

“the Disciplinary Committee” means the Disciplinary Committee established under Chapter VII of Part VII of these Rules;

“the Financial Services (Cancellation) Rules” means the Financial Services (Cancellation) Rules 1988 or any Rules replacing those Rules;

“group” in relation to a body corporate (except in the expression “marketing group”) means that body corporate, any other body corporate which is its holding company or subsidiary and any other body corporate which is a subsidiary of that holding company, and section 736 of the Companies Act 1985 (meaning of subsidiary and holding company) shall apply for the purposes of this definition;

“investment contract” means any long term insurance contract or any contract for the sale of units in a collective investment scheme which is an authorised unit trust or is a recognised scheme by virtue of section 86, 87 or 88 of the 1986 Act (including shares in or securities of an open-ended investment company) but, in relation to any Member, does not include any contract which does not form part of that Member’s relevant investment business;

“investor”, in relation to a Member or a company representative, means a person to whom advice is given about investment contracts of that Member or, if that Member is a marketing associate, of any body in the same marketing group or to whom any such contract is or may be sold by a company representative, but does not include an independent intermediary or journalist (when acting as such);

“the Lautro Rules” means the Rules from time to time made by the Board (including these Rules);

“marketing” in relation to an investment, includes anything which is ancillary to the marketing of that investment and also includes the giving of advice with respect to the exercise of any rights subsisting under the contract for the sale of the investment after the contract has been made;

“marketing associate” means a body, other than an appointed representative, which is a member of a group and which markets investment contracts issued by other members of the same group which are or are eligible to be Members of Lautro, but which does not market any other investment contracts or enter into any such contract in its own behalf, disregarding investment contracts as respects the marketing or making of which the body is an authorised person (otherwise than by virtue of its membership of Lautro);

“marketing group” shall be construed in accordance with paragraphs (3) to (7) below;

“Member” means a Member of Lautro;

“month” means a calendar month;

“notice” means notice in writing;

“portfolio management” means the managing, in pursuance of a written agreement, of an investor’s fund by making investments for the investor, and from time to time reviewing such investments and making such changes in them as appears to the person carrying on the business or any agent or employee of his to be necessary or desirable in the interests of the investor, but does not include the management of funds specifically invested in one or more identified collective investment schemes unless such management includes power from time to time to vary the proportions in which the fund is invested in such schemes;

“the prescribed rate” means such rate as the Board may from time to time prescribe for the purposes of the provision in question; and

- (b) to the Secretary of State, the Chief Registrar of Friendly Societies, the Registrar of Friendly Societies for Northern Ireland, the Securities and Investments Board, any other recognised self-regulating organisation or any recognised professional body for the purposes of any of their functions under any enactment or under any orders, rules or regulations or other instrument made under any enactment or to any other person or body having responsibility for the supervision or regulation of investment business or other financial services, whether in or outside the United Kingdom;
- (c) for the purposes of any investigation or inquiry or other proceedings under any other Act relating to any business carried on by any Member of Lautro;
- (d) for the purposes of any criminal proceedings, including investigations for the purpose of determining whether to institute any criminal proceedings;
- (e) in a report made in pursuance of Rule 7.18(6).

Force majeure, etc

- 1.4.** (1) If any event happens or any circumstances arise which make it impossible or impracticable for a Member to comply with any obligation imposed on it by these Rules, the Member shall forthwith give notice (which may be oral if it is impractical to give written notice) to the Board of that event or those circumstances and specify what steps (if any can be taken) the Member proposes to take to deal with the emergency.
- (2) If the Member gives notice to the Board under paragraph (1) above and the happening of the event or the arising of the circumstances was outside the control of the Member or of any associate of the Member or of any employee of the Member or of an associate of the Member, the Member shall not, so long as the emergency subsists and the Member is expeditiously taking all practicable steps available to it to relieve the emergency (whether specified in the notice or not), be regarded as being in breach of any of these Rules to the extent that in consequence of the emergency it has become impossible or impracticable to comply with that Rule.
- (3) In paragraph (2) above “**associate**”, in relation to any Member, has the same meaning as in the Financial Services (Conduct of Business) Rules 1987, taking “**firm**” in those Rules as meaning the Member.
- 1.5.** (1) The Board may on the application of a Member alter, subject to such conditions (if any) as the Board think fit, the requirements of any of the Lautro Rules so as to adapt them to that Member’s circumstances or to any particular kind of business carried on by him or to be carried on by him.
- (2) The Board shall not exercise their powers under this Rule unless it appears to the Board that -
- (a) compliance with the requirements in question would be unduly burdensome for the Member having regard to the benefit which compliance would confer on investors; and
 - (b) the exercise of those powers will not result in any undue risk to investors.
- (3) The Board shall, before exercising their powers under this Rule in any case, give the Securities and Investments Board particulars of the case and the proposed alterations to the Rules.

Regulated insurance companies and friendly societies

- 1.6. Without prejudice to any other provision of the Lautro Rules, before any action is taken in pursuance of these Rules which might adversely affect the solvency of a regulated insurance company or friendly society or otherwise have a material and adverse effect on the financial position of a regulated insurance company or friendly society, the Board shall ensure that notice of the proposed action is given to the appropriate regulatory body.

- (2) A Member shall -
- (a) where an investor has purchased an investment contract on the recommendation of a company representative and, in connection with that purchase and for any reason, has to the knowledge of the Member or the company representative concerned, cancelled, converted or allowed to lapse another investment contract or has realised an investment under an investment contract keep a record of the reason for that cancellation, conversion, lapse or realisation; and
 - (b) keep records relating to the persistency of business so far as that business consists of policies under which regular premiums are payable (within the meaning of Part I of Schedule 3 to these Rules) obtained through company representatives, and such records shall be kept by reference either to the company representative who obtained the business originally or the company representative who collects the premiums (if different), as the Member thinks fit.
- (3) A Member shall keep a record of -
- (a) the service on the Member of a notice under the Financial Services (Cancellation) Rules of the cancellation of an investment contract; and
 - (b) the date on which such service first came to the knowledge of the Member.
- (4) A Member shall keep records of -
- (a) training given to its company representatives and of examinations passed by those representatives relevant to their position as such; and
 - (b) the class or classes of investment contracts which each company representative or class of company representative is or are authorised to sell.
- (5) A Member shall keep copies of any references taken up at the time of a person's appointment as company representative, or, if the reference was given by telephone, a note of the reference, and of all other records relating to his appointment as such and to the termination of his appointment until the expiry of the period of 7 years following that termination.
- (6) A Member shall ensure that all records kept in pursuance of this Rule are kept in a readily accessible form.
- (7) Records kept in pursuance of paragraphs (1) to (3) above shall be kept for a minimum period of three years.
- (8) Records kept in pursuance of paragraph (4)(a) shall be kept at least until the end of the three year period which begins with the termination of the appointment of the company representative in question, and those kept in pursuance of paragraph (4)(b) shall be kept for a minimum period of three years.
- (9) In the case of a marketing group, the records required by paragraph (4)(a) and (5) above need not be kept by every member of the group provided that at least one member (which is a Member of the group) keeps those records.

Confidentiality

- 3.12.** A Member shall treat all information which it receives in the course of its relevant investment business from an investor or which relates to an investor as confidential; but this Rule shall not prohibit the Member from disclosing information to Lautro or in so far as it may be necessary for the purpose of obtaining medical reports or reinsurance.

Execution of business without undue delay

- 3.13.** A Member which receives and accepts, in the course of its relevant investment business, an instruction to effect a transaction on behalf of an investor shall do so at such time as the investor has stipulated in his instruction or, if no such time is stipulated, without undue delay.

Disclosure of income from unit trusts

- 3.14.** A Member shall not publish or cause to be published to any person any forecast of the future income likely to be derived from investment in units of a collective investment scheme unless -

- (a) the forecast is based on-
 - (i) actual amounts of income received at the time it is made and which will be included in a future distribution, and
 - (ii) assumed amounts of income which is expected to be received after the date on which the forecast is published based on an extrapolation from past experience which the Member reasonably believes to be justified, and
- (b) to the extent that the forecast is based on other factors, those factors are relevant, and are fairly taken into account in arriving at the forecast, and
- (c) the Member reasonably believes that the forecast is not misleading.

In this Rule "forecast" includes any statement or estimate, however described.

