arrangements are in place in relation to the *fund* according to which the composition of the portfolio of the *fund* is, or is implied to be, constrained by reference to the value, the price or the components of an index or indices or any other similar factor; and
 - (c) a *comparator benchmark* is where, without being a *target benchmark* or a *constraining benchmark*, the *fund's* performance is compared against the value or price of an index or indices or any other similar factor.

Benchmarks: other funds

- 3.4.7 R (1) This rule applies where a *consumer composite investment* is an *insurance-based investment product*, or an investment in a *fund* to which *DISC 3.4.6R* does not apply.
- (2) The *firm* preparing the *product summary* may opt to include a line in the line graph tracking the performance of a relevant benchmark over the same period and on the same basis as illustrated for the past performance of the *consumer composite investment*.
- (3) Where the *firm* includes a line in the line graph for a benchmark under (2), it must include a statement in the *product summary* explaining why the relevant benchmark was chosen.
- (4) Where the *firm* preparing the *product summary* opts not to include a benchmark for a *consumer composite investment* under (2), it must:
- (a) omit the line referred to in (2); and
 - (b) provide in the *product summary*:
 - (i) a short explanation of why the firm has opted not to include a relevant benchmark (for example, because it considers there is no relevant benchmark for the *fund*); and

- (ii) a short explanation as to how *retail investors* can assess the performance of the *consumer composite investment*.

- (5) In this *rule* ‘relevant benchmark’ means a benchmark which in the considered judgment of the *firm* preparing the *product summary* is likely to support consumer understanding of the investment context within which the *insurance-based investment product* or *fund* operates.

Benchmarks: product summary prepared by a distributor

- 3.4.8 R (1) Where the *product summary* is prepared by the *distributor*, the line graph must include any benchmarks chosen by the *manufacturer* as per the *performance information*.
- (2) Where the *distributor* opts to include an additional relevant benchmark not otherwise chosen by the *manufacturer*, it must:
- (a) comply with the requirements in *DISC* 3.4.7R(2), (3) and (5) whether or not it is a *fund* to which those provisions otherwise apply; and
 - (b) ensure it complies with the obligation in *DISC* 3.2.2R(2).

Material change

- 3.4.9 R Where a *consumer composite investment* is an investment in a *fund* or an *insurance-based investment product* and a material change occurred to the objectives and strategy (as identified under *DISC* 5.2.1R(5)(b) during the relevant period shown by the line graph, the time of the change must be indicated in that line graph with a warning that the prior performance was achieved under circumstances that no longer apply.

Feeder funds

- 3.4.10 R The information used to produce the line graph for a *feeder fund* under *DISC* 3.4.1R must be information relating to that *feeder fund* and not the *feeder fund's master fund*.

Line graph: merged funds

- 3.4.11 R (1) This rule applies where a *consumer composite investment* is a *fund*:
- (a) with a relevant period of less than 10 years; and
 - (b) that was established by the merger of 2 or more other *funds* (‘the pre-merger funds’).

- (2) The line graph produced for the *consumer composite investment* must also show the performance of each pre-merger fund as if for the purposes of this section:
- (a) each pre-merger fund is a *consumer composite investment* within the scope of this section; and
 - (b) the relevant period for each pre-merger fund is the shorter of:
 - (i) a period that is 10 years less the length of the relevant period for the merged fund ending on the day the merged fund was established; or
 - (ii) a period from the day that pre-merger fund was established until the day the merged fund was established.

4 Further obligations

4.1 Updating and revising product information

- 4.1.1 R (1) In respect of each *consumer composite investment* it manufactures, a *manufacturer* must ensure the *core information disclosures* are reviewed regularly and at least once in every 12-month period, and revise or update them and the *product summary* as necessary to ensure that the *core information disclosures* and *product summary* remain up to date and compliant with the requirements in *DISC 3* and *DISC 5*, and in particular *DISC 3.2.2R*.
- (2) Following the review in (1), the *manufacturer* must ensure the following are provided to the *distributors* of the *consumer composite investment*:
- (a) the revised or updated *core information disclosures*, including a reasonable summary of material changes to the information previously provided, or if the *core information disclosures* did not require any revisions or updating, confirmation of this; and
 - (b) a revised or updated *product summary*.
- (3) Factors requiring a review of the *core information disclosures* and a revision of the *product summary* outside of an annual review schedule include, in particular, a material change to a *consumer composite investment's risk information* or investment objectives and strategy.

[**Note:** see *DISC 2A.2.6G*, *DISC 4.3.1R* and, in relation to estimated costs and charges, *DISC 6.2.9R(4)*]

- 4.1.2 R A *distributor* who has opted to prepare its own *product summary* for a *consumer composite investment* that continues to be *distributed* must review the *product summary*:
- (1) upon any significant revision or updates to the *core information disclosures*; and
 - (2) at any rate, at least once in every 12-month period;
- and amend it as necessary in order to ensure it continues to comply with the requirements in *DISC 3* (Preparing the product summary).
- 4.1.3 R Where a *distributor* who has opted to prepare its own *product summary* also allows other *distributors* to use it to meet their obligations under *DISC 2A.3.1R*, the obligations in *DISC 4.1.1R(2)* apply as if the *distributor* were the *manufacturer*.
- 4.1.4 R The obligations in *DISC 4.1.1R*, *DISC 4.1.2R* and *DISC 4.1.3R* do not apply in relation to a *consumer composite investment* that is no longer available for *distribution*.

4.2 Apportionment of responsibilities

- 4.2.1 R
- (1) A *manufacturer* is responsible for ensuring the accuracy of and compliance with applicable regulatory obligations, in particular in *DISC* and (for an *authorised person*) under *Principle 12* and *PRIN 2A* (The Consumer Duty), in respect of the *core information disclosures*, the *product summary* it prepares, and any other *additional product information* it provides to the *distributor* or communications it prepares for provision to *retail investors* in relation to a *consumer composite investment*.
 - (2) A *distributor* is responsible for ensuring the accuracy of and compliance with applicable regulatory obligations, in particular under *DISC* and *Principle 12* and *PRIN 2A* (The Consumer Duty), in respect of any information and communications it prepares or provides to *retail investors* in relation to a *consumer composite investment*, including the *product summary* if it opts to prepare it and any *additional product information*.
 - (3) For the purposes of compliance with (2), a *distributor* is entitled to rely on the information provided or any communications prepared by the *manufacturer* where it is reasonable to do so.
- 4.2.2 G In the *FCA's* view, it is reasonable for the *distributor* to rely on information provided, or a communication prepared, by the *manufacturer* where:
- (a) the information or communication is free of any reasonably obvious inaccuracies or inconsistencies;

- (b) the contents are unlikely to give a reasonably competent and prudent *person* in the *distributor's* position cause for concern; and
 - (c) the *distributor* has not identified, and is not aware of, any concerns that the information or the communication is misleading, inaccurate, or out of date in any material respect.
- 4.2.3 G (1) Notwithstanding that it may be reasonable for a *distributor* to rely on information provided or a communication prepared by a *manufacturer*, it should have regard to its obligations under *Principle 12* and *PRIN 2A* (The Consumer Duty), in particular the cross-cutting obligation to avoid causing foreseeable harm to retail customers (*PRIN 2A.2.8R*).
- (2) A *distributor* may wish to exercise particular care when considering whether to rely on information or communications prepared or provided by a *firm* who is an *unauthorised person*. Investors will generally have limited (if any) practical recourse in respect of any losses caused by the misconduct of such a *person*. Moreover, a *firm* who is not an *authorised person* will not be subject to *Principle 12* and *PRIN 2A* (The Consumer Duty), and may not be subject to any regulatory obligations other than those in *DISC*.

