

**RECORD KEEPING, INTERPROFESSIONAL BUSINESS AND SIMPLIFIED  
PROSPECTUSES INSTRUMENT 2007**

**Powers exercised**

A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):

- (1)
  - (a) section 138 (General rule-making power);
  - (b) section 156 (General supplementary powers);
  - (c) section 157(1) (Guidance);
  - (d) section 158A (Guidance on outsourcing by investment firms);
  - (e) section 210(3) (Statements of policy);
  - (f) section 247 (Trust scheme rules);
  - (g) section 248 (Scheme particulars rules);
  - (h) section 278 (Rules as to scheme particulars); and
  - (i) section 395(5) (The Authority's procedures);
- (2) regulation 6(1) (FSA rules) of the Open-Ended Investment Companies Regulation 2001 (SI 2001/1228); and
- (3) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FSA’s Handbook.

B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act;

**Commencement**

C. This instrument comes into force on 1 November 2007.

**Amendments to the Handbook**

D. The modules of the FSA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex A
Interim Prudential sourcebook for Investment Businesses (IPRU(INV))	Annex B
Market Conduct sourcebook (MAR)	Annex C
New Collective Investment Schemes sourcebook (COLL)	Annex D

**Citation**

- E. This instrument may be cited as the Record Keeping, Interprofessional Business and Simplified Prospectuses Instrument 2007.

By order of the Board  
24 May 2007

## Annex A

### Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

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

9. Record-keeping
- 9.1 General rules on record-keeping
- 9.1.-1 R ~~This chapter applies to the *MiFID business* of a *firm*. [deleted]~~
- 9.1.-2 R ~~This chapter applies only to the extent necessary to implement *MiFID* and the *MiFID implementing directive*. [deleted]~~
- 9.1.1 R ...
- 9.1.2 R ...
- 9.1.3 R ...
- Guidance on record-keeping
- 9.1.4 G ~~[intentionally blank]~~ Subject to any other record-keeping rule in the Handbook, the records required under the Handbook should be capable of being reproduced in the English language on paper. Where a firm is required to retain a record of a communication that was not made in the English language, it may retain it in that language. However, it should be able to provide a translation on request. If a firm's records relate to business carried on from an establishment in a country or territory outside the United Kingdom, an official language of that country or territory may be used instead of the English language.
- 9.1.5 G ~~[intentionally blank]~~ In relation to the retention of records for non-*MiFID business*, a firm should have appropriate systems and controls in place with respect to the adequacy of, access to, and the security of its records so that the firm may fulfil its regulatory and statutory obligations. With respect to retention periods, the general principle is that records should be retained for as long as is relevant for the purposes for which they are made.
- 9.1.6 G ~~[intentionally blank]~~ Schedule 1 to each module of the Handbook sets out a list summarising the record-keeping requirements of that module.
- [Note: article 51(3) of *MiFID implementing Directive*]
- 9.1.7 G The Committee of European Securities Regulators (CESR) has issued recommendations on the list of minimum records under Article 51(3) of the

*MiFID implementing Directive*. This can be found at:  
[http://www.fsa.gov.uk/pubs/other/CESR\\_Minimum\\_List\\_Recommendations.pdf](http://www.fsa.gov.uk/pubs/other/CESR_Minimum_List_Recommendations.pdf) .

## Annex B

### Amendments to the Interim Prudential sourcebook for Investment Business (IPRU(INV))

In this Annex, underlining indicates new text.

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1.2.3A R The record-keeping requirements listed in the table at IPRU (INV) 1.2.3B R do not apply to *common platform firms*.

1.2.3B R Table: List of IPRU (INV) record-keeping requirements that do not apply to *common platform firms*.

<u>IPRU (INV)</u>	<u>Provision</u>
<u>Chapter 3</u>	<u>3-10(1)R to 3-10(3)R</u> <u>3-12(1)R to 3-12(2)R</u> <u>3-13(1)R to 3-13(5)R</u>
<u>Chapter 5</u>	<u>5.3.1(1)R to 5.3.1(6)R</u>
<u>Chapter 13</u>	<u>13.1.10R to 13.1.17R</u>

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## **Annex C**

### **Amendments to the Market Conduct sourcebook (MAR)**

MAR 3 is deleted in its entirety. The deleted text is not shown struck through.

