

The Director of Actuarial Policy
The Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London
EC2B 4HN

By email to: TM1@frc.org.uk

31 August 2012

Dear Sirs

CP12/10 – Statutory Money Purchase Illustrations

Thank you for the opportunity to comment on the proposed changes to the assumptions used for Statutory Money Purchase Illustrations as detailed in the joint FSA/FRC Consultation Paper 12/10.

Hargreaves Lansdown is a leading provider of investment management products and services to retail investors in the UK. Our flagship service, Vantage, is a direct-to-retail client fund supermarket and wrap platform, offering clients the administrative convenience of being able to hold and manage their investments, including unit trusts, OEICs, equities, bonds, investment trusts and cash, in one place, including within SIPPs and ISA tax wrappers. Hargreaves Lansdown has over 413,500 Vantage clients and administers £26 billion of assets directly on their behalf.¹

In addition to offering externally managed investment products, Hargreaves Lansdown manages £2.4 billion of funds through its own range of multi-manager unit trusts and its discretionary portfolio management service. We also provide independent financial advisory and stockbroking services to retail clients and advisory services to companies in respect of group pension schemes.

Our responses to the questions in the consultation are as follows.

Q1: Do you agree that the assumptions in AS TM1 should be consistent as far as possible with those specified in COBS 13 Annex 2 of the FSA Handbook?

We believe that SMPs and KFIs are valuable in providing consumers with a realistic estimation of retirement income, and so encouraging greater engagement with pension savings and consideration of what needs to be contributed to achieve a target retirement income.

A consumer will expect a projection provided before a product is purchased to be consistent with subsequent illustrations and could be confused by distortions arising from the use of different assumptions. We therefore agree that AS TM1 should be consistent with those specified in COBS 13 Annex 2 of the FSA handbook.

However, we do not share the FSA's view that pre-sales illustrations can be used for product comparison purposes as well as for estimating income. We therefore believe FRC should resist representations to maintain differences in assumptions between SMPI and KFI where the rationale is predominantly to support or facilitate the use of KFI for product comparison.

- Q2: a) Should AS TM1 continue to specify a maximum accumulation rate?
b) If AS TM1 continues to specify a maximum accumulation rate, should it be the same as the FSA's intermediate projection rate?
c) If your answer to b) is 'No', what rate should be specified in AS TM1?**

¹ As at 31 March 2012 (figures taken from HL Group Plc interim management statement April 2012)

Subject to the considerations in our response to Q1 above, we agree that AS TM1 should continue to specify a maximum accumulation rate in line with the FSA's intermediate projection rate.

Q3: Should the wording for the mortality assumption in AS TM1 be changed along the lines of the wording proposed in Chapter 2?

We agree that the wording for the mortality assumption in AS TM1 should be consistent with that used for KFI.

Q4: Given the proposed nature of the changes to AS TM1, do respondents envisage any difficulties with a four-week consultation period for an exposure draft of a revised version of AS TM1?

No comment.

Q5: Do you agree with our proposals for the timing of any changes?

We agree that the effective date of the changes should be for SMPs with illustration dates on or after 6 April 2013, however we would suggest that a provider should be able to choose to use the new basis from 21 December 2012 (or potentially 31 December 2012 for SIPP providers) to maximise consistency with KFIs.

Q6: Do you have any comments on the impact assessment for our proposals?

No comment.

Should you wish to discuss any aspects of our response in detail or if we can be of further assistance, please do not hesitate to contact us.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'MS', is positioned above the typed name and title.

Mike Slocombe
Senior Compliance Manager