4.3 Identifying and acting on concerns

- 4.3.1 R A *firm* in the distribution chain for a *consumer composite investment* who is concerned or becomes aware that a *product summary* or *additional product information* contains (or may contain) information that is in any material respect misleading, inaccurate, or out of date, must promptly and appropriately:
- (1) if they are the *person* who prepared the *product summary* or *additional product information*, amend or otherwise revise or update it so that it ceases to be misleading, inaccurate, or out of date;
 - (2) if they are not that *person*, raise its concerns with the *person* who prepared the *product summary* or *additional product information*; and
 - (3) inform other *firms* in the distribution chain for the *consumer composite investment* about the issue.
- 4.3.2 G (1) In complying with *DISC 4.3.1R*, a *firm* should have regard to the related requirements in *DISC 2A.1.3R* and *DISC 4.1.1R*.
- (2) The general Consumer Duty obligations in *PRIN 2A.2.5R* and *PRIN 2A.5.14R* are relevant to an *authorised person's* concerns relating to any communication about the *consumer composite investment*. For example, where the *firm* is concerned that information in the

product summary is likely to be misunderstood by *retail investors*, or that information in other documents is inconsistent with the *product summary*, it should promptly notify the issue to the relevant *firm* in the distribution chain.

- 4.3.3 G (1) In keeping with its Consumer Duty obligations, an *authorised person* in the distribution chain for a *consumer composite investment* who is alerted to potentially inaccurate or misleading information in the *product summary* should consider what action, if any, may be required or appropriate in order to:
- (a) avoid causing foreseeable harm to *retail investors* (*PRIN* 2A.2.8R), or
 - (b) rectify the situation, if the authorised person identifies that *retail investors* have suffered foreseeable harm (*PRIN* 2A.2.5R).
- (2) Where the concerns are sufficiently significant, the *firm* may conclude that the action required in the circumstances is to pause *distribution* of the *consumer composite investment* until such time as the concern has been addressed.

- 4.3.4 G Where an *authorised person* identifies that it has provided inaccurate, misleading or out of date information in the *product summary* or in any *additional product information* communicated to *retail investors*, it should consider whether *retail investors* may have suffered harm as a result. The Consumer Duty obligation in *PRIN* 2A.2.5R is likely to be relevant in this situation.

4.4 Non-authorised persons – additional general obligations

General principles

- 4.4.1 R A *firm* which is an *unauthorised person* must, in relation to all elements of its business relating to activities within the scope of *DISC*:
- (1) act with integrity;
 - (2) act with due skill, care, and diligence;
 - (3) take reasonable care to organise its affairs responsibly and effectively, with adequate risk management systems;
 - (4) arrange adequate protection for the assets of *retail investors* when it is responsible for them; and
 - (5) deal with the *FCA* in an open and cooperative way, and disclose to the *FCA* appropriately anything relating to itself and its activities of which the *FCA* would reasonably expect notice.

4.4.2 R A contravention of *DISC* 4.4.1R does not give rise to a right of action under section 138D of the *Act*.

4.4.3 G A *firm* which is an *authorised person* is subject to equivalent requirements under *Principles* 1, 2, 3, 10 and 11.

5 Core information disclosures

5.1 General

5.1.1 G The following key requirements of this sourcebook rely on the *core information disclosures* set out in this chapter:

- (1) the *core information disclosures* must be prepared by a *manufacturer* and provided to *distributors* alongside the *product summary* in good time ahead of a *consumer composite investment* being made available for *distribution* (see *DISC* 2A.2.4R(1) and *DISC* 2A.2.5R(2));
- (2) any *additional product information* used in communications with or for a *retail investor* must be consistent with the *core information disclosures* (see *DISC* 2A.2.8R);
- (3) *DISC* 3.2.1R requires that the *product summary* for a *consumer composite investment* must include the *core information disclosures* and reflect that information without distortion or contradiction, but the *firm* preparing the *product summary* must consider whether any adaptation, summarising, paraphrasing or supplementation of the *core information disclosures* may be appropriate or necessary (see *DISC* 3.2.4R(1));
- (4) a *distributor* must not modify the substance of the *core information disclosures* in *additional product information* or (if it chooses to prepare one) the *product summary*, except in order to avoid misleading or confusing the retail investor, and only with the written agreement of the *manufacturer* (see *DISC* 3.2.4R, *DISC* 3.2.5G and *DISC* 3.2.6R);
- (5) the *core information disclosures* for a *consumer composite investment* that remains available for *distribution* must be reviewed regularly, and at least once every 12 months, by its *manufacturer* and revised to ensure it and the *product summary* remain up to date (see *DISC* 4.1.1R to *DISC* 4.1.4R); and
- (6) a *manufacturer* is responsible for ensuring the *core information disclosures* for a *consumer composite investment* are accurate and compliant with applicable regulatory obligations, in particular in this sourcebook and (if the *manufacturer* is an *authorised person*) under *Principle* 12 and *PRIN* 2A (the Consumer Duty) (see *DISC* 4.2.1R(1)).

5.1.2 R The *core information disclosures* include:

- (1) the *general product information*;
- (2) the *costs and charges information*;
- (3) the *performance information*;
- (4) the *risk information*; and
- (5) the *risk and reward information*.

Machine readability

- 5.1.3 R (1) A *manufacturer* must make available in machine-readable format any information in the *core information disclosures* that is reasonably capable of being rendered in such a format.
- (2) The information to be made available in (1) must be provided to *distributors* of the relevant *consumer composite investment* free of charge and in an easily accessible location in the *manufacturer's* website.
- (3) For the purposes of (1), information is in a machine-readable format where it is in an electronic format designed to be directly and automatically read and processed by a computer without requiring specialist software.
- (4) A *manufacturer* must publish instructions (including any updates to such instructions) explaining how to use the machine-readable file or files published under (1) and include a link to such instructions alongside the file (or files) published under (1).
- 5.1.4 G In the *FCA's* view, information that is provided in one or more comma-separated value (CSV) files will meet the requirement to provide information in a machine-readable format in *DISC 5.1.3R(3)(a)*.

5.2 General product information

- 5.2.1 R The *general product information* comprises the following:
- (1) the name of the *consumer composite investment* assigned by the *manufacturer*;
 - (2) any international securities identification number or unique product identifier;
 - (3) the legal name of the *manufacturer*;
 - (4) the date the *core information disclosures* were produced or, where subsequently revised, the date of the latest revision;

- (5) information about the characteristics of the *consumer composite investment*, including:
- (a) its type;
 - (b) its investment objectives and strategy;
 - (c) a description of any underlying investment assets or reference values and an explanation of how they relate to the value of the *consumer composite investment*;
 - (d) information about any markets to which the value of the *consumer composite investment* has material exposure or sensitivity;
 - (e) any environmental or social objectives of the *consumer composite investment*;
 - (f) any insurance benefits and the circumstances in which they would accrue or be payable;
 - (g) the investment term or recommended holding period of the *consumer composite investment*, if there is one, including a minimum or maximum recommended holding period if relevant; and
 - (h) where the return or payment to a *retail investor* is determined by a formula an explanation of the formula and how the *retail investor's* return or payment is calculated under the formula;
- (6) the following complaints information:
- (a) information about how to complain to the *manufacturer* about:
 - (i) the *consumer composite investment*; and
 - (ii) the conduct of the *manufacturer* of the *consumer composite investment*; and
 - (b) contact details for making complaints;
- (7) information about:
- (a) whether the *manufacturer* is carrying out an activity in relation to the *consumer composite investment* to which the *Compulsory Jurisdiction* or the *Voluntary Jurisdiction* of the *Financial Ombudsman Service* applies;
 - (b) the extent of coverage of the *compensation scheme* in relation to the *consumer composite investment*; and

- (c) whether any alternative dispute resolution or compensation scheme from a country outside other than the *UK* applies in respect of the *consumer composite investment* and the conditions to access any such scheme;
 - (8) where there is a minimum recommended time period for holding or where it is stated that a minimum holding period is an essential element of the investment strategy, a warning that makes clear that the *consumer composite investment* may not be appropriate for investors who plan to withdraw their money within that time period;
 - (9) details of any fees, rules, penalties or limitations on:
 - (a) early exit from the *consumer composite investment*; and
 - (b) disinvesting;
 - (10) any maturity date for the *consumer composite investment*;
 - (11) information about where and how to find additional information relating to the *consumer composite investment*, including but not limited to where and how a prospectus or other offer documents, contractual information, and regular reports can be obtained; and
 - (12) any information required under *DISC 5.2.3R*, as applicable.
- 5.2.2 G A *manufacturer* may include in information it provides under *DISC 5.2.1R(5)(e)* (environmental and sustainability information) any disclosures it has prepared under *ESG 5.1.1R* (sustainability disclosures) in respect of the *consumer composite investment* or a link to those disclosures.