MAR 3      [deleted]

## Annex D

### Amendments to the New Collective Investment Schemes sourcebook (COLL)

After *COLL* 4.5 insert the following new provisions. All text is new and is not underlined.

#### 4.6 Simplified Prospectus provisions

##### Application

- 4.6.1 R This section applies to an *ICVC*, an authorised *fund manager* of an *AUT* or *ICVC* and any other *director* of an *ICVC* where, in each case, the *AUT* or *ICVC* is a *simplified prospectus scheme*.

##### Production and publication of simplified prospectus

- 4.6.2 R (1) An *operator* of a *simplified prospectus scheme* must, for each *simplified prospectus scheme* in respect of which it is the *operator*, produce and publish a *simplified prospectus* in accordance with the *rules* in this section and ensure that it contains in summary form each of the matters referred to in the table below that relates to this rule.
- (2) A *simplified prospectus* must be incorporated in a written document or in any *durable medium*.
- (3) An *operator* of a *simplified prospectus scheme* must be satisfied on reasonable grounds that each *simplified prospectus* which it produces:
- (a) includes all such information as is necessary to enable an investor to make an informed decision about whether to acquire *units* in the *scheme*;
  - (b) does not omit any key item of information;
  - (c) wherever possible is written in plain language which avoids technical language and jargon; and
  - (d) adopts a format and style of presentation which is clear and attractive to the average reader, so that it can be easily understood by him.
- (4) The *simplified prospectus* may be attached to the full *prospectus* as a removable part of it.

4.6.3 R Revision of simplified prospectus

*An operator of a simplified prospectus scheme must, for each simplified prospectus scheme of which it is the operator, keep its simplified prospectus up-to-date and must revise it immediately on the occurrence of any material change.*

- 4.6.4 G It is the *FSA's* view that any change to a *simplified prospectus scheme* that would be likely to influence the average investor in deciding whether to invest in the *scheme* or realise his investment in it should be regarded as a material change for the purposes of revision of a *simplified prospectus*. Examples would be changes to the *scheme's* objectives or investment policy. The *FSA* would expect a *simplified prospectus* to be updated at least annually.

Filing requirements

- 4.6.5 R A *UCITS management company* must for each *UCITS scheme* it manages file the *scheme's* initial *simplified prospectus*, together with each revision to it, with:

- (1) the *FSA*; and
- (2) the *competent authority* of each *EEA state* in which its *units* are to be marketed in the exercise of an *EEA right*.

UK firms exercising passporting rights in respect of UCITS scheme

- 4.6.6 R (1) A *UCITS management company* must for each *UCITS scheme* it manages and in respect of which it is marketing *units* in another *EEA State* in the exercise of an *EEA right*, produce a *simplified prospectus* for the *scheme* drawn up in accordance with the requirements contained in this section.

- (2) The *simplified prospectus* must be drawn up in the, or one of the, official languages of the *EEA State* for which it was prepared or in a language approved by the *competent authority* of that *State*.
- (3) The *simplified prospectus* may, without alteration, be used for marketing purposes in the *EEA State* for which it was prepared and in which the *units* of the *simplified prospectus scheme* are to be sold.

- 4.6.7 G (1) In translating the *simplified prospectus* from English into the or one or more of the official languages of the *EEA State* in which the



*simplified prospectus scheme* is to be marketed, or into a language approved by the *competent authority* of that *State*, it is permissible under article 28.3 of the *UCITS Directive*, in the *FSA's* view, for figures expressed in pounds sterling to be converted into the appropriate local currency such as euros. It is not necessary, for example, for the *simplified prospectus* of a *scheme* that is to be marketed across the *EEA* in the exercise of an *EEA right*, to refer to each amount in pounds sterling, in euros and additionally in every other local currency of an *EEA State* in which *units* of the *scheme* are to be marketed that has not adopted the euro as its currency.