PART V

PRODUCT DISCLOSURE AND DISCLOSURE OF COMMISSION

General interpretative provisions

- 5.1. (1) This Part of these Rules shall come into force on 1st July 1988.
- (2) In this Part of these Rules -
- “**appropriate personal pension scheme**” has the same meaning as in Part I of the Social Security Act 1986;
- “**a cancellation notice**” means a notice of the right to cancel given in accordance with the Financial Services (Cancellation) Rules;
- “**cash value**”, in relation to units in a unit trust at any time, means the amount which the managers of the unit trust would pay the investor if the investor were to sell the units to the managers at that time;
- “**commencement date**”, in relation to an investment contract which is proposed to be made, means the date on which it is proposed that the contract should commence;
- “**endowment type assurance**” means a contract of insurance which secures a capital sum payable on survival for a specified term or either on survival for a specified term or on earlier death, or on earlier death **ordisability**, including a contract securing the sum on death only if occurring after the attainment of a specified age not exceeding 16, but does not include any contract effected as part of a personal pension scheme or an occupational pension scheme;
- “**future benefit**” has the meaning given by Rule 5.3(3);
- “**given**” includes sent;
- “**Holloway sickness policy**” means a policy offered or issued by a friendly society under the Holloway system;
- “**linked benefit**” means a benefit payable under a life policy or a unit trust the amount of which is determined by reference to -
- (i) the value of property of any description (whether specified or not);
 - (ii) fluctuations in the value of any such property;
 - (iii) income from any such property; or
 - (iv) fluctuations in an index of the value of any such property;
- “**pension contract**” means a personal pension scheme, a self-employed deferred annuity (as defined in Part I of Schedule 3 to these Rules) or an occupational pension scheme which provides for the payment of an additional contribution as mentioned in paragraph 15(b) of Part I of that Schedule;
- “**personal pension scheme**” has the meaning given in paragraph 14 of Part I of Schedule 3 to these Rules;
- “**policy**” includes a contract of assurance offered or made by a friendly society where a policy evidencing the contract is not issued, and references in this Part to the issuing of a policy shall, in such a case, be construed as references to the making of the contract;
- “**professional investor**” has the meaning given by paragraph (5) below;
- “**projection**” and “**projection date**” have the meanings given by Rule 5.3;
- “**projection tables**” means such tables as may be for the time being prescribed as projection tables by the Board for the purposes of this Part, and, in relation to an investment contract of any class, a projection table is appropriate if it is prescribed by the Board as being appropriate to investment contracts of that class;

“protected rights annuity”, in relation to a personal pension scheme, means the annuity for which the scheme provides (or would provide, where the investor is not a member of the scheme) in order to give effect to the investor’s protected rights; and in relation to any such annuity, expressions used in this Part of these Rules and in Schedule 1 to the Social Security Act 1986 shall have the same meanings for the purposes of this Part as they have for the purposes of that Schedule;

“retirement fund”, in relation to any investment contract, means the amount+ which will be available under the contract, at the date on which the investor retires, for the provision of benefits;

“surrender value” has the meaning given by Rule 5.3(4);

“term assurance” means any long term insurance contract which is a contract of insurance on human life under which no benefit is payable (by virtue of any express or implied provision) except-

- (a) on the death within a specified period of a person whose life is insured under the contract; or
- (b) on the death within a specified period of such a person during or after the lifetime of another specified person, or the lifetimes of other specified persons as the case may be,

but disregarding for this purpose any benefit payable on surrender;

“unit trust” means an authorised unit trust or a collective investment scheme recognised by virtue of section 86, 87 or 88 of the 1986 Act;

“unit trust savings scheme” means an agreement or arrangement under which an investor purchases units in a unit trust at intervals laid down in the agreement or arrangement for amounts of money which, under the agreement or arrangement, the investor is to invest in the unit trust at those intervals; and

“whole life assurance” means a contract of insurance which, disregarding any benefit payable on surrender, secures a capital sum only on death or either on death or on disability, but does not include a term assurance.

- (3) Subject to any express provision to the contrary, references in the following provisions of this Part to an occupational pension scheme are references to an occupational pension scheme as defined in paragraph 11 of Part I of Schedule 3 to these Rules (including an annuity contract approved by virtue of section 591(2)(g) of the Income and Corporation Taxes Act 1988), other than an occupational pension scheme which provides for the payment of an additional contribution as mentioned in paragraph 15(b) of Part I of Schedule 3 to these Rules.
- (4) References in this Part to a **“premium”** (except in the expression **“the relevant premium”**), a **“single premium”** and a **“regular premium”** shall be construed in accordance with paragraph 18 of Part I of Schedule 3 to these Rules.
- (5) In this Part **“professional investor”**, in relation to any services provided by a Member, means a person who carries on investment business (including a person treated as carrying on investment business by virtue of section 191 of the 1986 Act) and for whom those services are provided in the course of his carrying on that investment business.
- (6) Where a member and an investor enter into more than one investment contract on the same day and the terms of all the contracts are identical, or a company representative or an independent intermediary recommends that an investor should enter into a number of identical investment contracts on the same day with the same Member, any provision of this Part requiring or permitting any projection, information or notice to be given to the investor shall be taken to be complied with in relation to all the contracts if the projection, information or notice is given (in accordance with the provision in question) in relation to any one of them or if it is given in relation to a notional contract the premiums payable under which are equal to the aggregate of the premiums payable under all the contracts and the benefits under which are equal to the benefits under them all, correspondingly aggregated (the other terms being the same as in the individual contracts).

- (7) Any reference in this Part to a guaranteed benefit under a policy includes a reference to a benefit payable under a policy issued by a friendly society the amount of which is guaranteed subject only to any alteration in that amount which may be required to be made in direct consequence of any future change in the rules of the society.
- (8) This Part shall apply (with any necessary modifications) in relation to a policy some but not all of the benefits payable under which are linked benefits as if the policy were two policies one of which is a policy under which the only benefits payable are those linked benefits and the other of which is a policy the only benefits payable under which are those which are not linked benefits.
- (9) Any reference in this Part to the Social Security Act 1975, the Social Security Pensions Act 1975 or the Social Security Act 1986 or to any provision of any of those Acts includes a reference to the corresponding provision in Northern Ireland.

Exclusion of certain investment contracts and Inland Revenue limits

- 5.2. (1) Subject to paragraph (2) below, Rules 5.3 to 5.13 do not apply in relation to a defined benefit scheme, that is to say, an occupational pension scheme under which none of the principal benefits to which the members of the scheme are entitled are money purchase benefits (within the meaning of the Social Security Pensions Act 1975), or in relation to any such benefits.
- (2) Rule 5.12 shall apply in relation to the following benefits payable under an occupational pension scheme which is a defined benefits scheme, that is to say, money purchase benefits which are funded wholly or in part by additional voluntary contributions paid under the scheme.
- (3) Rules 5.3 to 5.13 do not apply in relation to an investment contract which (disregarding Rule 1.2(2)) falls within Note 1 of paragraph 10 of Schedule 1 to the 1986 Act.
- (4) Nothing in this Part shall be taken to prevent a Member from determining the maximum contribution allowed by the Inland Revenue rules, or from disclosing the assumptions used in calculating that contribution.

Projections and surrender values

- 5.3. (1) References in this Part to a projection -
 - (a) are references to the amount of any future benefit payable under an investment contract, being a benefit the amount of which is not ascertainable under the terms of the contract when the calculation is made; and
 - (b) where the appropriate projection tables or Schedule 4 to these Rules requires two or more projections to be calculated for any benefit, include references to each such projection.
- (2) In this Part -
 - (a) **“the projection date”** means -
 - (i) in relation to a unit trust savings scheme which is not a pension contract, the tenth anniversary of the date on which the first purchase of units under the scheme was made;
 - (ii) in relation to units in a unit trust which is not a unit trust savings scheme or a pension contract, the tenth anniversary of the date on which those units were purchased;

- (iii) in relation to a whole life assurance, the tenth anniversary of the commencement of the policy, and also, if it is a with-profits whole life assurance other than a policy falling within Rule 5.6(1)(c), which commences before the person whose life is assured has reached the age of 60, the first anniversary of the commencement of the policy falling after he has reached the age of 75 (taking for this purpose, where there are two such persons, the older if the benefits are payable on the death of the first of them to die, and the younger in any other case);
 - (iv) in relation to a Holloway sickness policy, the latest date on which the sickness benefit will cease to be payable; and
 - (v) in relation to an immediate annuity, each anniversary of the commencement of the annuity falling at five yearly intervals beginning with the fifth anniversary of its commencement and ending with the last to fall before the annuitant reaches the age of 90, (taking for this purpose, in the case of a joint life annuity, the older of the two annuitants if the annuity ceases or is reduced on the death of the oldest, and the younger in any other case); and
- (b) any reference to the issuing of a projection includes a reference to the publication of the projection in any form and by any means.
- (3) For the purposes of this Part, “**future benefit**” means -
- (a) where the contract is a whole life assurance, an endowment type assurance or a Holloway sickness policy, the benefit payable on death, on survival to a specified date or on disability or on surrender in whole or in part of the contract;
 - (b) where the contract is a pension contract, other than a contract for an immediate annuity -
 - (i) the benefit payable on, or from survival to, a specified date;
 - (ii) any benefit payable on or from death, or
 - (iii) the amount payable on the transfer of the investor’s accrued rights under the contract to another pension contract;
 - (c) in relation to units in a unit trust, means the cash value of those units;
 - (d) in relation to a contract for an immediate annuity, means the amount of the annuity payable at any date.
- (4) In this Part “**surrender value**”, in relation to an investment contract, means -
- (a) where the contract is a contract of life assurance or a contract for an annuity, the amount payable by the Member or other body issuing the contract on **surrender**;
 - (b) where the contract is a pension contract, the amount payable on the transfer of the investor’s accrued rights under that contract to another pension contract;
 - (c) where the contract is a Holloway sickness policy, the amount payable by the Member concerned on the surrender of the policy concerned on or before the projection date for the policy, and
 - (d) where the contract is for any other policy, the amount payable by the Member on the surrender of the policy concerned.

In this paragraph “**amount**” includes a nil amount.

