EAC Standard: Q and A

1) **What is the EAC (Effective Annual Cost) Standard and what does it aim to achieve?**
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.

2) **By when and by whom will it be implemented?**
ASISA Standard on Effective Annual Cost (EAC) first phase implementation by members is to be completed by 1 October 2016.

3) **Does the Standard replace other disclosure requirements?**
No, the Standard sets out the minimum disclosure requirements in addition to the disclosures required in terms of the relevant legislation.

4) **What is the Scope of the Standard?**
This 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 the Standard.

5) **How will the Measure be disclosed?**
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. All charges that an investor incurs and will incur over the relevant period are to be 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 Investment Management Charge:
The investment management component includes all costs and charge 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 Charge:
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.

6) **Where will the cost disclosure measure be disclosed?**
The measure is to be disclosed in point of sale client documentation such as but not limited to quotations and proposals. At all times members should make every effort to ensure that the EAC is available at point of sale, including direct sales. Where clients initiate the investment directly Members would need to take client interest into account and not unnecessarily delay implementation if it would prejudice the client.

7) **What will the Disclosure Look Like?**
Disclosure table examples are provided for in the Standard. The values used in the examples are for illustration only. The format of the table and the paragraph above the table are mandatory. The wording beneath the table provides examples of the type of explanations 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.

8) **What about existing Financial Products?**
The Standard makes provision for phased implementation for existing products. A provider must disclose the EAC of that Financial Product on an annual basis and whenever a Qualifying Event takes place. Qualifying Events are limited to any additional investments into an existing product whether by way of a recurring premium increase or lump sum; changes in intermediary remuneration charges; Section 14 and Directive 135 transfer benefits. Non-qualifying events include: annual contractual premium increases; premium reductions/terminations; a discontinuance or termination of a Financial Product; and withdrawals of investments. Providers must also be able to provide an EAC for all Financial Products on request.

9) **Foreign Registered Products Approved and Marketed in SA?**
If marketed in South Africa by an ASISA Member then adherence to the EAC Standard is required.

10) **What will happen to the ASISA Code on Policy Quotations?**
The Code will be stood down in its entirety once the EAC Standard is implemented. The ASISA Life and Risk Board Committee have reviewed the Code and issues not covered by the EAC Standard have either been superseded by regulation or will be covered in an ASISA Standard on Premium Reviews, scheduled to be finalised prior to 1October 2016.