- (2) *Operators* considering marketing the *units* of their *simplified prospectus schemes* in another *EEA State* in the exercise of an *EEA right* should have regard to the local marketing legislation of such country.

#### Contents of the simplified prospectus

- 4.6.8 R This table belongs to the rule on production and publication of a simplified prospectus (*COLL 4.6.2R* and *COLL 4.6.6R*)

#### Contents of simplified prospectus

Note:	By reproducing schedule C (Contents of the simplified prospectus) to the <i>UCITS Directive</i> (as amplified by Commission Recommendation (2004/384/EC)) and cross-referring to other relevant material, this annex details the facts or matters that must included in a <i>simplified prospectus</i> .
Brief presentation of the <i>simplified prospectus scheme</i> (in this Table referred to as "the <i>scheme</i> ").	
(1)	when the <i>scheme</i> was created and an indication of the <i>EEA State</i> where the <i>scheme</i> has been registered or incorporated;
(2)	in the case of a <i>scheme</i> having different investment compartments ( <i>sub-funds</i> ), the indication of this circumstance;
(3)	the name and contact details of the <i>operator</i> (when applicable);
(4)	the expected period of existence of the <i>scheme</i> (when applicable);
(5)	the name and contact details of the <i>depository</i> ;
(6)	the name and contact details of the auditors;
(7)	the name and brief details of the financial group (e.g. a bank) promoting the <i>scheme</i> ;

Investment information		
(8)	a short description of the <i>scheme's</i> objectives including:	
	(a)	a concise and appropriate description of the outcomes sought for any investment in the <i>scheme</i> ;
	(b)	a clear statement of any guarantees offered by third parties to protect investors and any restrictions on those guarantees; and
	(c)	a statement, where relevant, that the <i>scheme</i> is intended to track an index or indices, and sufficient information to enable investors both to identify the relevant index or indices and to understand the extent or degree of tracking pursued;
Notes:	1.	Information on (8)(a) should include a statement as to whether there is any arrangement intended to result in a particular capital or income return from the <i>units</i> or any investment objective of giving protection to their capital value or income return and, if so, details of that arrangement or protection.
	2.	The information disclosed under (8)(b) should include an explanation of what is to happen when an <i>investment</i> is encashed before the expiry of any related guarantee or protection.
(9)	the <i>scheme's</i> investment policy, including:	
	(a)	the main categories of eligible financial instruments which are the object of investment;
	(b)	whether the <i>scheme</i> has a particular strategy in relation to any industrial, geographic or other market sectors or specific classes of assets, e.g. investments in emerging countries' financial instruments;
	(c)	where relevant, a warning that, whilst the actual portfolio composition is required to comply with the broad legal and statutory rules and limits, risk-concentration may occur in regard of certain tighter asset classes, economic and geographic sectors;
	(d)	if the <i>scheme</i> invests in bonds, an indication of whether they are corporate or government, their duration and the ratings requirements;
	(e)	if the <i>scheme</i> uses financial derivative instruments, an indication of whether this is done in pursuit of the <i>scheme's</i> objectives, or for hedging purposes only;
	(f)	whether the <i>scheme's</i> management style makes some reference to a benchmark; and in particular whether the <i>scheme</i> has an 'index tracking' objective, with an indication of the strategy to be pursued to achieve this; and