General product information: funds

- 5.2.3 R Where the *consumer composite investment* is an investment in a *fund*, the *general product information* also includes the following:
- (1) details about whether the fund is authorised in the *UK* and regulated by the *FCA* and, if not, whether it is a *recognised scheme* or something else;
 - (2) the name of the *fund's operator* or *AIFM* (as applicable); and
 - (3) for a *feeder fund*:
 - (a) details about whether its *master fund* is authorised in the *UK* and regulated by the *FCA* and, if not, whether the *master fund* is a *recognised scheme* or something else;
 - (b) the name of its *master fund's operator* or *AIFM* (as applicable); and

- (c) either of the following:
 - (i) a statement that the *feeder fund* invests substantively in its *master fund* and therefore its returns will be very similar; or
 - (ii) an explanation of how and why the investment returns of the *feeder fund* and *master fund* may differ.

5.3 Performance

Performance information

- 5.3.1 R (1) The *performance information* comprises:
- (a) information about the performance of a *consumer composite investment* covering the relevant period so as to illustrate variations in value of the investment over that period;
 - (b) any additional information necessary to produce the line graph as required by *DISC* 5.3.4R; and
 - (c) the information required by *DISC* 5.3.5R.
- (2) The relevant period for the purposes of the *performance information* is the shorter of:
- (a) ten consecutive years ending on a date no earlier than 60 days before the date the *manufacturer* prepares a *product summary* for a *consumer composite investment* (under *DISC* 2A.2.4R(1)) or updates a *product summary* for a *consumer composite investment* (under *DISC* 4.1.1R(1)); or
 - (b) the entire period from the day a *consumer composite investment* was manufactured until a date no earlier than 60 days before the date the *manufacturer* prepares a *product summary* for that *consumer composite investment* (under *DISC* 2A.2.4R(1)) or updates a *product summary* for that *consumer composite investment* (under *DISC* 4.1.1R(1)).
- (3) The requirement in (1) does not apply in respect of *consumer composite investments* for which no past performance information is available.
- (4) The *manufacturer* must ensure the pricing basis adopted for the performance data covering the relevant period is consistent throughout and provides a fair representation and full disclosure of the performance of the *consumer composite investment*.
- (5) Where the *consumer composite investment* is an investment in a *closed-ended investment fund* or any other *share* in a *fund* which is

admitted to official listing on an exchange and for which there is a difference between share price and net asset value per share, the *performance information* must include the historical share price as well as the historical net asset value per share for the relevant period.

- 5.3.2 G In respect of a *consumer composite investment* for which no past performance information is available, the *manufacturer* is still subject to the requirements in *DISC 5.6* (Risk and reward information) to provide a narrative explanation of the factors affecting the performance of a *consumer composite investment*.
- 5.3.3 R The past performance of a *consumer composite investment* that is an investment in a *fund* or an *insurance-based investment product* must be based on the assumption that any distributable income has been reinvested.

Information underlying line graph in the product summary

- 5.3.4 R The *manufacturer* must provide all information necessary to produce the line graph for the *product summary* in accordance with the requirements of *DISC 3.4* (Past performance graph).

Other statements

- 5.3.5 R The *manufacturer* must also provide the following information:
- (1) the year in which the *consumer composite investment* was manufactured;
 - (2) where the underlying asset is in a different currency to sterling, an explanation of this and a warning that performance may be affected by currency fluctuations; and
 - (3) the relevant period and the source of the *performance information*.

5.4 Risk information

- 5.4.1 R The *risk information* comprises of the following, to be prepared in accordance with the requirements of this section:
- (1) the *consumer composite investment's* risk score;
 - (2) a narrative explanation of the risk score and any materially relevant risks to the value, performance, or investment returns of the *consumer composite investment*; and
 - (3) any applicable risk warnings or statements required under this section.

Methodology for determination of the risk score

- 5.4.2 R (1) A *manufacturer* must calculate the risk score for the *consumer composite investment* (or for each underlying investment option of a multi-option *consumer composite investment*) by:
- (a) calculating an initial risk score in accordance with the methodology in *DISC 5.5* and mapped onto a risk scale of 1 to 10 reflecting the *consumer composite investment*'s volatility interval in *DISC 5.5.5R(2)*; and then
 - (b) assessing whether it is necessary to adjust the initial risk score so that it more accurately represents the overall risks of the *consumer composite investment* and making any such adjustments, in accordance with *DISC 5.4.6R*.
- (2) The *consumer composite investment*'s risk score is:
- (a) the risk score under *DISC 5.4.2R(1)(a)* after any adjustment under *DISC 5.4.2R(1)(b)*; or
 - (b) where *DISC 5.4.5R* applies, the risk score in *DISC 5.4.5R(5)*, (6) or (7) as applicable.
- 5.4.3 G A *manufacturer* should consider the obligations in *DISC 3.2.2R* in assessing:
- (1) whether and how to adjust the risk score of a *consumer composite investment* in *DISC 5.4.2R(1)(b)*, and
 - (2) what additional information may be useful to a *retail investor* about the risks of the *consumer composite investment* when preparing the *product summary*.

Identification and disclosure of material relevant risks

- 5.4.4 R (1) A *manufacturer* must identify and disclose as part of the *risk information* in *DISC 5.4.1R(2)* any material risks which are relevant to the *consumer composite investment* but which are not adequately captured by the volatility-based calculation of the initial risk score.
- (2) The risks in (1) include, in particular and as applicable to the *consumer composite investment*:
- (a) credit, counterparty, or liquidity risks;
 - (b) operational risks (for example, relating to the safekeeping of assets);
 - (c) the impact of any transactions in derivatives or forward transactions;
 - (b) the use of leveraging;

- (c) a fixed investment term or a forced disinvestment timeframe that does not allow the investor to ride out unfavourable market conditions;
- (d) complex or opaque features posing material challenges to the ability of the average *retail investor* to understand the risk/reward dynamics, mechanisms, or profile of the *consumer composite investment*; or
- (e) any other significant risk factor which could be materially relevant to the performance of or return on a *consumer composite investment*, including any factor not transparent to the market.

