

EAC Standard Communication

The ASISA Board on 7 August 2015 approved the implementation of the ASISA Standard on Effective Annual Cost (EAC) effective 1 June 2016, with members to complete first phase implementation by 1 October 2016.

ASISA members are committed to operating within the Treating Customers Fairly six outcomes framework. In seeking to achieve these outcomes, ASISA members have developed the Effective Annual Cost measure (EAC), a standardized disclosure methodology that can be used by consumers and advisors to compare charges on most retail investment products, and their impact on investment returns, across the various regulatory wrappers so that consumers are placed in a position to make better informed decisions around retail savings and investment product choices. The EAC is a measure of the charges that an investor will likely incur in purchasing and holding a financial product, and does not attempt to measure the features of a financial product.

The EAC has significant potential benefits as it is probably a world first in its comparative scope and cost transparency. ASISA has consulted with the major Intermediary Bodies and all would like to see the Standard implemented as soon as possible. Feedback from consumer interaction has also been very positive with the enhanced comparability and standardization seen as a major benefit.

In developing the Standard, given that its aim is to enhance transparency and comparability for customers, we have been mindful of an overriding priority – to keep the Standard as simple as possible to enable understandability by intermediaries and customers. We engaged independent actuaries to test the methodology used in the Standard and are satisfied that the EAC is a meaningful, useful cost disclosure tool, of which ASISA is very proud.

An indication of members' commitment to the introduction of the measure is the number of years that it has taken to develop it, and the substantial cost

that implementation will entail. The EAC Standard will evolve and improve as implementation rolls out and feedback is received.

The Standard sets out the minimum disclosure requirements in addition to the disclosures required in terms of the relevant legislation.

The Standard applies to participatory interests in collective investment schemes (including foreign collective investment schemes duly approved for marketing in South Africa), contracts under a linked investment services provider license, all insurance contracts (other than pure risk-based insurance contracts) and products wrapped in a life wrapper, and memberships of retirement annuity funds and preservation funds. These are collectively referred to as “Financial Products” for the purposes of the Standard.

Where any other financial products, not falling into the definition of “Financial Products” above, are made available to retail customers, ASISA members should comply with the provisions of this Standard.

The Standard is principle based and all charges that an investor incurs over the lifetime of the product are included in the EAC measure for that Financial Product. Where a charge is not available, a reasonable best-estimate must be used and explained in the free text notes.

The EAC comprises four separate components into which various charges are allocated. The components are:

- investment management charges;
- advice charges;
- administration charges; and
- other charges.

The EAC is calculated separately for each of the four components in isolation and then summed to derive the EAC for the Financial Product as a whole. The

value for each of the components, as well as the total EAC, is to be displayed in a table at four mandatory disclosure periods. All values are to be shown in percentages.

The Investment Management Charge:

The investment management component includes all costs and charges for all underlying investments, as set out in the “ASISA Standard: Calculation and Disclosure of Total Expense Ratios and Transaction Costs”. In the absence of a TER or Transaction Costs, an equivalent charge calculated according to the principles in the “ASISA Standard : Calculation and Disclosure of Total Expense Ratios and Transaction Costs” should be utilised.

The Advice Charge:

All charges that an investor incurs for the provision of financial planning by an adviser or representative (as defined in FAIS) are included in the Advice component. Where the adviser charge is not facilitated by the provider, or the investor has not engaged the services of an adviser, the Advice Charge must be reflected as 0.0%. In such a case, a footnote must be included explaining that as no advice fee has been supplied none could be included in the calculation.

The Administration Charge:

The administration charge component includes all charges that an investor incurs relating to the administration of a Financial Product. Termination charges, exit penalties, loyalty bonuses or any similar structure are excluded from the administration charge calculation.

The Other Charges:

The Other calculation is only shown if not a zero value and should include all termination charges, penalties or loyalty bonus payments that are reasonably foreseen if the investor terminates his or her contract and withdraws all of the funds at the end of the disclosure period. In essence it is the “catch all” to contain any remaining charges that will be levied against a Financial Product.

EXAMPLE OF AN EAC TABLE

(Note : The values used in the example are for illustration only. The format of the table and paragraph above the table are mandatory. The wording beneath the table provides an example of the type of explanations which may relate to a particular product as required by the Standard. It is mandatory to use four time periods being 1,3,5 years and end of term where there is a specified term, or ten years if no term or age 55 term in the case of a Retirement Annuity or other retirement product.)

EFFECTIVE ANNUAL COST: XYZ PRODUCT OF COMPANY ABC

The Effective Annual Cost (EAC) is a measure which has been introduced to allow you to compare the cost you incur when you invest in different financial products. It is expressed as a percentage of your investment amount. The EAC is made up of four charges, which are added together, as shown in the table below. Some of the charges may vary, depending on your investment period. The EAC calculation assumes that an investor terminates his or her investment in the financial product at the end of the relevant periods shown in the table.

Charges	1 Year	3 Years	5 Years	Term to maturity xx years.
Investment management ²	1.1%	1.1%	1.1%	1.1%
Advice	0.5%	0.5%	0.5%	0.5%
Administration ¹	0.9%	0.9%	0.9%	0.9%
Other ^{3,4}	0.3%	0.3%	0.3%	0.0%
Effective Annual Cost	2.8%	2.8%	2.8%	2.5%

Explanations to be in plain language appropriate to the Target Market:

¹ Includes a rebate of 0.5% from the investment manager.

² A reasonable best estimate has been used for transaction charges.

³ A catch-all, which measures any remaining charges that you may incur, such as wrap fund and termination charges.

⁴ You are eligible for transactional banking at a cost of 0.15%, which is included in the cost of this product. For more details, please refer to the product brochure.

Notes:

As an investor of Company ABC, you will receive a 10% discount on the premiums of your life insurance with Company LMN. Any costs or benefits provided to you through Company LMN have been excluded from the calculation of your EAC, as they accrue outside of this financial product.

If you cancel or withdraw your investment from this financial product at any time, you will sacrifice the 10% discount referred to above, and you will be charged the prevailing premium on your life insurance with Company LMN. In addition, Company LMN will charge you R250 to amend your contract.

All calculations include value-added tax (VAT) at the prevailing rate, where applicable.

Where applicable, inflation has been taken into account when calculating the EAC.