- (b) secondly, that no such transfer value will be paid into the scheme in respect of the investor;

and accordingly two projections shall be given in accordance with paragraphs (3) and (4)(a) above of the protected rights annuity in any case where this paragraph applies, (but for the purposes of paragraph (a) above the commencement date of the contract shall be determined disregarding paragraph (4)(a) above).

- (9) The Member may, at the time the contract in question is recommended or as soon as is reasonably practicable thereafter, provide the investor with a Table of Specimen Surrender Values which complies with the requirements of paragraph (10) below instead of issuing any projection in accordance with paragraph (4) above.

- (10) The requirements referred to in paragraph (9) above are as follows -

- (a) a Table of Specimen Surrender Values shall specify surrender values as at each anniversary for which a projection would have been required by paragraph (4) for the contract in question (and no others) and each surrender value as at an anniversary shall be set out next to the total amount of the premiums which will be paid under the contract immediately prior to that anniversary;
- (b) a Table of Specimen Surrender Values shall specify a sufficient number of surrender values, calculated by reference to different ages and sex of a life assured or an annuitant (as the case may be), benefits of different values and other terms of contracts, so as to enable the investor to deduce the approximate surrender values of the contract in question which would be applicable to him.

Sub-paragraph (a) of paragraph (4) above shall apply for the purposes of this paragraph as it applies for the purposes of that.

Projections included in the cancellation notice

- 5.6. (1) Subject to the following provision of this Rule and to Rule 5.4, a cancellation notice relating to an investment contract given to an investor by a Member may include, under the heading "ILLUSTRATIONS OF FUTURE RETURNS" -
- (a) in the case of an endowment type assurance, a projection of the benefit payable on survival to the maturity date;
- (b) in the case of a pension contract, other than a contract for an immediate annuity, a projection of the retirement fund, or the benefit referred to in Rule 5.3(3)(b)(i), at the maturity date;
- (c) in the case of a unit-linked whole life assurance, or a with-profits whole life policy the bonuses payable under which are added to the surrender value of the policy (rather than being added to the guaranteed benefit payable on death), a projection of the surrender value as at the projection date or, if that value is nil, a statement of the period of time, from the commencement of the policy, on the elapse of which the surrender value becomes nil (and if that period is not a whole number of months or years, it may be rounded down to the nearest whole number of months or, as the Member may determine, years);
- (d) in the case of a with-profits whole life policy, other than a policy falling within sub-paragraph (c) above, a projection of the death benefit at the projection date, and for this purpose "death benefit" means the benefit payable under the policy on the death of the person whose life is assured (or, if there is more than one such person, any of them);

- (e) in the case of units in a unit trust which is not a pension contract, the cash value of the units at the projection date;
 - (f) in the case of a Holloway sickness policy, the surrender value at the projection date;
 - (g) in the case of an appropriate personal pension scheme, in addition to and separate from any other projection required by any other provision of this paragraph, a projection of any protected rights annuity;
 - (h) in the case of a contract for an immediate annuity, the amount of the annuity at the projection date.
- (2) A cancellation notice relating to an investment contract (as respects which there is a surrender value) given to an investor by a Member shall include, under the heading "PRODUCT PARTICULARS" -
- (a) a projection of the surrender value of the contract on each of the first five anniversaries of the commencement of the contract (or so many of those anniversaries as fall before the maturity date or projection date), or, where the surrender values are guaranteed, a statement of those values; or
 - (b) if all of those values are nil, a statement of that fact.

In calculating for the purposes of this paragraph the surrender value of a contract on a particular date, it shall be assumed that any premium payable on that date is payable on the following day.

- (3) For the purposes of paragraph (2) above "**surrender value**" includes, in the case of a personal pension scheme, the value of the protected rights annuity, the projection of which shall be given separately from any other projection, and in relation to any such projection, the reference in that paragraph to the commencement of the contract shall be read as a reference to the date (whenever it may be) on which the first minimum contribution will be paid in respect of the investor.

Rule 5.5(8) shall apply (with any necessary modifications) in relation to projections of surrender values under this paragraph as it applies in relation to projections of surrender values under Rule 5.5(4)(a).

- (4) Paragraph (2) above does not apply in relation to benefits payable under an occupational pension scheme.
- (5) A cancellation notice which does not include any projections in pursuance of paragraph (1) above shall contain the following statement, under the heading "ILLUSTRATIONS OF FUTURE RETURNS" -

"If you have been provided with a projection or other indication of the possible benefits under this contract, which was not confirmed in writing and stated to be in accordance with the rules prescribed by a regulatory organisation please write to [.....]"^{*}

*The Member shall insert here the address of the Member's administrative headquarters and the name or title of a responsible employee there to whom the investor should write.

This paragraph does not apply in relation to a contract which is without profits if none of the benefits under it are linked benefits.

- (6) Paragraphs (1), (2) and (5) above do not apply where the cancellation notice is given in respect of a contract which constitutes a variation of an existing investment contract.

Calculation of projections

- 5.7. (1) Subject to Rule 5.8 and 5.9, a projection issued by a Member of any future benefit payable under an investment contract issued or which may be issued by the Member shall be calculated by reference to the relevant premium and in accordance with the appropriate projection table.
- (2) Subject to the following paragraph, in relation to a protected rights annuity, the relevant premium is such amount as may reasonably be estimated by the Member to be the amount which will be paid by the Secretary of State or the Department of Health and Social Services for Northern Ireland by way of minimum contributions in respect of the investor concerned for the income tax year in which the projection is made, less an amount equal to the policy fee applicable to the contract as specified in Part II of Schedule 4 to these Rules; and the projection shall be calculated on the assumption that the annuity in question increases in value at the annual rate of 3%.

In any case where a projection of a protected rights annuity under Rule 5.5 or 5.6 is calculated in accordance with Rule 5.5(8), the relevant premium in the case of the projection calculated by reference to a transfer value is that transfer value, and any policy fee shall (in the case of either projection) be deducted from that value and not from any minimum contribution.

A projection of a protected rights annuity for the income tax year immediately following that in which the projection is made may be made in accordance with the preceding provisions of this paragraph (with the substitution of a reference to the later year for the earlier) but only if the amount of the rebate percentage (within the meaning of section 3(1) of the Social Security Act 1986) for that later year has been published at the time the projection is made.

A projection of a protected rights annuity for the income tax year 1987-88 may be made in the year 1988-89 in accordance with the preceding provisions of this paragraph (substituting a reference to the year 1987-88 for the reference to the year in which the projection is made).

- (3) Subject to paragraph (2) above, in paragraph (1) above **“the relevant premium”** means -
- (a) where the contract in question is a policy or a pension contract, the actual premium payable, less the amounts specified in paragraph (4) below;
 - (b) where the contract in question is a unit trust savings scheme which is not a pension contract, the amount which under the scheme the investor is to invest in the scheme at the intervals specified in the scheme;
 - (c) where the contract in question is for the purchase of units in a unit trust which is not a unit trust savings scheme or a pension contract, the amount payable by the investor for those units.

The amounts referred to in paragraphs (b) and (c) above include the amount of any charge made by the manager of the unit trust in question.

- (4) The amounts referred to in paragraph (3)(a) above are the following -
 - (a) an amount equal to the cost of any rider benefits, calculated in accordance with paragraph 2(8) of Part I of Schedule 4 to these Rules;
 - (b) an amount equal to the policy fee applicable to the contract as specified in Part II of that Schedule;
 - (c) an amount equal to so much of the actual premium as represents any additional premium payable in respect of an exceptional mortality risk.
 - (5) A projection of any benefit, other than a protected rights annuity, payable under a contract the premiums payable under which are single premiums may be calculated as if those premiums were regular premiums but only if the Member is bound, unconditionally, by the express terms of the contract to accept all single premiums which may be paid by the investor under the contract.
 - (6) Where the projection of a future benefit under an investment contract other than a projection in real terms of a protected rights annuity payable under a personal pension scheme, as calculated in accordance with the appropriate table, is less than the amount guaranteed under the contract the projection shall be increased to that guaranteed amount.
 - (7) Where a projection is issued by a Member in any case falling within paragraphs(3)(a) and 4(a) or (c) above, the Member shall quote (with the projection) the sum of the actual amount of the relevant premium and the amount of any policy fee as determined in (4)(b) above.
 - (8) In Schedule 4 “the **relevant premium**” has the same meaning as it has for the purposes of this Rule.
- 5.8. (1) Subject to Rule 5.9 a projection permitted by Rule 5.5(1) or 5.6(1) for which none of the projection tables is appropriate shall be calculated in accordance with the principles set out in Schedule 4 to these Rules, and shall be rounded down to not more than three significant figures, and, in the case of a benefit (other than a protected rights annuity) payable under a contract the premiums payable under which are single premiums, it may be calculated as if those premiums were regular premiums but only if the Member is bound, unconditionally, by the express terms of the contract to accept all single premiums which may be paid by the investor under the contract.
- (2) Where the projection of a future benefit under an investment contract, as so calculated, other than a projection in real terms of a protected rights annuity payable under a personal pension scheme, is less than the amount guaranteed under the contract, the projection shall be increased to that guaranteed amount.
 - (3) A Member which offers investors any investment contract of any class, the projections for which are permitted by Rule 5.6(1) and required to be calculated in accordance with paragraph (1) above and the term of which exceeds five years, shall give notice to the Board that it does offer such contracts to investors, unless the Board has notified all Members that no projection table is appropriate for that class of contract,
 - (4) Nothing in this Rule shall be taken to prohibit the issuing of a projection in accordance with Rule 5.5(2) provided that, apart from the rate of return used in calculating the projection, the projection complies with the requirements of this Rule.