Products with a pre-set initial risk score

- 5.4.5 R (1) The requirement to calculate an initial risk score in *DISC 5.4.2R(1)* does not apply in respect of a *consumer composite investment* which is a high-risk product, a product of unknown volatility, or a *structured deposit*.
- (2) A *consumer composite investment* is a high-risk product if it is one of the following:
- (a) a *contract for differences*;
 - (b) a *contingent convertible security*;
 - (c) a *derivative*;
 - (d) a *security* issued by a *venture capital trust*;
 - (e) any other *consumer composite investment* if any of the following factors apply:
 - (i) the investment strategy involves the use of leverage to a degree where it significantly increases the investment risk;
 - (ii) the *retail investor* could lose more than they invest;
 - (iii) the investment has low liquidity such that the *retail investor* is likely to face significant difficulties in terms of time or cost for encashing, selling, or otherwise disinvesting; or
 - (iv) the investment, or the underlying or reference assets, are priced less frequently than once a *month*.
- (3) A *consumer composite investment* is a product of unknown volatility if:

- (a) it has no volatility track record, or
 - (b) the volatility track record is shorter than 5 years.
- (4) For the purposes of (3), a *consumer composite investment's* volatility track record has the same meaning as in *DISC 5.5.2R*.
- (5) A *consumer composite investment* falling within (2) or (3) must be assigned a risk score of at least 9, or 10 if the *manufacturer* considers it a more appropriate reflection of the overall risks of the investment.
- (6) If the *consumer composite investment* carries a risk that the investor could lose more money than they invested, it must be assigned a risk of 10 and a risk warning must be provided explaining this.
- (7) If the *consumer composite investment* is a *structured deposit*, it must be assigned a risk score of 1 accompanied by an explanation of the risk to the interest payable, including the main drivers of that risk.
- 5.4.6 R (1) In considering the extent to which the initial risk score in *DISC 5.4.2R(1)(a)* needs to be upgraded, a *manufacturer* must take into account any material risks identified under *DISC 5.4.4R*.
- (2) A *manufacturer* may cautiously downgrade the risk score of a *consumer composite investment* where the initial risk score is, in the *manufacturer's* considered judgment, not representative of overall risks of the investment, for example because the relevant period used for the volatility calculation included a period of extreme market anomalies.
- (3) A *manufacturer* may adjust the risk score of a *consumer composite investment* to a more significant extent where there is at least 90% capital protection under all market conditions, so as long as the ultimate risk score is an appropriate and fair reflection of all relevant risks, including in particular the counterparty risks applying to the investment.
- 5.4.7 G The *FCA* would generally expect *structured capital at risk products* with returns tied to the performance of multiple indices or featuring gearing to be given a risk score of at least 9.
- 5.4.8 R The *manufacturer's* rationale for any downward adjustment in the initial risk score of a *consumer composite investment* must be clearly documented and made available to *distributors* of the *consumer composite investment*.
- 5.4.9 R The risk score must be supplemented by a concise explanation of how the risk score was calculated and a narrative explanation of the limitations of the approach.

- 5.4.10 R The narrative explanation in *DISC* 5.4.9R must include the following information:
- (1) a statement or explanation to the effect that:
 - (a) historical data, such as is used in calculating the risk score, may not be a reliable indication of the future risk profile;
 - (b) the risk score shown is not guaranteed to remain unchanged and the categorisation may shift over time; and
 - (c) a risk score of 1 may still involve a degree of risk to the original amount invested or to the returns the investor may receive; and
 - (2) details of the nature, timing and extent of any capital guarantee or protection offered by the *consumer composite investment*, including the potential effects of redeeming units outside of the guaranteed or protected period.

Record keeping of the risk score

- 5.4.11 R (1) The *manufacturer* must keep an adequate record of the calculation of the risk score as well as any of subsequent adjustment or revision for a period of at least 5 years.
- (2) The retention period in (1) is modified to at least 5 years after maturity in the case of a *consumer composite investment* that has a fixed term.

5.5 Initial risk score - calculation methodology

- 5.5.1 R The methodology set out in this section must be used by *manufacturers* in calculating the initial risk score in *DISC* 5.4.2R(1).
- 5.5.2 R For the purposes of this section, a *consumer composite investment's* volatility track record is:
- (1) data comprising the weekly pricing information, or if such information is not reasonably obtainable, monthly pricing information for:
 - (a) the past performance of the *consumer composite investment* itself via its *performance information*;
 - (b) the simulated past performance of the *consumer composite investment*, calculated on the basis of the historical values of the relevant underlying or reference assets; or
 - (c) the past performance of an appropriate benchmark, meaning a benchmark with a reasonably similar investment mandate,

investment objectives or strategy, and underlying or reference assets as the *consumer composite investment*;

- (2) covering a period of 5 consecutive years ending on a date no later than 60 days before the date the *manufacturer* prepares or reviews (for the purposes of *DISC* 4.1.1R) a *product summary* for that *consumer composite investment*.

5.5.3 R In gathering the data for the volatility track record, the *manufacturer* must ensure that:

- (1) the pricing basis adopted for performance information in *DISC* 5.5.2R(1)(a) is consistent throughout the period in *DISC* 5.5.2R(2) and provides a fair representation of the performance of the *consumer composite investment*;
- (2) the approach to simulating past performance in *DISC* 5.5.2R(1)(b), or to measuring the past performance of an appropriate benchmark in *DISC* 5.5.2R(1)(c), as applicable, is consistent throughout the period in *DISC* 5.5.2R(2) and provides a fair representation of the likely volatility of the *consumer composite investment* over that period; and
- (3) where relevant, the data is appropriately adjusted to reflect inflows and outflows of funds from the *consumer composite investment* and the effect of any smoothing over the period in *DISC* 5.5.2R(2).

5.5.4 R (1) The volatility of the *consumer composite investment* must be computed, and then rescaled to a yearly basis, using the following standard formula:

$$\text{volatility} = \sigma_f = \sqrt{\frac{m}{T-1} \sum_{t=1}^T (r_{f,t} - \bar{r}_f)^2}$$

- (2) The returns ($r_{f,t}$) in (1) are measured over T non overlapping periods of the duration of 1/m years.
- (3) This means m=52 and T= 260 for weekly returns, and m=12 and T=60 for monthly returns, and where \bar{r}_f is the arithmetic mean of the returns of the fund over the T periods:

$$\bar{r}_f = \frac{1}{T} \sum_{t=1}^T r_{f,t}$$

- 5.5.5 R (1) The initial risk score will correspond to an integer number designed to rank the product over a scale from 1 to 10, according to its increasing level of volatility.
- (2) The computation of the initial risk score of *consumer composite investments* must be carried out according to the following grid of annualized volatility intervals ('buckets') reflecting the increasing level of risk carried by the *consumer composite investment* and its position in the risk scale in *DISC* 3.3.5R,

Risk Class	Annualised Volatility Interval
1	0% to <0.5%
2	0.5% to <2%
3	2% to <5%
4	5% to <9%
5	9% to <12%
6	12% to <16%
7	16% to <20%
8	20% to <30%
9	30% to <50%
10	50% and above

- 5.5.6 G The risk score's position in the risk scale in *DISC* 3.3.5R should reflect the risk class in *DISC* 5.5.5R(2), subject to any adjustments following the assessment by the manufacturer in *DISC* 5.4.2R(1)(b).