	(g)	whether the <i>scheme's</i> management style is based on a tactical asset allocation with high frequency portfolio adjustments;	
	provided the information is material and relevant;		
Note:	The information referred to in paragraphs (8) and (9) may be set out as a single item in the <i>simplified prospectus</i> (e.g. for the information on index tracking), provided that the information so combined does not lead to confusion of the objectives and policies of the <i>scheme</i> . The order of the information items may be adapted to reflect the <i>scheme's</i> specific investment objectives and policy.		
(10)	a brief assessment of the <i>scheme's</i> risk profile by investment compartment or sub-fund, including:		
	(a)	overall structure of the information provided:	
		(i)	a statement to the effect that the value of investments may fall as well as rise and that investors may get back less than they put in;
		(ii)	a statement that details of all the risks actually mentioned in the <i>simplified prospectus</i> may be found in the full <i>prospectus</i> ;
		(iii)	a description in words of any risk investors have to face in relation to their investment, but only where such risk is relevant and material, based on risk impact and probability; and
	(b)	details regarding the description (in words) of the following risks:	
		(i)	specific risks:
			The description referred to in paragraph (10)(a)(iii) should include a brief and understandable explanation of any specific risk arising from particular investment policies or strategies or associated with specific markets or assets relevant to the <i>scheme</i> such as:
		A	the risk that the entire market of an asset class will decline thus affecting the prices and values of the assets (market risk);
		B	the risk that an issuer or a counterparty will default (credit risk);
		C	only where strictly relevant, the risk that a settlement in a transfer system does not take place as expected because a counterparty does not pay or deliver on time or as expected (settlement risk);
		D	the risk that a position cannot be liquidated in a timely manner at a reasonable price (liquidity risk);
		E	the risk that the investment's value will be affected by

				changes in exchange rates (exchange or currency risk);
			F	only where strictly relevant, the risk of loss of assets held in custody that could result from the insolvency, negligence or fraudulent action of the custodian or of a subcustodian (custody risk); and
			G	risks related to a concentration of assets or markets; and
		(ii)	horizontal risk factors:	
			The description referred to in paragraph (10)(a)(iii) should also mention, where relevant and material, the following factors that may affect the product:	
			A	performance risk, including the variability of risk levels depending on individual fund selections, and the existence, absence of, or restrictions on any guarantees given by third parties;
			B	risks to capital, including potential risk of erosion resulting from withdrawals/cancellations of units and distributions in excess of investment returns;
			C	exposure to the performance of the provider/third-party guarantor, where investment in the product involves direct investment in the provider, rather than assets held by the provider;
			D	inflexibility, both within the product (including early surrender risk) and constraints on switching to other providers;
			E	inflation risk; and
			F	lack of certainty that environmental factors, such as a tax regime, will persist;
		(iii)	possible prioritisation of information disclosure:	
			In order to avoid conveying a misleading image of the relevant risks, the information items should be presented so as to prioritise, based on scale and materiality, the risks so as to better highlight the individual risk profile of the <i>scheme</i> ;	
(11)	the historical performance of the <i>scheme</i> (where applicable) and a warning that this is not an indicator of future performance (which may be either included in or attached to the <i>simplified prospectus</i> ), including:			
	(a)	disclosure of past performance:		
		(i)	the <i>scheme's</i> past performance, as presented using a bar chart showing annual returns for the last ten full consecutive years. If	

			the <i>scheme</i> has been in existence for fewer than ten years but at least for a period of one year, it is recommended that the annual returns, calculated net of tax and charges, be given for as many years as are available; and
		(ii)	if a <i>scheme</i> is managed according to a benchmark or if its cost structure includes a performance fee depending on a benchmark, the information on the past performance of the <i>scheme</i> should include a comparison with the past performance of the benchmark according to which the <i>scheme</i> is managed or the performance fee is calculated;
Note:	Comparison should be achieved by representing the past performance of the benchmark and that of the <i>scheme</i> through the use of appropriate graphs to assist the reader to make the comparison.		
	(b)	disclosure of cumulative performance:	
		Disclosure should be made of the cumulative performance of the <i>scheme</i> over the ten year period referred to in paragraph (11)(a)(i). A comparison should also be made with the cumulative performance (where relevant) of a benchmark, when comparison to a benchmark is required in accordance with paragraph (11)(a)(ii);	
Note:	Where the <i>scheme</i> has been in existence for fewer than ten years but at least for a period of one year, disclosure of the past cumulative performance should be made for as many years as are available.		
	(c)	exclusion of subscription and redemption fees, subject to appropriate disclosure:	
		A statement should be made that past performance of the <i>scheme</i> does not include the effect of subscription and redemption fees.	
Notes:	1.	Where a comparison is being made with the cumulative performance of a benchmark as required by paragraph (11)(b), the comparison should be achieved by representing the past performance of the benchmark and that of the <i>scheme</i> through the use of appropriate graphs to assist the reader to make the comparison.	
	2.	The <i>scheme's</i> historical performance may be produced as a separate attachment to the <i>simplified prospectus</i> .	
(12)	a profile of the typical investor the <i>scheme</i> is designed for;		
Economic information			
(13)	the <i>scheme's</i> applicable tax regime, including:		
	(a)	the tax regime applicable to the <i>scheme</i> in the <i>UK</i> ; and	
	(b)	a statement which explains that the regime of taxation of the income or capital gains received by individual investors depends on the tax law	