- (5) Where a projection is issued by a Member which has been calculated in accordance with this Rule and a deduction has been made from the actual premium of an amount equal to the cost of any rider benefit or to an additional premium for an exceptional mortality risk (or both), the Member shall quote (with the projection) the sum of the amount of the relevant premium and any policy fee applicable to the contract as specified in Part II of Schedule 4 to these Rules.

5.9. (1) A projection at any time of a surrender value of any investment contract given in pursuance of Rule 5.5(4) or (9) and (10) or Rule 5.6(2) shall be calculated in accordance with the methods and by reference to the bases in general use by the Member at that time in calculating surrender values for contracts of the same class, subject to the following provisions of this Rule.

- (2) Where the methods and bases referred to in paragraph (1) above require explicit assumptions to be made relating to future bonuses, future rates of return, future charges or future terms for commuting annuities -

(a) in the case of the surrender value of a with-profits policy or Holloway sickness policy, the following assumptions shall be made -

(i) that future bonuses of any kind will continue to be declared at a rate no greater than the rate at which a bonus of that kind was last declared by the Member;

(ii) that future charges will be made at a rate no less than that at which similar charges are being made by the Member at the time the projection is made; and

(iii) that annuities will continue to be commuted on terms no more favourable to an investor than those current at that time for commuting annuities; and

(b) in the case of the surrender value of a unit-linked policy or a personal pension scheme which comprises a unit-linked policy or a unit trust, the following assumptions shall be made -

(i) that future charges will be made at a rate no less than that at which similar charges are being made by the Member at that time; and

(ii) that the annual rate of return on assets (before all charges made by the Member), in the case of pension contracts and any policy forming part of the tax exempt business of a friendly society, will be 10.75% and in any other case will be 8.75%.

(3) For the purposes of paragraph (2)(a)(i) above "rate" includes a ml rate.

(4) For the purposes of paragraph (2) above -

(a) references to charges made by a Member include references to charges made by the manager of any unit trust in which any funds of the policy in question are invested; and

(b) any charge which is the annual fund charge of a unit trust shall -

(i) first, be increased by an amount equal to the amount of value added tax which is payable in respect of the charge; and

- (ii) secondly, be reduced by an amount equal to the amount, if any, of tax which would have been payable if an amount equal to the charge had been distributed to, and subject to tax as income of, the Member.
- (5) In calculating any projection in accordance with this Rule, the Member shall allow for partial surrenders of a unit-linked policy where under the terms of the policy the investor is entitled to exercise and either has exercised or has expressed the intention of exercising an option from time to time effecting partial surrenders of the policy.
 - (6) In calculating in accordance with paragraphs (1) to (4) above any projection required by Rule 5.5(4), a Member may use approximations but the projection given must nevertheless not exceed 105% of the amount which it would have been had it not been so calculated.
 - (7) In any case when the Member which issued or is to issue the projection is a marketing associate of another body by which the contract in question is to be, or may be, issued, references in this Rule to the Member are references to that other body.

Information to be provided before contract entered into in certain cases

- 5.10.** (1) In addition to any other information required to be given to any investor by the Member, the Member shall give an investor who is not a professional investor a written statement complying with the following provisions of this Rule at the time an investment contract is recommended to the investor as being appropriate to him by any of the Member's company representatives, or as soon as is reasonably practicable thereafter unless the contract (if made) would constitute a variation of an existing investment contract, except any variation which constitutes a conversion to which Rule 5.11(3) applies.

The Member may comply with the requirements of this Rule by giving the investor more than one written statement, and in such a case the references in this Rule to a statement shall be construed as references to all those statements read together.

- (2) The statement shall -
 - (a) if any benefit under the contract is a linked benefit -
 - (i) where the benefit is payable under a policy, make clear that it is a linked benefit;
 - (ii) describe the property or index to which it is linked and, in the case of a policy, set out the investment objectives of the fund in question and any policies which the investment managers of the fund have adopted or propose to adopt in selecting the investments in which the funds of the scheme will be invested;
 - (iii) state how the amount of the benefit will be calculated and, if the amount of the benefit is linked to units in a unit trust or in an investment fund of an insurance company or to income from property of any kind where the price of units or the amount of any income distributions can go down as well as up, that fact shall be made clear;
 - (iv) where the benefit is payable under a policy, state the nature and amount or rate of any charges which will be made on the investor (whether directly by the Member or indirectly by the manager of any unit trust in which any funds of the policy in question are invested) and what, if any, variations in the amount of those charges will or may take place before any benefits under the contract is payable (disregarding for this purpose any possibility that the funds to which the policy is linked may be changed at the option of the investor) or, in the case of a single premium charge for mortality and morbidity, describe the nature and basis of the charge;

- (v) where the benefit is payable under a policy, the most recent difference between the bid and offer prices of the units expressed as a percentage of the offer price and also the difference between the minimum bid price permitted by the deed of trust which constitutes the unit trust or the policy document, as the case may be, and the maximum offer price so permitted expressed as a percentage of that maximum offer price or, if there is no such permitted maximum or minimum, a statement of any discretion there may be to vary the pricing basis of the units, and for the purposes of this provision "the most recent difference" means the most recent difference which it is practical for the Member to include in the statement, being a difference on a date not more than 18 months before the date on which the contract is recommended to the investor;
 - (vi) where the benefit is payable under a policy the premium under which is a single premium, the price at which the units will be allocated to the policy or the date on which the price of units to be allocated on payment of the premium will be determined;
 - (vii) where the benefit is payable under a policy the premiums under which are regular premiums, the dates on which the price of units to be allocated on payment of a premium will be determined;
- (b) if the contract is a with-profits policy, give an indication of the basis on which the amount available for distribution and for allocating that amount to the policyholders and shareholders (if any) is to be determined, and of any special features relating to or affecting the investment of the Member's assets or the constitution of its liabilities which the policyholder might reasonably expect to affect the amount so available;
- (c) specify -
- (i) the amounts which any person other than the Member will pay under or for the purposes of the contract, including in particular the amount in respect of any protected rights annuity;
 - (ii) if any such amount is not ascertainable at the time the statement is issued, the basis on which it will be determined and the frequency at which such amounts will have to be paid,

and shall also contain particulars of any terms of the contract under which the Member or the investor has power to vary those amounts or the frequency at which they are payable, together with a description of the treatment to be afforded to any increase in any such amount;

- (d) outline an investor's liability (if any) to income tax and capital gains tax (under the law of the United Kingdom as in force at the time the statement is issued or, if a proposed change in the relevant law has been announced by or on behalf of the Government the operative date of which is to be before the expected termination of the contract and it is reasonably practicable for the Member to take account of the announcement in the statement, under the law as so changed) in respect of any amounts which may be paid under the contract and any reliefs from income tax which may be available to an investor in respect of amounts paid by an investor under the contract;
- (e) if the contract is a policy, other than a without profits policy none of the benefits under which is a linked benefit, indicate the nature of any income tax, corporation tax or capital gains tax which may be imposed (under that law) in respect of any assets of the Member which underly the contract;

- (f) if the contract is a policy, identify and specify the amount of any benefit the value of which is guaranteed at the commencement of the contract, other than any guaranteed surrender value;
- (g) describe the consequences for the investor if at any time he or any person on his behalf stops making payments under the contract;
- (h) in the case of a unit trust, either contain or be accompanied by the scheme particulars or give the following information-
 - (i) the most recent difference between the bid and offer prices of the units expressed as a percentage of the offer price and also the difference between the minimum bid price permitted by the deed of trust which constitutes the unit trust and the maximum offer price so permitted expressed as a percentage of that maximum offer price or, if there is no such permitted maximum or minimum, a statement of the Member's discretion to vary the pricing basis of the units; and for the purposes of this provision "**the most recent difference**" means the most recent difference which it is practical for the Member to include in the statement, being a difference on a date not more than 18 months before the date on which the contract is recommended to the investor;
 - (ii) the amount of any charge which the investor will have to pay in connection with the contract, or if any such charge is not ascertainable at the time the statement is issued, the basis on which it will be determined, the frequency at which such charges will have to be paid, and details of any terms of the contract under which the Member has power to vary the amount of any such charge or the frequency at which it is payable;
 - (iii) if income is not to be paid to the investor, whether the income will be reinvested by purchasing further units in the unit trust or will be reflected in the price of units;
 - (iv) if the income is to be paid to the investor, the latest gross distribution yield which it is practical for the Member to include in the statement and which was announced on a date (which shall be specified in the statement) not more than 18 months before the date on which the contract is recommended to the investor;
 - (v) in the case of a lump sum investment, the price at which units will be issued or the date on which the price of the units to be allocated on payment of the lump sum will be determined
 - (vi) in the case of a series of payments, the dates on which the price of units to be allocated in respect of each payment will be determined;
 - (vii) when certificates will be sent to the investor;
 - (viii) when units will be valued and dealt in;
 - (ix) how units may be redeemed and when payments on redemption will be made;
 - (x) the investment objectives of the scheme and any policies which the managers of the scheme have adopted or propose to adopt in selecting the investments in which the funds of the scheme will be invested?
 - (xi) the name of the trustee or custodian (if any) of the unit trust;