5.6 Risk and reward information

- 5.6.1 R The *risk and reward information* comprises of the following:
- (1) a narrative explanation of the relationship between risk and performance and how the performance of a *consumer composite investment* impacts its risk and reward profile;
 - (2) appropriate performance information summarising in narrative form the main drivers of investment performance for the *consumer*

- composite investment*, identifying those most likely to determine the outcome of the investment and other factors which could have a material impact on performance;
- (3) a narrative description of the factors that increase the investment risk of the *consumer composite investment*;
 - (4) a brief explanation of the kinds of conditions whereby the *consumer composite investment* is likely to generate lower or higher returns, or lead to investment loss or gains;
 - (5) for a *consumer composite investment* with a material liquidity risk (see *DISC 5.4.4R*), a warning to this effect and a brief explanation of this risk;
 - (6) a brief description of what outcome the investor may expect where the *consumer composite investment* matures or is redeemed, sold, or encashed under severely adverse market conditions;
 - (7) the following information:
 - (a) whether any capital protection is available in respect of the *consumer composite investment*, including any conditions or limitations of such protection;
 - (b) if the *consumer composite investment* is exposed to issuer risk or counterparty risk, an explanation of what happens in the event of the risk crystallising;
 - (c) if the investor might be required to make additional payments, an explanation and warning of this risk; and
 - (d) if the investor is exposed to the risk of losing more than the original sum invested in the *consumer composite investment*, an explanation and warning of this risk, including an explanation of any applicable limits to that liability;
 - (8) if applicable, an explanation regarding the use of gearing as part of the *consumer composite investment's* investment strategy, including an explanation of the extent to which this increases the risk of loss and the potential for gains depending on market conditions and the rate of leverage;
 - (9) if applicable, a warning to the effect that the risk of the *consumer composite investment* may be significantly higher than the one represented in the risk score where the *consumer composite investment* is not held to maturity or for the recommended holding period;
 - (10) for *consumer composite investments* with low liquidity or not regularly priced, a warning to that effect and that it may impact the *retail client's* ability to redeem or otherwise exit their investment;

- (11) for a *consumer composite investment* with features posing material challenges to the ability of the average investor to understand its risk/reward dynamics, mechanisms, or profile, a risk warning to that effect and that this may impact the *retail investor's* understanding of the risk and rewards of the investment;
- (12) if applicable, an explanation that the investment return of a *consumer composite investment* denominated in a currency other than pounds sterling will be exposed to exchange rate risk;
- (13) for *consumer composite investments* with contractually agreed-upon early exit penalties or long disinvestment notice periods, a summary of the relevant underlying conditions; and
- (14) any applicable risk warnings provided for in *FCA rules*.

5.6.2 G An example of a risk warning in *DISC 5.6.1R(14)* is the risk warning in *COBS 4.5.16R* which is applicable to a *consumer composite investment* that is an investment in a *FIIA*.

6 Costs and charges information

6.1 Introduction

6.1.1 G This chapter sets out how a *manufacturer* must categorise and express the costs and charges associated with an investment in a *consumer composite investment*.

6.1.2 G A *manufacturer* is required by this chapter to produce the following in relation to a *consumer composite investment*:

- (1) percentages figures illustrating the impact of costs and charges on an investment in that *consumer composite investment* over the preceding 12 months;
- (2) a sterling figure representing the overall costs incurred in relation to an investment in that *consumer composite investment* for the preceding 12 months; and
- (3) certain written confirmations and narrative descriptions to assist *firms* in the distribution chain and *retail investors* in their understanding of costs and charges.

6.2 Calculation and disclosure requirements

6.2.1 R (1) The *costs and charges information* comprises all direct and indirect costs and charges associated with a *consumer composite investment*, expressed as:

- (a) the *one-off entry costs figure*;
- (b) the *one-off exit costs figure*;

- (c) the *ongoing costs figure*;
 - (d) a *transaction costs figure*;
 - (e) performance fees and carried interests; and
 - (f) the *summary costs illustration*.
- (2) The *costs and charges information* must be assessed, categorised, calculated, and disclosed in accordance with the requirements of this chapter.
- (3) The requirement in (2) is modified in relation to performance fees and carried interests, as applicable, which must be assessed, categorised, and disclosed but need not be calculated.
- (4) The *costs and charges information* also includes the explanations, descriptions, or additional information required under *DISC 6.2.13R*, *DISC 6.2.16R* and *DISC 6.2.18R*.

Categorisation

- 6.2.2 R (1) All direct and indirect costs and charges (with the exception of performance fees and carried interests) associated with an investment in a *consumer composite investment* must be allocated to one of the following categories:
- (a) *one off entry costs*;
 - (b) *one off exit costs*;
 - (c) *ongoing costs*; and
 - (d) *transaction costs*.
- (2) In allocating costs and charges in accordance with (1), a *manufacturer* must not allocate the same cost or charge to more than one category.
- 6.2.3 G The method for assessing costs and charges which are performance fees and carried interests is set out in *DISC 6.2.18R*.

Calculation: general principles

- 6.2.4 R All costs and charges categorised in accordance with *DISC 6.2.2R* must be calculated by a *manufacturer*:
- (1) using the applicable *assumed investment amount*;
 - (2) except where *DISC 6.2.7R* or *DISC 6.2.9R* applies, for the preceding 12-month period; and

- (3) on a gross basis, such that the costs and charges calculation takes account of all relevant product taxes including, but not limited to, any stamp duty or similar tax.

6.2.5 R *DISC 6.2.4R(2)* is modified in the case of *transaction costs* which must be calculated using the time periods (and related methodology) in *DISC 6.4*.

6.2.6 R In relation to a *consumer composite investment* priced or denominated in a currency other than pounds sterling, the costs and charges must be calculated in pounds sterling and accompanied by a statement of the exchange rate used to calculate them.

Calculation: misleading costs and charges

6.2.7 R (1) This rule applies where a *manufacturer* identifies that the *costs and charges information* under *DISC 6.2.1R* requires adjustment in order to comply with its obligations in *DISC 2A.1.3R* or *DISC 3.2.2R* because the *manufacturer* expects, on reasonable grounds, that future costs and charges will be materially different from those calculated for the preceding 12-month period.

- (2) Where (1) applies, the *manufacturer* may adjust the calculation of the costs and charges associated with the investment in a *consumer composite investment* as reasonably necessary to ensure the *costs and charges information* is not misleading and otherwise complies with *DISC 2A.1.3R* and *DISC 3.2.2R*.

6.2.8 G An example of a future cost or charge being materially different for the purposes of *DISC 6.2.7R(1)* is where the *manufacturer* is aware that the amount of any fee payable to a *management company, depositary* or *custodian* will change from what was charged during the preceding 12-month period.

Calculation: unknown or incomplete costs and charges

6.2.9 R (1) This rule applies in relation to a *consumer composite investment* which has been operating for less than 12 months, and for which some or all costs and charges for a full 12-month period are not yet known.

- (2) When calculating costs and charges in the circumstances described in (1) the *manufacturer* must estimate the costs and charges for a 12-month period based on:

- (i) the costs or charges set in agreements relating to the *consumer composite investment*;
- (ii) the level of costs and charges already incurred, if any; or
- (iii) where costs and charges are not set in agreements or none have yet been incurred, on its reasonable expectation of the amount of those costs and charges

- (3) The requirement in (2) does not apply in respect of *transaction costs*, which must be calculated in accordance with *DISC 6.4.8R*.
- (4) The *manufacturer* must keep the accuracy of any costs and charges figure calculated under (2) or (3) under review and must, in carrying out the review in *DISC 4.1.1R*, update and replace any *costs and charges information* based on the calculation in (2) or (3) with *costs and charges information* calculated in accordance with *DISC 6.2.4R* and *DISC 6.2.5R*.
- 6.2.10 G When estimating costs and charges in accordance with *DISC 6.2.9R(2)*, a *manufacturer* may base its estimates on the costs and charges associated with an investment in a reasonably comparable *consumer composite investment*.
- Calculation: profit sharing in insurance-based investment products
- 6.2.11 R Where the *manufacturer* of an *insurance-based investment product* pays *retail investors* a share of its profits, the *manufacturer* may calculate its *ongoing costs* and *transaction costs* net of that profit share.
- Disclosure: one-off, ongoing and transaction costs
- 6.2.12 R The *manufacturer* must express each of the following figures as a percentage of the applicable *assumed investment amount*:
- (1) the *one-off entry cost figure*;
 - (2) the *one-off exit cost figure*;
 - (3) the *ongoing cost figure*; and
 - (4) the *transaction cost figure*.
- 6.2.13 R The *manufacturer* must provide a concise, plain English description of the nature and content of each figure in *DISC 6.2.12R*.
- 6.2.14 R The *manufacturer* must provide written confirmation to a *distributor* where any of the figures referred to in *DISC 6.2.12R* is calculated as zero, confirming:
- (1) the category of costs and charges which corresponds to that figure is applicable to the type of *consumer composite investment*, but has been calculated as zero; or
 - (2) the category of costs and charges which corresponds to that figure is not applicable to the type of *consumer composite investment*.
- 6.2.15 G A *manufacturer* should consider providing the *distributor* of a *consumer composite investment* with a breakdown of the identifiable elements of *ongoing costs* and other contextual information or explanation of these costs to assist the *distributor* in ensuring the *retail investor* understands the nature and impact of those costs and charges.