		applicable to the personal situation of each individual investor and/or to the place where the capital is invested and that if investors are unclear as to their fiscal position, they should seek professional advice or information from local organisations, where available;
Note:		This information should include a statement in relation to <i>SDRT provision</i> , explaining how the <i>scheme</i> may suffer stamp duty reserve tax as a result of transactions in <i>units</i> and whether the <i>operator's</i> policy is such that an <i>SDRT provision</i> may be imposed.
(14)		details of any entry and exit commissions relating to the <i>scheme</i> and details of the <i>scheme's</i> other possible expenses or fees, distinguishing between those to be paid by the <i>unitholder</i> and those to be paid from the <i>scheme's</i> or the <i>sub-fund's</i> assets, including:
	(a)	overall contents of the information provided:
	(i)	disclosure of a total expense ratio (TER), calculated as indicated in Annex 1 to this chapter, except for a newly created fund where a TER cannot yet be calculated;
	(ii)	on an ex ante basis, disclosure of the expected cost structure, that is an indication of all costs available according to the list set forth in Annex 1 to this chapter so as to provide investors, in so far as possible, with a reasonable estimate of expected costs;
	(iii)	all entry and exit commissions and other expenses directly paid by the investor;
	(iv)	an indication of all the other costs not included in the TER, including disclosure of transaction costs;
	(v)	as an additional indicator of the importance of transaction costs, the portfolio turnover rate, calculated as shown in Annex 2 to this chapter; and
	(vi)	an indication of the existence of fee-sharing agreements and soft commissions;
Notes:	1.	In explaining the function of the TER to the reader, appropriate wording should be used in the <i>simplified prospectus</i> . For example, TER might be explained in the following terms: "The TER shows the annual operating expenses of the <i>scheme</i> - it does not include transaction expenses. All European funds highlight the TER to help you compare the annual operating expenses of different <i>schemes</i> ."
	2.	It is the FSA's understanding that the disclosure of a reasonable estimate of expected costs on an ex ante basis, as required by paragraph (14)(a)(ii), only applies to new <i>schemes</i> where a TER cannot yet be calculated. Where a TER can be calculated for a <i>simplified prospectus scheme</i> , there is no need to have to

			disclose a reasonable estimate of expected costs on an ex ante basis in accordance with paragraph (14)(a)(ii), in addition to the TER.
		3.	Paragraph (14)(a)(vi)) should not be interpreted as a general validation of the compliance of any individual agreement or commission with the provisions of the <i>Handbook</i> . Taking into account current market practice, consideration should be given as to how far the <i>scheme's</i> existing fee-sharing agreements and comparable fee arrangements are for the exclusive benefit of the <i>scheme</i> .
		4.	The <i>simplified prospectus</i> should make a reference to the full <i>prospectus</i> for detailed information on these kinds of arrangements, which should allow any investor to understand to whom expenses are to be paid and how possible conflicts of interest will be resolved in his/her best interest. The information provided in the <i>simplified prospectus</i> should remain concise in this respect.
		5.	[intentionally blank]
	(b)		information about 'fee sharing agreements' and 'soft commissions':
		(i)	identification of 'fee-sharing agreements';
Note:			For the purposes of paragraph (14)(b)(i), fee-sharing agreements should be taken as those agreements whereby a party remunerated, either directly or indirectly, out of the assets of a <i>scheme</i> agrees to split its remuneration with another party and which result in that other party meeting expenses through this fee-sharing agreement that should normally be met, either directly or indirectly, out of the assets of the <i>scheme</i> .
		(ii)	identification of soft commissions;
Note:			For the purposes of paragraph (14) (b) (ii), soft commissions should be regarded as any economic benefit, other than clearing and execution services, that an asset manager receives in connection with the scheme's payment of commissions on transactions that involve the scheme's portfolio securities. Soft commissions are typically obtained from, or through, the executing broker.
	(c)		presentation of TER and portfolio turnover rate;
Note:			Both the TER and the portfolio turnover rate may be either included in or attached to the <i>simplified prospectus</i> in the same paper as information on past performance.
Commercial information			
(15)			how to buy the <i>units</i> ;
Note:			This should include an explanation of any relevant right to cancel or withdraw