- (xii) where and how copies of the scheme particulars may be obtained by the investor and where and how copies of the last annual and half-yearly reports (as required to be published by the managers by regulations made under section 81 of the 1986 Act), may be obtained.
- (3) For the purposes of paragraph (2)(a) above, where the contract contains an option for the investor to change funds, it shall be sufficient to describe the fund or funds or property in which the first premium will be invested and to state that further information about other funds or property is available on request.
- (4) In addition to any information required to be given by paragraph (1) above, the Member shall give the investor such other information as may be necessary to enable him to understand the nature of the investment concerned and what it is that will determine the ultimate value of his investment, and, in particular, where only the nature and basis of any single premium charges for mortality and morbidity are described in accordance with paragraph (2)(a)(iv) above, the Member shall, on request, give the investor further particulars of the charges (so far as they relate to him).
- (5) Without prejudice to the generality of paragraph (4) above, where the progression of surrender values or the value of benefits payable under the contract at the maturity date contains a material discontinuity which is not approximately equal to the amount of a premium payable at the time the discontinuity will occur or to a payment of or on account of any benefit payable at that time, that fact shall be disclosed as part of the information to be provided in compliance with that paragraph (if it is not otherwise disclosed).

For the purposes of this paragraph the surrender value or other value shall be calculated on the assumption that current bonus rates and unit prices remain unchanged.

- (6) A Member shall not give a statement in compliance with paragraphs (1) to (5) above in a document -
- (a) which contains any other information which has the effect or is likely to have the effect of reducing the significance or impact of any of the information contained in the statement; or
- (b) which contains information relating to the past performance of any investment contract unless the document is an advertisement to which Part VI of these Rules applies.
- (7) Paragraph (1) above does not apply in relation to benefits payable under an occupational pension scheme.
- (8) In any case where the Member referred to in paragraph (1) above is a marketing associate of another body by which the contract in question is to be, or may be, issued -
- (a) if the other body is a Member of Lautro, that other Member shall give the marketing associate all information necessary to comply with the requirements of this Part as respects that advertisement;
- (b) if that other body is not a Member of Lautro, it shall be the duty of the marketing associate to obtain all such information from the other body.

Existing contracts

- 5.11. (1) Subject to the following provisions of this Rule, a Member may issue projections of benefits under an existing investment contract at any time.
- (1A) The provisions of these Rules relating to projections (including any requiring information or statements to be given to investors when projections are issued) shall not apply to a projection of a benefit under an existing contract -
- (a) except where sub-paragraph (b) below applies, if the date to which the benefit is being projected is not more than 3 months after the date on which the projection is given;
- (b) in the case of a unit trust which does not constitute a pension contract, if the date to which the benefit is being projected falls on or before the date on which the property by reference to which the amount of the benefit is calculated is to be next valued, after the date on which the projection is given, for the purpose of determining the price at which units in the unit trust may be issued or redeemed.
- (2) In the case of an investment contract which is an endowment type assurance, a whole life assurance or a pension contract under which single premiums were or are payable and under which regular premiums become payable, the provisions of these Rules relating to projections shall apply as if the contract were a new contract made at the time the investor's undertaking to make regular premiums becomes binding and under which only the benefits secured by those regular premiums are payable.
- (3) In any case where a term assurance is converted into a whole life policy or endowment type assurance, the provisions of this Part relating to projections shall apply as if the contract were a new contract commencing at the time the conversion is effected.
- (4) A projection of a benefit payable under an investment contract given to an investor less than one year after the commencement date of the contract shall be calculated as if it were being given at that commencement date, except that account shall be taken of any alteration in the terms of the contract made at the request of the investor.
- (5) Subject to paragraph (4) above, a projection of a benefit under an existing investment contract shall comply with such of the principles set out in Schedule 4 to these Rules as are applicable to it; and where in any case the incidence of expenses (but not the overall level of expenses) allowed for in any surrender value at the date the projection is made does not reflect that of Part II of Schedule 4, the Member shall ensure that that fact is allowed for when applying the principles of Schedule 4.
- (6) A projection given in accordance with this Rule shall be rounded down to not more than 3 significant figures.
- (7) Where the Member has issued a projection of a benefit under a contract before the commencement of this Part of these Rules and after that commencement issues another projection of a benefit under that contract in accordance with this Part which differs in format from the earlier projection, the Member may explain the difference to the investor provided that the explanation is not likely to diminish the significance or impact of the later projection.

Occupational pension schemes

- 5.12. (1) The Member shall include under the heading "PRODUCT PARTICULARS" in any cancellation notice (other than one given in respect of a contract which constitutes a variation of an existing contract) given to the trustees of an occupational pension scheme any of the benefits payable under which are money purchase benefits, or to the employer concerned -

- (a) projections of specimen surrender values in respect of specimen members calculated as if the benefits payable in respect of any such member were payable under an appropriate personal pension scheme to be made between him and the Member, and Rule 5.6(2) and (3) (but not Rule 5.6(4)) shall apply in relation to any such projection; and
- (b) such information as would have been required by Rule 5.13(1) if the benefits were payable as mentioned in sub-paragraph (a) above, and for this purpose Rule 5.10(2) shall have effect as if-
 - (i) the references in sub-paragraph (d) to an investor included references to a member of the scheme; and
 - (ii) the reference in sub-paragraph (f) to a benefit was a reference to such specimen benefits as may be calculated from the premiums used in calculating the projections included in the notice in accordance with the preceding provisions of this paragraph,
- (2) Rule 5.6(5) shall not apply in relation to any such cancellation notice as is mentioned in paragraph (1) above but the Member may include in such a notice under the heading "ILLUSTRATIONS OF FUTURE RETURNS" projections of any specimen benefits referred to in paragraph(1)(b)(ii) above, and such projections shall comply with Rule 5.6(1) (disregarding Rule 5.6(4)).
- (3) In addition to the information required to be given under paragraph (1) above, the Member shall give a written statement or statements to the trustees or the employer containing such further information as may be necessary to enable the trustees or the employer to give to any person who becomes a member of the scheme such information as would have been required to be given to that person by the Member if the contract under which the benefits in question are payable were an appropriate personal pension scheme made between that person and the Member, and the Member may include in any such statement any other projection of a future benefit payable in accordance with the scheme calculated as if the contract under which the benefit is payable were an appropriate personal pension scheme made between the person to whom the benefit will be payable and the Member, but, for this purpose, in calculating any surrender value or retirement fund any premium payable in respect of a protected rights annuity shall be deemed to be paid in respect of an annuity which is not a protected rights annuity.
- (4) The Member shall ensure that the trustees or the employer, as the case may be, are given such further information as may be necessary to take account of any changes affecting the scheme which render the information previously given in pursuance of this Rule incorrect or inaccurate.
- (5) A Member may include in a cancellation notice given in respect of a money purchase contracted-out scheme or in the statement given in pursuance of paragraph (3) above a projection of the annuity for which the scheme provides in order to give effect to the protected rights of a member of the scheme calculated as if the relevant premium were paid into an appropriate personal pension scheme; and for the purposes of any such projection the relevant premium shall be -
 - 103% of the amount of the minimum payments in respect of the scheme member for the income tax year in which the projection is made, less 103% of the amount of any applicable policy fee specified in Part II of Schedule 4 to these Rules.

A projection (calculated similarly) may also be included for the immediately following income tax year if the amount of the rebate percentage (within the meaning of section 30 of the Social Security Pensions Act 1975) for that later year has been published at the time the projection is given.

- (6) In any case where a transfer value may be paid into the scheme in respect of the scheme member, the projection under paragraph(5) above shall exclude so much of the value of the annuity as would be derived from any such transfer value, but a separate projection of so much of that value as would be so derived may be given, and for the purposes of any such projection it shall be assumed that no minimum payments would be paid in the income tax year for which the projection is given and that no policy fee is applicable to the annuity and that the transfer value is paid into an appropriate personal pension scheme.
- (7) Where a projection is given under this Rule of the total benefits of the scheme member and for the purposes of that projection an assumption regarding the size of future rebate percentages is required to be made, the Member shall use the latest assumption regarding the size of future rebate percentages published by the Government Actuary, and shall make it clear to the person to whom the projection is given that the projection is based on that latest published assumption,
- (8) Any expression used in paragraphs(5), (6) and (7) above and to which a meaning is given by section 66 of the Social Security Pensions Act 1975 shall also have that meaning in those paragraphs.
- (9) Any projection issued by the Member in pursuance of this Rule shall comply with such of the provisions of Rules 5.7, 5.8 , 5.9 and 5.11 as are applicable to the projection (subject to the provisions of this Rule) and Rules5.6, 5.10 and 5.13 shall not apply to any such projection except as provided by this Rule.

Disclosure of product particulars, inflation and wording to accompany projections

5.13. (1) A Member shall include, under the heading “PRODUCT PARTICULARS”, in any cancellation notice given to an investor in respect of any of the Member’s investment contracts the information relating to the contract required to be given to the investor by Rule 5.10.