- 6.2.16 R Where the benefit accruing to the ongoing holders of a *consumer composite investment* from anti-dilution mechanisms is deducted from *transaction costs* in accordance with [DISC 6.4.9R], the *manufacturer* must provide a concise explanation of this in plain English.

Disclosure: summary cost illustration

- 6.2.17 R The *manufacturer* must express the *summary costs illustration* as:
- (1) a cash amount rounded to the nearest pound sterling; and
 - (2) a percentage of the applicable *assumed investment amount*.

Disclosure: performance fees and carried interests

- 6.2.18 R In respect of a *consumer composite investment* which is subject to performance fees or carried interests, the *manufacturer* must provide the following information:
- (1) a concise explanation in plain English of how any applicable performance fees or carried interests operate;
 - (2) a summary in plain English of the applicable terms and conditions which identifies, in particular, any benchmark governing when a performance fee or carried interest will or could be applied, paid, or levied, and how they are to be calculated if due; and
 - (3) at least one example illustrating how much the performance fee and/or carried interest (as applicable) could amount to if applied, paid, or levied, based on a hypothetical investment of £10,000 and reasonable assumptions about the performance of the *consumer composite investment*.

Other DISC provisions on costs and charges

- 6.2.19 G The *firm* preparing the *product summary* for a *consumer composite investment* should refer to DISC 3.3.1R to DISC 3.3.4R for additional requirements in relation to *costs and charges information*.

6.3 One-off and ongoing costs

One-off costs: general

- 6.3.1 R (1) One-off costs are costs or charges that meet the criteria in either (2) or (3) and:
- (a) are deducted from a payment due to the *retail investor*;
 - (b) are deducted from the value of or invested amount in the *retail investor's consumer composite investment*;

- (c) in relation to *funds*, are borne by the *retail investor* and not deducted from the assets of the *fund*; or
 - (d) are paid directly by the *retail investor*.
- (2) A one-off cost in (1) is a *one-off entry cost* if it is incurred or paid upfront or upon or shortly after the *retail investor* purchasing or otherwise entering the investment in the *consumer composite investment*.
- (3) A one-off cost in (1) is a *one-off exit cost* if it is incurred or paid upon or shortly after the *retail investor* selling or otherwise disposing of the investment in the *consumer composite investment*.

One-off entry costs

- 6.3.2 R For the avoidance of doubt, the following are *one-off entry costs*:
- (1) in relation to *consumer composite investments* other than an investment in a *fund* or an *insurance-based investment product*:
 - (a) structuring costs, including market-making costs and settlement costs;
 - (b) costs for capital guarantees;
 - (c) implicit premiums paid to the issuer; and
 - (d) stamp duty or similar tax.
 - (2) in relation to *insurance-based investment products*, the full or cost part of any biometric risk premium (see *DISC 6.3.6R*).

One-off exit costs

- 6.3.3 R For the avoidance of doubt, in relation to a *consumer composite investment* other than an investment in a *fund* and an *insurance-based investment product*, the following are *one-off exit costs*:
- (1) proportional fees;
 - (2) bid-mid spread to sell the product and any explicit costs, charges or other penalties for early exit;
 - (3) costs relating to a *contract for differences*, such as:
 - (a) commissions charged by *contract for differences* providers;
 - (b) *contract for differences* trading such as bid-ask spreads, daily and overnight financing costs, account management fees and taxes;

- (4) for derivative-based *consumer composite investments*, exchange fees, clearing fees and settlement fees; and
- (5) where relevant, exit penalties depending on the holding period of the *consumer composite investment* and the exact moment when the *consumer composite investment* is cashed in.

Ongoing costs

- 6.3.4 R (1) *Ongoing costs* are direct or indirect costs or charges that are regularly deducted from:
- (a) for a *consumer composite investment* other than an investment in a *fund* or an *insurance-based investment product*, payments due to the *retail investor*, the amount invested, or the value of the *consumer composite investment*;
 - (b) for a *consumer composite investment* that is an investment in a *fund*, the assets of the *fund*, or any amount payable to the *retail investor* under distribution or equivalent arrangements; and
 - (c) for *insurance-based investment products*, all payments from or owed to the *retail investor*, or from the amount invested, or amounts that are not allocated to the *retail investor* according to a profit-sharing mechanism.
- (2) Subject to (3), *ongoing costs* include in particular:
- (a) expenses incurred in the operation of the *consumer composite investment*; and
 - (b) any payments, including remunerations, to any party connected with the *consumer composite investment* or providing services in relation to it.
- (3) The following types of costs are not *ongoing costs* for the purposes of the *ongoing costs figure* for *closed-ended investment funds*:
- (a) costs incurred in the maintenance and commercial operation of real assets; and
 - (b) debt servicing or gearing costs.
- 6.3.5 R For the avoidance of doubt, the following are *ongoing costs* for the purposes of *DISC 6.3.4R*:
- (1) in relation to *funds*:
 - (a) where a *fund* (A) (other than a *fund* where the aim of its investment policy as stated in its most recently published *prospectus* is to replicate the performance or composition of an

- index) invests its assets in other *funds* (B), any costs and charges levied by B which A will incur itself as an investor in B;
- (b) where a *fund* invests in a *consumer composite investment* other than another *fund*, any costs and charges which the *fund* will incur itself as an investor in such other *consumer composite investment*; and
 - (c) where a *fund* invests in an investment product other than a *consumer composite investment*, any costs and charges which the *fund* will incur itself as an investor in such investment product.
- (2) in relation to *insurance-based investment products*:
- (a) the full or cost part of any biometric risk premium (see *DISC* 6.3.6R);
 - (b) any amount implicitly charged on the amount invested including the costs incurred for the management of the investments of the insurance company;
 - (c) where any part of the assets of the *insurance-based investment product* are invested in a *fund*, in a *consumer composite investment* other than a *fund*, or in an investment product other than a *consumer composite investment*, *DISC* 6.3.5R(1)(a), (b) and (c), respectively, must be applied.

Biometric risk premiums – insurance-based investment products only

- 6.3.6 R (1) The cost part of biometric risk premium is the difference between the biometric risk premium charged to the *retail investor* and the fair value of the biometric risk premiums.
- (2) A biometric risk premium is a premium paid directly by the *retail investor* or deducted from the amounts credited to the *mathematical reserve* or from the participation bonus of the insurance policy and which are intended to cover the statistical risk of benefit payments from insurance coverage.
- (3) The fair value of the biometric risk premium is the expected present value, assuming a standardised net performance equivalent to the rate of SONIA (or any other equivalent risk-free rate) over the relevant period, of the future benefit payment from insurance coverage taking into account the following:
- (a) best estimate assumptions on these benefit payments derived from the individual risk profile of the portfolio of the individual *manufacturer*; and
 - (b) other payoffs related to insurance cover (for example, rebates on biometric risk premiums paid back to the *retail investors*,

increase of benefit payments and/or reduction of future premiums) resulting from profit sharing mechanisms.