	from the purchase, or, where it is the case, that such rights do not apply.
(16)	how to sell the <i>units</i> ;
(17)	in the case of a <i>scheme</i> having different investment compartments ( <i>sub-funds</i> ), an explanation of how to switch from one investment compartment into another and any charges applicable in such cases;
(18)	when and how dividends on <i>units</i> or <i>shares</i> of the <i>scheme</i> (if applicable) are distributed;
(19)	when and where prices of <i>units</i> are published or made available;
Additional information	
(20)	A statement that, on request, the full <i>prospectus</i> and the annual and half-yearly reports of the <i>scheme</i> may be obtained free of charge before the conclusion of the contract and afterwards, together with details of how they may be obtained or how a <i>person</i> may gain access to them;
(21)	the name and contact details of the <i>FSA</i> as being the <i>competent authority</i> which has authorised or registered the <i>scheme</i> ;
(22)	details of a contact point ( <i>person</i> or department, and, if appropriate the times of day etc.) where additional information may be obtained if needed;
(23)	the date of publication of the <i>simplified prospectus</i> .
General Note:	
	In making the disclosures required by paragraphs (8) to (19) of this Table, the information must be presented in the form of questions and answers. This format is designed to assist the comprehension of the reader. This requirement will not apply in relation to a <i>simplified prospectus</i> that is to be used to market the <i>units</i> of the <i>scheme</i> in another <i>EEA state</i> or in relation to a <i>simplified prospectus</i> that is to be used to market the <i>units</i> of the <i>scheme</i> exclusively to <i>persons</i> who are not <i>private customers</i> .

[intentionally blank]

4.6.9 R (1) [intentionally blank]

(2) [intentionally blank]

Composite documents for several schemes, sub-funds and classes



4.6.10 G [intentionally blank]

Multiclass schemes: use of representative class

4.6.11 G In the *FSA's* view, where a *simplified prospectus scheme* has more than one *class of unit*, the *simplified prospectus* may be prepared on a representative *class* basis, provided this is made clear and there is no material difference in the *classes* concerned. The same applies for an *umbrella*, as regards any *sub-fund* with more than one *class of units*.

## Total expense ratio calculation

4 Annex R This Annex belongs to the rule on the contents of the simplified prospectus  
1 1 in this chapter.

Total expense ratio (TER)		
1.	Definition of the TER	
	The total expense ratio (TER) of a <i>simplified prospectus scheme</i> is the ratio of the <i>scheme's</i> total operating costs to its average net assets calculated according to paragraph 3.	
2.	Included/excluded costs	
	(a)	The total operating costs are all the expenses which come in deduction of a <i>simplified prospectus scheme's</i> assets. These costs are usually shown in a <i>scheme's</i> statement of operation for the relevant fiscal period. They are assessed on an 'all taxes included' basis, which means that the gross value of expenses should be used.
	(b)	Total operating costs include any legitimate expenses of the <i>simplified prospectus scheme</i> , whatever their basis of calculation (e.g. flat-fee, asset-based, transaction-based - see note 2 above), such as:
		- management costs including performance fees;
		- administration costs;
		- fees linked to <i>depository</i> duties;
		- audit fees;
		- payments to shareholder services providers including payments to the <i>simplified prospectus scheme's</i> transfer agent and payments to broker-dealers that are record owners of the <i>scheme's</i> shares and that provide sub-accounting services for the beneficial owners of the <i>scheme's</i> shares;
		- payments to lawyers;
		- any distribution or unit cancellation costs charged to the <i>scheme</i> ;
		- registration fees, regulatory fees and similar charges;
		- any additional remuneration of the management company (or any other party) corresponding to certain fee-sharing agreements in accordance with paragraph 4 below.