(2) A Member shall include or attach to any document containing projections issued by the Member the statement set out in Schedule 6 to these Rules which is applicable to the policy, subject to any modification permitted by the Notes to that Schedule.

This paragraph does not apply in relation to a projection of a protected rights annuity or to a projection given in compliance with Rule5.5(4) or (9) and (10) or 5.6(2).

(3) Any document containing a projection of a future benefit, other than a projection under Rule 5.5(2)(b), shall include or be accompanied by such of the statements set out in Schedule 5 to these Rules as are appropriate to that projection.

(4) The statements set out in Sections I and II of Schedule 5 may be altered by the Member in any case where the Member considers that the wording in Schedule 5 is not wholly appropriate to the projection in question, but an alteration shall not be made in pursuance of this paragraph if its effect is, or is likely to be, to reduce the significance or impact of any other provision of this Part.

Where the figures given in a projection of a benefit payable under an investment contract at the time the contract is recommended to an investor differ from those given in a projection of the same benefit contained in the cancellation notice, the Member may include in any such statement the reasons for the difference.

(5) Any document containing a projection given under Rule5.5(2)(b) of a sum or annuity may include a description of the projection in such words as the Member may choose but the description may not be such as to detract from any projection given in accordance with Rule 5.7 or 5.8 of that sum or annuity or as to give the projection under Rule 5.5(2) greater significance than the other projection.

- 5.18.** (1) The provisions of this Rule apply where -
- (a) an investor agrees to enter into an investment contract with a Member, and
 - (b) the first premium or other payment under that contract is to be found wholly or in part from the proceeds of the sale of any shares owned by the investor, and
 - (c) the Member agrees to buy those shares from the investor.
- (2) The Member shall before the contract referred to in paragraph (1)(a) above is made, disclose to the investor -
- (a) the basis on which the price for the shares will be determined, and, if the price is not to be determined by reference to an index maintained by a body or person independent of the Member, the Member shall not propose a basis which is unreasonable having regard to all the circumstances or which would produce a price which is less than that which would be obtained if instead of buying the shares the Member sold them for the investor in accordance with Rule 5.17;
 - (b) the fact that capital gains tax may be payable in respect of the sale of the shares and that, since all the proceeds of the sale will be applied in paying amounts due under the contract referred to in paragraph (1)(a) above, the investor will have to satisfy any capital gains tax liability from other sources;
 - (c) the date on which the proceeds of the sale of the shares are to be applied as mentioned in sub-paragraph (b) above; and
 - (d) who will be liable for any duties or levies payable in connection with the sale of the shares.
- (3) The Member shall account to the investor at the time the contract referred to in paragraph (1)(a) is made, or as soon as is reasonably practicable thereafter, for the proceeds of the sale of the shares.
- 5.19.** (1) The sale of any shares at any time as mentioned in Rule 5.17 shall be effected by the Member on the best terms which would have been available had the same shares been sold on the open market at that time by a willing buyer and a willing seller each unconnected with the other; and the Member shall not purchase the shares from the investor, if it would have been more advantageous to the investor for the Member to have sold the shares on the investor's behalf.
- (2) For the purposes of this Rule, regard shall be had to all the terms of the sale or purchase.

Broker bonds

- 5.20** (1) Where a Member issues a policy which is a broker bond (within the meaning of Part IV) to an investor, the Member shall, at the time the policy is issued or as soon thereafter as is reasonably practicable, give to the investor a notice stating the basis on which the Member will remunerate the relevant independent intermediary (within the meaning of Part IV) on behalf of the investor for that intermediary's fund management services.
- (2) A notice under paragraph (1) above shall make it clear that the remuneration is being paid by the Member as agent for the investor and also that the remuneration is in addition to the charges made by the member under the policy.
- (3) The requirements of this Rule are additional to the requirements of the preceding Rules in this Part, and any notice given under this Rule must be given separately from any cancellation notice relating to the policy in question.



CHAPTER HI

RULES APPLYING TO ADVERTISEMENTS WHICH IDENTIFY AND PROMOTE SPECIFIC INVESTMENTS

- 6.10. (1)** The requirements of this Chapter apply only in relation to an advertisement which identifies and promotes one or more particular investments; and these requirements are in addition to those of Chapter II.
- (2) The mere mentioning of the name of an investment, with or without its price, shall not of itself constitute the promotion of that investment.
- (3) An advertisement to which this Chapter applies, but to which Chapter IV does not apply, may be referred to as a **“Category B advertisement”**.
- 6.11. (1)** The advertisement shall -
- (a) identify the Member which issued it or caused it to be issued and shall state that the Member is a Member of Lautro; and
- (b) show clearly the nature of the investment or investments which it advertises;
- and references below in this Chapter to an investment are, except where the context otherwise requires, references to that investment or those investments.
- (2) The advertisement shall not be issued with the intention of creating interest in an investment other than that which is identified in the advertisement.
- (3) Paragraph (2) above shall not prevent an advertisement from containing an invitation to apply for information about other investments offered by the Member.
- 6.12. (1)** The advertisement shall not specify some but not all of the terms and conditions which attach to the investment unless -
- (a) it gives details of how a written statement of all the terms and conditions may be obtained; and
- (b) those which are specified give a fair indication of the nature of the investment, of the financial commitment required and of the risks involved
- (2) The advertisement shall not compare one investment with another unless -
- (a) the comparison is fair; and
- (b) all information relevant to the comparison is included in the advertisement;
- and shall not make a comparison with any index unless the comparison is fair.
- For the purpose of this paragraph: “investment” shall mean any form of investment or saving, whether or not within Rule 6.2, and includes an occupational pension scheme, the State earnings-related pension scheme and any arrangement for the repayment of a loan which does not involve an investment contract.
- (3) The advertisement shall not contain information about past performance of an investment unless -

- (a) the advertisement contains a statement expressed as a warning that the information about past performance is not necessarily a guide to future performance;
- (b) the information as to the past performance is relevant to the past performance of the investment;
- (c) the source of any information given by the advertisement which is not obtained from the Member's own records is given;
- (d) the information given, whether by way of a graph or chart or otherwise, is not misleading (for example, it must not be so presented as to exaggerate past performance);
- (e) if the investment is a with-profits policy or a unit linked policy the premiums payable under which are regular premiums, the current maturity value (including the value of any retirement fund) or surrender value of another investment of a class with which it is possible to make a fair comparison is included, together with the age of the policyholder, the term of the policy and the premiums payable under that other investment;
- (f) if the investment is in a unit trust scheme or a policy not falling within sub-paragraph (e) above, other than a without-profits policy none of the benefits under which are linked benefits, the advertisement includes information relating to the performance of the investment during the period of five years ending with the date of issue of the advertisement (or from the date the investment was first issued to that date, if less); and
 - (i) if reference is made to an actual return to an investor, or a comparison of performance is made with other forms of investment, the reference or comparison is made on an "offer to bid" basis, and the basis is stated or otherwise apparent;
 - (ii) if a comparison is made of performance with an index or with movements in the price of units, the basis on which the comparison is made (for example, "offer to offer" or "offer to bid") is stated or otherwise apparent;
 and any such comparison is fair,

An advertisement shall not be taken not to comply with the requirements of sub-paragraph (f) above by reason of its not including the information required for the whole of the period there referred to if the information is complete up to the last date before the date of issue for which the relevant information was available for inclusion in the advertisement.

- (4) The advertisement shall not imply that an investment is available in limited quantities or for a limited period or on special terms for a limited period unless that is the case.
- (5) In this Rule "**policy**" means a long term insurance contract within the meaning of Schedule 3 to these Rules.
- (6) The advertisement shall not contain any projection unless it also contains -
 - (a) a statement or statements in the terms relevant to the contract in question set out in Schedule 5 to these Rules (or in those terms subject to any alterations made by the Member in any case where the Member considers that they are not wholly appropriate to the projection in question, other than any alteration the effect or likely effect of which is to reduce the significance or impact of any other provision of this Part), and

- (b) except in the case of a projection of a protected rights annuity or surrender value required to be calculated in accordance with Rule 5.9, a statement in the terms set out in Schedule 6 to these Rules;

and if a projection of the class permitted by Rule 5.5(2)(b) is contained in the advertisement, a statement complying with Rule 5.13(5) may be included in the advertisement.

- 6.13. (1) The advertisement shall not contain information the accuracy of which is to any extent dependent on assumptions about tax relief of any kind, unless it -
 - (a) specifies the relief in question and states that it may be altered and, if it is the case, that the value of the relief depends on the financial circumstances of the investor;
 - (b) distinguishes between relief which applies directly to investors as such and that which applies to the issuer of the investment or to the fund in which the investor participates.
- (2) An advertisement which relates to an investment the income from which -
 - (a) is payable out of a fund the income of which is subject to income tax; and
 - (b) is not or may not be subject to income tax in the hands of the investor,shall not describe the investment as one free from liability to income tax unless the fact that the income is payable out of a fund which is subject to income tax is stated with equal prominence.
- (3) An advertisement which relates to an investment in respect of which -
 - (a) an investor will not be liable to tax on the realised capital gains in the investment; and
 - (b) any realised capital gains of the assets of a fund to which the value of the investment is linked are subject to tax,

shall not describe the investment as one free from liability to capital gains tax unless the fact that the value of the investment is linked to a fund which will be liable to tax on the realised capital gains in the assets of which it is comprised is stated with equal prominence.