- (4) Best estimate assumptions on future benefit payments from insurance coverage for the purposes of (3)(a) must:
- (a) be set in a reasonable manner by a *manufacturer*;
 - (b) for a *manufacturer* which is a *Solvency II firm*, be consistent with the assumptions used for the calculation of *technical provisions*; and
 - (c) not include prudency margins or costs for the management of the insurance cover.

6.4 Transaction costs

General

- 6.4.1 R (1) Subject to (2), *transaction costs* must be calculated on an annualised basis, based on an average of those transaction costs under this section incurred in relation to the *consumer composite investment* over the previous 36 months.
- (2) Where the *consumer composite investment* has been operating for less than 36 months, *transaction costs* must be calculated in accordance with [DISC 6.4.8R].

Application of methodologies

- 6.4.2 R *Transaction costs* incurred in relation to a *consumer composite investment* over the previous 36 months must be calculated using:
- (1) the methodology described in DISC 6.4.3R to DISC 6.4.5R for transactions in *financial instruments* where there are frequent opportunities to dispose of, redeem, or otherwise realise the investment at prices that are publicly available to market participants and that are either market prices or prices made available, or validated, by valuation systems independent of the issuer;
 - [(2) the methodology described in DISC 6.4.3R(1) as modified by DISC 6.4.6R, for transactions in *financial instruments* or other financial *investments* not referred to in (1); and
 - (3) the methodology in DISC 6.4.7R for transactions in non-financial *investments*.]
- [Editor's note: DISC 6.4.6R and 6.4.7R are marked below as being illustrative only for the purposes of this consultation]

Consumer composite investments in operation for at least 36 months

- 6.4.3 R (1) Subject to *DISC* 6.4.5R (transactions executed on an over-the-counter basis), the cost of each transaction must be calculated on the following basis, with the resulting value multiplied by the number of assets purchased or sold (as applicable):
- (a) for each purchase of an *investment* underlying the *consumer composite investment*, the price of the *investment* at the time the purchase order is transmitted to another person for execution (the purchase 'arrival price') will be subtracted from the net realised execution price of the transaction; or
 - (b) for each sale of an *investment* underlying the *consumer composite investment*, the net realised execution price of the transaction will be subtracted from the price of the *investment* at the time the order to sell is transmitted to another person for execution (the sale 'arrival price').
- (2) The 'net realised execution price' referred to in (1) is the price at which a transaction is executed, including all charges, commissions, taxes and other payments (such as anti-dilution levies) associated with the transaction, either directly or indirectly, where those payments are made from the assets of the *consumer composite investment*.
- (3) The arrival price must be determined in accordance with the following methodology:
- (a) the arrival price will be the mid-market price of the *investment* at the time when the order to transact is transmitted to another person;
 - (b) for orders that are transacted on a day that is not the day that the order was originally transmitted to another person, the arrival price will be determined as the opening price of the *investment* on the day of the transaction or, where the opening price is not available, the previous closing price;
 - (c) where a price is not available at the time when the order to transact is transmitted to another person the arrival price will be determined as the most recently available price or, where a recent price is not available, a justifiable independent price or, where a justifiable independent price is not available, the opening price on the day of the transaction or, where the opening price is not available, the previous closing price;
 - (d) where an order is executed without being transmitted to another person, the arrival price will be determined as the mid-market price of the *investment* at the time when the transaction was executed;
 - (e) where information about the time when the order to transact is transmitted to another person is not available (or not available to

a sufficient level of accuracy), or where information about the price at that time is not available, a justifiable independent price may be used as the arrival price or, where a justifiable independent price is not available, the opening price of the investment on the day of the transaction or, where the opening price is not available, the previous closing price.

- (4) *Transaction costs concerning financial instruments* that fall within one of the categories referred to in paragraphs 4 to 10 of Part 1 of Schedule 2 to the *Regulated Activities Order* must be calculated in the following way:
- (a) for *financial instruments* that are standardised and which are regularly traded:
 - (i) transaction costs must be calculated with reference to the *financial instrument* itself; and
 - (ii) The arrival price must be determined as the mid-price of the *financial instrument*;
 - (b) for linear *financial instruments* that are customised and where there is no price transparency or regular trading in the *financial instrument* itself:
 - (i) transaction costs must be calculated with reference to the underlying asset(s);
 - (ii) the arrival price must be calculated based on the price(s) of the underlying assets, using appropriate weightings if there is more than one underlying asset; and
 - (iii) where the cost of transacting in the *financial instrument* is materially higher than the cost of transacting in the underlying asset, this must be reflected in the transaction cost calculation;
 - (c) for non-linear *financial instruments*, the transaction costs must be calculated in accordance with:
 - (i) the way described in (b); or
 - (ii) in terms of implicit costs, meaning the difference between the price paid or received for the *financial instruments* and the fair value of the instrument, using the methodology described in [DISC 6.5.2R and DISC 6.5.3R].

[Editor's note: DISC 6.5 (implicit costs) is marked below as being illustrative only for the purposes of this consultation]

- 6.4.4 R In calculating the costs associated with:
- (1) foreign exchange, the arrival price must reflect a reasonable estimate of the consolidated price which must not be the price available from a single counterparty or foreign exchange platform, even if an agreement exists to undertake all foreign exchange transactions with a single counterparty;
 - (2) orders that are initially entered into an auction, the arrival price must be calculated as the mid-price immediately prior to the auction;
 - (3) orders that are executed at a pre-determined time, the arrival price must be calculated at that pre-determined time, even if the order has been transmitted for execution before that time.

Transactions executed on an over-the-counter basis

- 6.4.5 R (1) *DISC* 6.4.3R does not apply in respect of transactions executed on an over-the-counter basis, for which the *transaction costs* must be calculated in the following way:
- (a) where a transaction is executed after bid prices and offer prices have been obtained from more than one potential counterparty, the arrival price must be determined as:
 - (i) the mid-point between the best bid price and best offer price, where the best bid price is below the best offer price;
 - (ii) the best bid price in the case of a sale or the best offer price in the case of a purchase, where the best bid price is higher than the best offer price;
 - (b) Where a transaction is executed without both bid prices and offer prices having been obtained, the transaction cost must be calculated by multiplying the number of units transacted by half the value of the spread between the bid price and the offer price of the *financial instrument*, with value of that spread calculated on the following basis:
 - (i) from a composite of live market bid/offer quotes, where available; or
 - (ii) where live market quotes are not available they must be obtained by reference to spreads from either:
 - (A) previous transactions in assets bearing similar characteristics (including duration, maturity, coupon and call-/put-ability) and liquidity, using transactions previously executed by the *manufacturer*; or

- (B) data verified by an independent third party or an asset valuation from an independent third party.

[*Editor's note:* For the purposes of this consultation, the drafting of DISC 6.4.6–4.6.9, and DISC 6.5 is provided on an illustrative basis only. The text follows the position in equivalent provisions of the Commission Delegated Regulation 2017/653 (assimilated law) which will be amended for consultation at a later date.]

Other assets

- 6.4.6 R (1) Where *DISC* 6.4.2R(2) applies, the arrival price for a sale or purchase using the methodology in *DISC* 6.4.3R must be calculated as follows:
- (a) the arrival price must be calculated as the previous independent valuation price of the *investment*, adjusted for market movements, where appropriate, using an appropriate benchmark index; or
 - (b) where a previous independent valuation price is not available, the transaction costs must be estimated based on the difference between the transaction price and an appraisal of the fair value of the *investment* prior to the sale or purchase (as applicable).
- (2) The transaction cost estimate for *financial instruments* or financial *investments* to which *DISC* 6.4.2R(2) applies must not be less than the amount of actual identifiable costs directly associated with the transaction.
- 6.4.7 R (1) When calculating the costs associated with non-financial *investments*, the *transaction costs* must be calculated as the aggregate of the actual costs directly associated with that transaction, including all charges, commissions, taxes and other payments (such as anti-dilution levies), where those costs are made from the assets of the *consumer composite investment*.
- (2) In the case of cost depreciation over a period specified in the *consumer composite investment's* accounting policies, actual costs shall be equal to the cost amounts depreciated over the last 36 *months*.