	(c)	The total operating costs do not include:
	-	transaction costs which are costs incurred by a <i>simplified prospectus scheme</i> in connection with transactions on its portfolio. They include brokerage fees, taxes and linked charges and the market impact of the transaction taking into account the remuneration of the broker and the liquidity of the concerned assets;
	-	interest on borrowing;
	-	payments incurred because of financial derivative instruments;
	-	entry/exit commissions or any other fees paid directly by the investor;
	-	soft commissions in accordance with paragraph 4.
3.		Calculation method and disclosure
	(a)	The TER is calculated at least once a year on an ex post basis, generally with reference to the fiscal year of the <i>simplified prospectus scheme</i> . For specific purposes it may also be calculated for other time periods. The <i>simplified prospectus</i> should in any case include a clear reference to an information source (e.g. the <i>scheme's</i> website) where the investor may obtain previous years'/periods' TER figures.
	(b)	The average net assets must be calculated using figures that are based on the <i>scheme's</i> net assets at each calculation of the net asset value (NAV), e.g. daily NAVs where this is the normal frequency of NAV calculation as approved by the <i>simplified prospectus scheme's competent authorities</i> . Further circumstances or events which could lead to misleading figures have equally to be taken into consideration.
		Tax relief should not be taken into account.
		The calculation method of the TER must be validated by the <i>simplified prospectus scheme's</i> auditors and/or <i>competent authorities</i> .
4.		Fee-sharing agreements and soft commissions
		It regularly results from fee-sharing agreements on expenses that are generally not included in the TER, that the management company or another party is actually meeting, in all or in part, operating costs that should normally be included in the TER. They should therefore be taken into account when calculating the TER, by adding to the total operating costs any remuneration of the management company (or another party) that derives from such fee-sharing agreements.
		There is no need to take into account fee-sharing arrangements on expenses that are already in the scope of the TER. Soft commissions should also be

	left outside the scope of the TER.
	Thus:
-	the remuneration of a management company through a fee-sharing agreement with a broker on transaction costs and with other fund management companies in the case of funds of funds (if this remuneration has not already been taken into account in the synthetic TER (see paragraph 6 below) or through other costs already charged to the fund and therefore directly included into the TER) should anyway be taken into account in the TER,
-	conversely, the remuneration of a management company through a fee-sharing agreement with a <i>scheme</i> (except when this remuneration falls under the scope of the specific fund-of-fund case covered in the previous indent) should not be taken into account.
5.	Performance fees:
	Performance fees should be included in the TER and should also be disclosed separately as a percentage of the average net asset value.
6.	Simplified prospectus scheme investing in UCITS scheme or in non-UCITS scheme:
	When a <i>simplified prospectus scheme</i> invests at least 10% of its net asset value in <i>UCITS schemes</i> or in <i>schemes</i> that are not <i>UCITS schemes</i> which publish a TER in accordance with this Annex, a synthetic TER corresponding to that investment should be disclosed.
	The synthetic TER is equal to the ratio of:
-	the <i>simplified prospectus scheme's</i> total operating costs expressed by its TER and all the costs borne by the <i>scheme</i> through holdings in underlying funds (i.e. those expressed by the TER of the underlying funds weighted on the basis of the <i>simplified prospectus scheme's</i> investment proportion), plus the subscription and redemption fees of these underlying funds, divided by
-	the average net assets of the <i>scheme</i> .
	As mentioned in the previous subparagraph, subscription fees and redemption fees of the underlying funds should be included in the TER. Subscription and redemption fees may not be charged when the underlying funds belong to the same group in accordance with Article 24 (3) of the <i>UCITS Directive</i> .
	When any of the underlying <i>schemes</i> that are not <i>UCITS schemes</i> does not publish a TER in accordance with this Annex, disclosure of costs should be adapted in the following way:
-	the impossibility of calculating the synthetic TER for that fraction of