- 6.14. (1) The advertisement shall, if it contains any particulars relating to any of the benefits payable under a policy, state -
 - (a) which (if any) of the benefits under the policy are of fixed amounts;
 - (b) what those fixed amounts are; and
 - (c) which (if any) of the benefits under the policy are not of fixed amounts.
- (2) Where the investment is a policy and the advertisement describes the amount of a fixed benefit, or a minimum amount of a variable benefit, as being a guaranteed amount and refers to the participation of a third party, the advertisement shall not state or give the impression that the third party will stand surety for the Member or other body which will issue the policy should the Member or other body not meet its obligations under the policy unless that is the case.

CHAPTER IV
RULES WHICH APPLY TO ADVERTISEMENTS MAKING OR INVITING OFFERS

6.16. (1) In this Chapter “advertisement” means -

- (a) an advertisement which constitutes an offer to the public to enter into a contract with the Member issuing the advertisement or if that Member is a marketing associate, with another body, and which requires any member of the public wishing to accept the offer to send or give their acceptance of the offer to the Member or to another person acting as agent for the Member or which contains a proposal form which if returned completed by a member of the public to the Member or other person would constitute an offer to enter into the contract in question; and
- (b) any written communication to an individual inviting him to enter into an investment contract which is made directly following the individual’s response to an advertisement falling within Chapter II or III above issued by the Member with whom the contract is to be made or by a marketing associate;

and an advertisement or communication to which this Chapter applies may be referred to as a “**Category C advertisement**”.

- (2) In relation to an advertisement within paragraph (1)(b) above, references in the following provisions of this Part to the issuing of an advertisement shall be construed as references to the sending out of the communication in question.
- (3) Subject to paragraphs (1) and (2) above, this Chapter shall be construed as one with Part V.
- (4) The requirements of this Chapter are in addition to the requirements of Chapters II and III above (but information to which more than one requirement applies need only be given once).

6.17. (1) The advertisement shall state clearly, in a separate paragraph and in type no smaller than that used in the main text of the advertisement, the risks involved in acquiring or holding the investment, and any such statement shall in particular make clear that-

- (a) if it is the case, deductions for charges and expenses are not made uniformly throughout the life of the investment but are loaded disproportionately on to the early years of the investment;
- (b) the capital value of and the income from the investment may fluctuate, if that is the case;
- (c) in the case of a with profits life policy, the return to the investor depends on what profits are earned and what decisions are made by the Member as to their distribution.

(2) If the advertisement contains a proposal form, that form must comply with the requirements of Rules 3.6 and 3.7.

6.18. The advertisement must be contained in a printed document.

6.19. (1) Subject to the following provisions of this Rule, a Category C advertisement shall, if the contract to which the offer or invitation referred to in Rule 6.16(1) relates is neither a contract to which paragraph (2) below applies nor a contract which, disregarding Rule 1.2(2), falls within Note 1 of Paragraph 10 of Schedule 1 to the 1986 Act.

- (a) if any benefit under the contract is a linked benefit -
- (i) where the benefit is payable under a policy, make clear that it is a linked benefit;
 - (ii) describe the property or index to which it is linked and, in the case of a policy or personal pension scheme, set out the investment objectives of the fund in question and any policies which the managers of the fund have adopted or propose to adopt in selecting investments for the fund;
 - (iii) state how the amount of the benefit will be calculated and, if the amount of the benefit is linked to units in a unit trust or in an investment fund of an insurance company or to income from property of any kind where the price of units or the amount of any income distributions can go down as well as up, that fact shall be made clear;
 - (iv) where the benefit is payable under a policy or personal pension scheme, state the nature and amount or rate of any charges which will be made on the investor (whether directly by the Member or other body issuing the contract or indirectly by the manager of the fund in which any funds of the policy in question are invested) and what, if any, variations in the amount of those charges will or may take place before any benefits under the contract are payable (disregarding for this purpose any possibility that the funds to which the policy is linked may be changed at the option of the investor) or, in the case of a single premium charge for mortality and morbidity, describe the nature and basis of the charge;
 - (v) where the benefit is payable under a policy or personal pension scheme, the most recent difference between the bid and offer prices of the units expressed as a percentage of the offer price and also the difference between the minimum bid price permitted by the deed of trust or other document constituting the unit trust or the policy document, as the case may be, and the maximum offer price so permitted expressed as a percentage of that maximum offer price or, if there is no such permitted maximum or minimum, a statement of any discretion there may be to vary the pricing basis of the units, and for the purposes of this provision **“the most recent difference”** means the most recent difference which it is practical for the Member to include in the advertisement;
 - (vi) where the benefit is payable under a policy or a personal pension plan the premium under which is a single premium, the price at which the units will be allocated to the policy or plan or the date on which the price of the units to be allocated on payment of the premium will be determine&
 - (vii) where the benefit is payable under a policy the premiums under which are regular premiums, the dates on which the price of units to be allocated on payment of a premium will be determine&
 - (viii) where the contract is a unit trust which constitutes a personal pension scheme -
 - (I) the name of the trustee or custodian (if any) of the unit trust to which the benefits are linked;

- (II) where and how copies of the scheme particulars and the last annual and half-yearly reports (as required to be published by the managers by regulations made under section 81 of the 1986 Act) may be obtained;
 - (III) whether the income of the unit trust will be reinvested in the purchase of further units or will be reflected in the price of the units;
- (b) if the contract is a with-profits policy, give an indication of the basis on which the amount available for distribution and for allocating that amount to the policyholders and shareholders (if any) is to be determined, and of any special features relating to or affecting the investment of assets or the constitution of liabilities which the policyholder might reasonably expect to affect the amount so available;
- (c) specify -
- (i) the amounts which any person other than the body issuing the contract will pay under or for the purposes of the contract, including in particular the amount in respect of any protected rights annuity;
 - (ii) if any such amount is not ascertainable at the time the advertisement is issued, the basis on which it will be determined and the frequency at which such amounts will have to be paid;
- and shall also contain particulars of any terms of the contract under which those amounts or the frequency at which they are payable may be varied, together with a description of the treatment to be afforded to any increase in any such amount;
- (d) outline -
- (i) an investor's liability (if any) to income tax and capital gains tax (under the law of the United Kingdom as in force at the time the advertisement is issued or, if a proposed change in the relevant law has been announced by or on behalf of the Government which it is reasonably practicable for the Member to take account of, under the law as so changed) in respect of any amounts which may be paid under the contract, and
 - (ii) any reliefs from income tax which may be available to an investor in respect of amounts paid by an investor under the contract;
- (e) if the contract is a policy, other than a without profits policy none of the benefits under which is a linked benefit, indicate the nature of any income tax, corporation tax or capital gains tax which may be imposed (under that law) in respect of any assets of the body issuing the contract which underly the contract;
- (f) if the contract is a policy, identify and specify the amount of any benefit the value of which will be guaranteed at the commencement of the contract;
- (g) describe the consequences for the investor if at any time he or any person on his behalf were to stop making payments under the contract;
- (h) state, in the case of a single premium, the minimum amount which the premium may be (if there is such a minimum), and, in the case of regular premiums, the amounts those premiums may be;

- (j) if any of the benefits are linked benefits (within the meaning of Rule 5.1(2)), any arrangements under which an investor may make regular withdrawals from the amount of his investment; and
 - (k) whether or not the investor will have any right to cancel the contract if he enters into it and, if so, whether those rights derive from the Financial Services (Cancellation) Rules 1987 or are otherwise granted by the Member.
- (2) Subject to the following provisions of this Rule, a Category C advertisement shall, if the contract to which the offer or invitation referred to in Rule 6.16(1) relates is for the purchase of units in a unit trust, other than a unit trust which constitutes a personal pension scheme -
- (a) describe the property or index to which the units are linked, state how the amount of any benefit under the contract will be calculated and make it clear that the price of units can go down as well as up;
 - (b) specify the amounts which any person other than the body issuing the contract will pay under or for the purposes of the contract;
 - (c) outline an investor's liability (if any) to income tax and capital gains tax (under the law of the United Kingdom as in force at the time the advertisement is issued or, if a proposed change in the relevant law has been announced by or on behalf of the Government which it is reasonably practicable for the Member to take account of, under the law as so changed) in respect of any amounts which may be paid under the contract;
 - (d) describe the consequences for the investor if at any time he or any person on his behalf were to stop making payments under the contract;
 - (e) either give the scheme particulars or the following information -
 - (i) the most recent differences between the bid and offer prices of the units expressed as a percentage of the offer price and also the difference between the minimum bid price permitted by the deed of trust which constitutes the unit trust and the maximum offer price so permitted expressed as a percentage of that maximum offer price or, if there is no such permitted maximum or minimum, a statement of any discretion there may be to vary the pricing basis of the units, and for the purposes of this provision "the most recent difference" means the most recent difference which it is practicable for the Member to include in the advertisement;
 - (ii) the amount of any charge which the investors will have to pay in connection with the contract, or if any such charge is not ascertainable at the time the advertisement is issued, the basis on which it will be determined, the frequency at which such charges will have to be paid, and details of any terms of the contract under which the amount of any such charge or the frequency at which it is payable may be varied;
 - (iii) if income is not to be paid to the investor, whether the income will be reinvested by purchasing further units in the unit trust or will be reflected in the price of units;
 - (iv) if the income is to be paid to the investor, the latest gross distribution yield which it is practical for the Member to include in the advertisement and which was announced on a date (which shall be specified in the advertisement) not more than 18 months before the date on which the advertisement is issued;
 - (v) the name of the trustee or custodian (if any) of the unit trust;