Consumer composite investments in operation for less than 36 months

- 6.4.8 R (1) For *consumer composite investments* that have been operating for less than 36 *months* and that invest predominantly in *financial assets* referred to in *DISC* 6.4.2R(1), *transaction costs* may be calculated either:
- (a) by multiplying an estimate of portfolio turnover in each asset class with the costs calculated according to the methodology referred to in (2) below, or

- (b) as an average of the *transaction costs* incurred during the period of operation and a standardised estimate on the basis of the methodology in (4).
- (2) The methodology to be used differs depending on the asset class and must be determined as follows:
- (a) For the asset classes indicated in Column A of the Table in (3):
 - (i) transaction costs must be calculated as the average of the estimated cost of transaction (based on bid-ask spreads divided by two) for the relevant asset class under normal market conditions;
 - (ii) to estimate the cost, one or more reference indexes must be identified for each asset class. Then, the average bid-ask spreads of the underlying indexes must be collected; and
 - (iii) the bid-ask spreads collected must then be divided by two to obtain the estimated cost of transaction for each point in time. The average of those values is the estimated cost of transaction in each asset class under normal market conditions;
 - (b) For asset classes indicated in Column B of the Table in (3), *transaction costs* must be estimated either by using comparable information or by adding estimates of explicit costs to estimates of half the bid-ask spread, using the methodology described in (a);
 - (c) For asset classes indicated in Column C of the Table in (3):
 - (i) the transaction cost is the average of the observed cost of transaction (based on bid-ask spreads divided by two) in this asset class under normal market conditions; and
 - (ii) when identifying the observed cost of transaction, results of a panel survey may be taken into account.
- (3)

Table: asset classes for DISC 6.4.8R(2)		
Column A	Column B	Column C
Government bonds and similar instruments	Money market instruments (excluding money market funds)	Over-the-counter (OTC) (exotic options)

(developed market rating AAA-A)		
Government bonds and similar instruments (developed market rating below A)	Large-cap shares (developed markets)	OTC (plain vanilla options)
Government bonds emerging markets (hard and soft currency)	Mid-cap shares (developed markets)	OTC (interest rate swaps (IRS), credit default swaps (CDS) and similar)
Investment grade corporate bonds	Small-cap shares (developed markets)	OTC (swaps and similar instruments, other than IRS, CDS and similar)
Other corporate bonds (including high-yield corporate bonds)	Large-cap shares (emerging markets)	OTC (foreign exchange (FX) forwards – developed markets)
	Mid-cap shares (emerging markets)	OTC (FX forwards – emerging markets)
	Small-cap shares (emerging markets)	
	Listed derivatives	

- (4) Where the approach in (1)(b) is elected, a standardised estimate must be produced by:
- (a) calculating the transaction costs on the basis described in *DISC* 6.4.3R and *DISC* 6.4.4R for the highest multiple of six *months* that the *consumer composite investment* has been operating; and
 - (b) for the remaining period up to 36 *months*, estimating the *transaction costs* by multiplying an estimate of portfolio turnover in each asset class according to the methodology in (2).
- (5) Estimates of portfolio turnover for a *consumer composite investment* that has been operating for less than 12 *months* must be made on a consistent basis with the investment policy disclosed in the offering documents.
- (6) Estimates of portfolio turnover for a *consumer composite investment* that has been operating for more than 12 *months* must be consistent with actual portfolio turnover.

- (7) For *consumer composite investments* that have been operating for less than 36 months and that invest predominantly in assets other than assets as referred to in *DISC 6.4.2R(1)*, the *manufacturer* must estimate the transaction costs on the basis of the fair value method using comparable assets.
- (8) Notwithstanding *DISC 6.4.3R* and *6.4.4R*, transaction costs may be calculated using the methodology described in *DISC 6.4.8R(1)(b)* where one or more of the following conditions is met:
- (a) a *consumer composite investment* undertook a reasonably low number of transactions over the previous 36 months;
 - (b) the total value for all transactions undertaken over the previous three years accounts for a reasonably low percentage of the net asset value of the *consumer composite investment*;
 - (c) the estimate of total transaction costs is not significant as compared to the estimate of the total costs.

Treatment of anti-dilution mechanisms

- 6.4.9 R (1) Subject to (2), where a *consumer composite investment* has a pricing mechanism that offsets the impact of dilution from transactions in the *consumer composite investment* itself, the amount of benefit accruing to the ongoing holders of the *consumer composite investment* from anti-dilution mechanisms may be deducted from the *transaction costs* incurred within the *consumer composite investment*.
- (2) The anti-dilution benefit may only be taken into account to the extent that the benefit does not take the *transaction costs figure* below zero.

6.5 Implicit costs

Application and methodology

- 6.5.1 R This section applies for the purposes of calculating implicit costs referred to in *DISC 6.4.3(4)(c)(ii)* (Consumer composite investments in operation for at least 36 months).
- 6.5.2 R (1) To calculate implicit costs embedded in *consumer composite investments*, the *manufacturer* must refer to the issue price and, after the subscription period, to the price available to purchase the product on a secondary market.
- (2) The difference between the price and the fair value of the product is considered as an estimation of the total entry costs included in the price.

Fair value

- 6.5.3 R (1) For the purposes of this section, fair value is the price that would be received to sell an *investment* or that is paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions regardless of whether that price is directly observable or estimated using another valuation technique.
- (2) The fair value policy that governs the measurement of the fair value must set governance and a methodology for the calculation of fair value, including in particular a valuation process that:
- (a) complies with the applicable accounting standards in relation to fair value;
 - (b) makes sure that internal pricing models for *consumer composite investments* other than *funds* and *insurance-based investment products* are consistent with the methodologies, modelling and standards used by the *manufacturer* to value its own portfolio under the hypothesis that the product is available for sale or held for trading;
 - (c) is consistent with the level of complexity of the product and the type of underlying *investment*;
 - (d) takes into account the issuer credit risk and the uncertainty about the underlying *investment*;
 - (e) sets the parameters to identify an active market to avoid risk mispricing;
 - (f) maximises the use of relevant observable market inputs; and
 - (g) minimises the use of unobservable inputs.
- (3) The fair value of a structured product must be based on:
- (a) market prices, where available or efficiently formed;
 - (b) internal pricing models using as an input market values which are indirectly connected to the product, derived from products with similar characteristics (comparable approach);
 - (c) internal pricing models based on inputs which are not derived directly from market data for which estimations and assumptions must be formulated (mark-to-model approach).
- (4) If the fair value cannot be derived from market prices, it must be calculated using a valuation technique that is able to accurately represent the different factors affecting the product payoff structure.

- (5) In determining the valuation technique referred to in (4) the following must be taken into account according to the complexity of the *consumer composite investment*:
 - (a) the use of recent arm's length market transactions between professional counterparties;
 - (b) reference to the current market price of another instrument that is substantially the same; and
 - (c) the use of an appropriate discounted cash-flow model where the likelihood of each cash-flow is determined using an appropriate model of asset price evolution.
- (6) In the case of subscription products, the fair value must be calculated on a date close to the beginning of the subscription period when the product terms are determined.
- (7) Where preliminary terms are used, costs must be calculated by using the minimum terms of the *consumer composite investment*.
- (8) Where variable subscription prices are used, a procedure on how to incorporate and disclose the cost effect of the varying subscription price must be defined.

DISC TP 1 (Transitional provisions) is deleted in its entirety. The deleted text is not shown but the chapter is marked [deleted] as shown below.

TP1 Transitional provisions [deleted]