		the investment must be disclosed,
	-	the maximum proportion of management fees charged to the underlying fund(s) must be disclosed in the <i>simplified prospectus</i> ,
	-	a synthetic figure of total expected costs must be disclosed, by calculating:
	-	a truncated synthetic TER incorporating the TER of each of those underlying funds for which the TER is calculated according to this Annex, weighted on the basis of the <i>simplified prospectus scheme's</i> investment proportion, and
	-	by adding, for each of the other underlying funds, the subscription and redemption fees plus the best available maximum estimate of TER-eligible costs. This should include the maximum management fee and the last available performance fee for that fund, weighted on the basis of the <i>simplified prospectus scheme's</i> investment proportion.
7.	Umbrella funds/multiclass funds:	
	In the case of umbrella funds, the TER should be calculated for each <i>sub-fund</i> . If, in the case of multiclass funds, the TER differs between different share classes, a separate TER should be calculated and disclosed for each share class. Furthermore, in keeping with the principle of equality among investors, where there are differences in fees and expenses across classes, these different fees/expenses should be disclosed separately in the <i>simplified prospectus</i> . An additional statement should indicate that the objective criteria (e.g. the amount of subscription), on which these differences are based, are available in the full <i>prospectus</i> .	

Notes:	
1.	This Annex sets out the requirements in relation to the TER. It reproduces, and adapts where appropriate for the purposes of the Simplified Prospectus provisions, Annex 1 to Commission Recommendation (2004/384/EC), amplifying Schedule C (Contents of the simplified prospectus) to the Management Company Directive (2004/107/EC).
2.	The non-exhaustive typology of calculation bases referred to in paragraph 2(b) below reflects the diversity of recent commercial practice across Member States (at the end of 2003) and should not be interpreted as a general validation of the compliance of any individual agreement or commission with the provisions of the <i>Handbook</i> .

## Portfolio turnover calculation

4 Annex R  
2

This Annex belongs to the rule on the contents of the simplified prospectus in this chapter.	
Note:	This Annex sets out the requirements in relation to the portfolio turnover rate. It reproduces Annex II to Commission Recommendation (2004/384/EC), amplifying Schedule C (Contents of the simplified prospectus) to the Management Company Directive (2004/107/EC). This table also includes other material which the <i>FSA</i> considers should be included.
Portfolio turnover rate	
A <i>simplified prospectus scheme's</i> or, where relevant, a compartment's ( <i>sub-fund's</i> ) portfolio turnover rate must be calculated in the following way:	
Purchases of securities = X	
Sales of securities = Y	
Total 1 = total of transactions in securities = X + Y	
Issues/Subscriptions of units of the scheme = S	
Cancellations/Redemptions of units of the scheme = T	
Total 2 = Total transactions in units of the scheme = S + T	
Reference average of total net assets = M	
Turnover = [(Total 1 - Total 2)/M]*100	
The reference average of total net assets corresponds to the average of net asset values calculated with the same frequency as under Annex 1 to this chapter. The portfolio turnover rate disclosed should correspond to the period(s) for which a TER is disclosed. The <i>simplified prospectus</i> should in any case include a clear reference to an information source (e.g. the <i>scheme's</i> website) where the investor may obtain previous periods' performance.	
Note	
Firms should note that inclusion of the portfolio turnover rate in the <i>simplified prospectus</i> is mandatory. The rate must be calculated according to the formula which is prescribed above. However, because the rate includes both purchases and sales of <i>securities</i> , readers may find it difficult to understand. Consequently <i>firms</i> should consider including an explanation of the formula, such as:	

(Purchase of *securities* + Sales of *securities*) – (Subscription of  
units + Redemptions of units)

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(Average Fund Value over 12 months) x 100