- (vi) where and how copies of the scheme particulars and copies of the annual and half-yearly reports (as required to be published by the managers by regulations made under section 81 of the 1986 Act) maybe obtained;
 - (vii) in the case of a lump sum investment, the price at which units will be issued or the date on which the price of the units to be allocated on payment of the lump sum will be determined;
 - (viii) in the case of a series of payments, the dates on which the price of units to be allocated in respect of each payment will be determined;
 - (ix) when units will be valued and dealt in;
 - (x) how units may be redeemed and when payments on redemption will be made;
 - (xi) the investment objectives of the scheme and any policies which the managers of the scheme have adopted or propose to adopt in selecting the investments in which the funds of the scheme will be invested;
- (f) state the minimum amount which the investor may invest (if there is such a minimum), and if regular amounts are to be invested, what those amounts may be;
 - (g) state if an application for units will not be acknowledged, and
 - (h) give details of any arrangements under which an investor may make regular withdrawals from the amount of his investment in the unit trust.
- (3) For the purposes of paragraph (1)(a) above, where the contract contains an option for the investor to change funds, it shall be sufficient to describe the fund or funds or property in which the first premium will be invested and to state that further information about other funds or property is available on request.
 - (4) In addition to any information required to be given by paragraph (1) or (2) above, the Member shall include in the advertisement such other information as may be necessary to enable an investor to understand the nature of the investment concerned and what it is that will determine the ultimate value of his investment.
 - (5) Without prejudice to the generality of paragraph (4) above, where the progression of surrender values or the value of benefits payable under the contract at the maturity date contains a material discontinuity which is not approximately equal to the amount of a premium payable at the time the discontinuity will occur or to a payment of or on account of any benefit payable at that time, that fact shall be disclosed as part of the information to be provided in compliance with that paragraph (if it is not otherwise disclosed).

For the purposes of this paragraph the surrender value or other value shall be calculated on the assumption that current bonus rates and unit prices remain unchanged.

- (6) An advertisement to which paragraph (2) above applies shall also contain a statement that an investor entering into the contract in question will not have any right to cancel the contract under the Financial Services (Cancellation) Rules, unless a right to cancel the contract will be otherwise granted.
- (7) Information given in pursuance of paragraph (1)(d) and (e) above shall be given subject to the requirements of Rule 6.13.



CHAPTER VI

Advertisements issued by appointed representatives

- 6.23.** (1) A Member shall ensure that advertisements which its appointed representatives issue or cause to be issued comply with the preceding provisions of this Part as modified by paragraph (2) below, and the Member shall give the appointed representative all information necessary_ to comply with those provisions.
- (2) The modifications referred to in paragraph (1) above are as follows -
- (a) in the definition of “employee” in Rule 6.2 for the words “in relation to a Member” there shall be substituted the words “in relation to an appointed representative of a Member”;
 - (b) in Rule 6.3 -
 - (i) in paragraph (1)(a) for the words “in relation to a Member” there shall be substituted the words “in relation to an appointed representative of a Member”, and for the words “the Member issues” there shall be substituted the words “the appointed representative issues” and for the words “the Member supplies” there shall be substituted the words “the appointed representative or the Member supplies”;
 - (ii) in paragraph (1)(c) after the words “the Member” there shall be added the words “or of the appointed representative”; and
 - (iii) the words following paragraph (c) shall be omitted;
 - (c) in Rules 6.4, 6.5, 6.6(1)(b) to (d) and (5), 6.19 (except paragraph(1)(a)(iv)) and 6.22 for any reference to a Member there shall be substituted a reference to the appointed representative;
 - (d) in Rules 6.6(1)(e) and 6.12(3)(c) the reference to the Member shall include a reference to the appointed representative;
 - (e) in, Rule 6.11(1) for paragraph (a) there shall be substituted the following paragraph -
 - “(a) identify the appointed representative which issued it or caused it to be issued and the Member, and shall state that the representative is an appointed representative of that Member and that the Member is a Member of Lautro; and”;
- but until 1st October 1988 that paragraph shall have effect with the omission of the words “that the representative is an appointed representative of that Member and”;
- (f) in Rule 6.16, in paragraph (1)(a) the words from “issuing” to “another body” shall be omitted and in paragraph (1)(b) the words “or an appointed representative” shall be added at the end;
 - (g) Rule 6.19(12) shall be omitted;
 - (h) in Rule 6.20 -

- (2) Business stationery used by a company representative shall be so designed that any reasonable person would on reading it receive the impression that the company representative is a company representative of the Member and is not independent.
5. A company representative shall not, in the course of any relevant investment business, use any written material which has not been authorised for use in that business by the Member.

Best advice to be given

6. A company representative who, in the course of any relevant investment business, has dealings with an investor -
- (a) shall give the investor all information relevant to those dealings and that information shall in particular include the information required to be disclosed in such dealings by Part V of these Rules;
 - (b) shall not complete an application form, in whole or in part, for the purchase of an investment contract by the investor unless the investor has asked him to do so, and where the representative does complete the form, in whole or in part, for the investor, he shall ask the investor to check that what he has written is correct and ensure that the investor reads the form through before signing it;
 - (c) shall not make inaccurate or unfair criticisms of other investment contracts or of any other method of saving or investment, or of any occupational pension scheme or the State earnings-related pension scheme or of any arrangement for the repayment of a loan which does not involve an investment contract;
 - (d) shall not claim to have obtained the investor's name from another person without that person's consent, and shall disclose that person's name if requested by the investor so to do;
 - (e) shall not advise the investor to convert, cancel or allow to lapse any investment contract or realise any investment under an investment contract unless the representative has previously -
 - (i) except where the advice relates solely to switching investments between unit trust schemes or between two single premium life assurance policies, or two single premium pension schemes the benefits under which are or include linked benefits (within the meaning of Rule 5.1(2)), made a comprehensive study of the investor's need to make any investment and of his financial resources; and
 - (ii) disclosed to the investor all relevant consequences and disadvantages likely to follow from the action advised including in particular the loss of Life Assurance Premium Relief (that is to say, relief given under section 266 of the Income and Corporation Taxes Act 1988);

and the representative shall not in any event advise the taking of such action unless he bona fide believes it to be in the interests of the investor.

Sub-paragraph (e) above shall apply in relation to an individual's giving up any rights under an occupational pension scheme or the State earnings-related pension scheme as it applies in relation to the conversion, cancellation or lapsing of an investment contract.

7. A company representative shall not advise an investor on the purchase of any investment contract unless he is authorised by the Member to sell that contract or on any matter unless he is competent to advise on that matter.

8. (1) A company representative shall, in advising an investor as to the suitability for that investor of any investment contract, have regard, in particular, to the investor's financial position generally, to any rights he may have under an occupational pension scheme or the State earnings-related pension scheme, (if such rights are relevant in the particular case) and to all other relevant circumstances; and he shall use his best endeavours to ensure -

- (a) that he recommends only that contract or those contracts which are suited to that investor; and
- (b) that there is no other contract available from the Member, or, if the Member belongs to a marketing group, from any member of that group, which would secure the investor's objectives more advantageously.

Sub-paragraphs (a) and (b) above shall not apply in any case to which paragraph 13(4)(b) applies.

(2) If the company representative considers that an investment contract offered by the Member or by another member of the same marketing group which he himself is not authorised to sell ought to be recommended to the investor in pursuance of sub-paragraph (1) above, he shall refer the investor to a company representative who is authorised to sell that contract or, if the member of the marketing group which is offering that contract for sale is not a Member of Lautro, to that member.

(3) In sub-paragraphs (1)(b) and (2) above references to an investment contract do not include references to an investment contract -

- (a) which is a contract of insurance as respects which the advantage stems from the fact that the proposal form for the policy requires less information to be given by the proposer than the proposal form for another policy or that a medical examination is not a condition precedent for the issue of that policy but is for another; or

- (b) which is only available, or is only available on terms which are more advantageous to investors than other similar or comparable investment contracts -

- (i) through an independent intermediary or company representative who is offering to forgo payment of part of his commission or remuneration on the sale of the contract so as to reduce to the investor the cost of purchasing the contract by an amount which on an actuarial calculation is equivalent to the amount of commission or remuneration foregone;

- (ii) to an individual who is an employee, appointed representative or employee of an appointed representative of the Member, or if the Member belongs to a group or a marketing group, of any body corporate belonging to that group or that marketing group, or a close relative of such an individual; or

- (c) which is of a class which the Member offers for sale through company representatives but which is available otherwise than through a company representative and differs in one or more of its terms from those contracts of the same class which the Member offers for sale through company representatives.

(4) Where the investor refuses to buy an investment contract recommended to him by a company representative in accordance with paragraph (1) above, the company representative may proceed to recommend another contract, and shall not be taken to be in breach of his duty under that paragraph in relation to that other contract by reason only that the first contract would be more suited, or more advantageous, to the investor.