

## **ASISA RETAIL STANDARD ON EFFECTIVE ANNUAL COST (EAC)**

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## 1. INTRODUCTION

- 1.1. Some investment charges might not always be visible to retail investors and, even when they are, investors might not pay sufficient attention to such charges or understand their impact on investment returns. Low visibility of charges, inconsistency in the way information is presented and lack of understanding can harm consumer welfare.
- 1.2. All ASISA members are committed to operating within the six outcomes under the Treating Customers Fairly framework. In seeking to achieve outcome 1, which provides that *"customers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture"* and outcome 3, which provides that *"customers are provided with clear information and are kept appropriately informed before, after and during the point of sale"* in particular, ASISA has developed an effective annual cost ("**EAC**") measure, a uniform disclosure methodology that may be used by consumers and advisors to compare charges on most retail investment products, and their impact on investment returns, across the various regulatory wrappers.
- 1.3. The aim of the EAC measure is accordingly to assist consumers in making better informed decisions around both new and existing retail savings and investment products. The EAC measure can therefore be utilized by consumers and advisors as a tool to measure the charges that a customer is likely to incur when purchasing and holding a financial product. Importantly, the EAC measure does not attempt to measure the other features of a financial product, but aims to draw the consumer's attention to investment charges and make it easier for the consumer to compare charges from different providers.
- 1.4. This ASISA Retail Standard on Effective Annual Costs ("**Standard**") has accordingly been established in the interests of promoting transparency and disclosure and improving comparability of retail savings and investment products.
- 1.5. This Standard and, in particular, the EAC, has been developed on the basis of engagements with National Treasury and the Financial Sector Conduct Authority ("**FSCA**"), and with input from independent actuaries commissioned to make recommendations and suggestions in relation to the standardisation of the calculation of the EAC.

- 1.6. This Standard is being shared with ASISA members and the public at large for their consideration and implementation, and is binding on ASISA members.

## 2. SCOPE

- 2.1. This Standard sets out the minimum various disclosures which are to be made to investors (in addition to the disclosures required in terms of the relevant legislation) based on research conducted. In particular, the General Code of Conduct under the Financial Advisory and Intermediary Services Act of 2002 ("**FAIS**") has been used as the departure point for the further disclosures set out in this Standard.

- 2.2. This Standard is aimed at linked investment service providers and product providers ("**Providers**") which offer:

- 2.2.1. participatory interests in collective investment schemes (including foreign collective investment schemes duly approved for marketing in South Africa);
- 2.2.2. insurance contracts (other than pure risk-based insurance contracts and compulsory and voluntary purchase guaranteed non-profit life annuities);
- 2.2.3. products wrapped in a life wrapper; and
- 2.2.4. retirement annuity funds and preservation funds.

The above financial products are collectively referred to as "**Financial Products**".

- 2.3. This Standard does not lend itself to with-profit annuities to the extent that Providers have closed these products to new business and customers within those products are unable to transfer to a similar product with an alternate Provider. In the event that Providers are requested to provide an EAC on such with-profit annuities, Providers should make full and adequate disclosure, including all available relevant and applicable charges, to the investor.
- 2.4. Where any other financial products, are made available to retail customers, Providers should apply the provisions of this Standard in relation to such other financial products as far as possible.

- 2.5. Where the Financial Product is a living annuity, Providers should consider the **ASISA Standard on Living Annuities** in addition to this Standard.

### 3. GENERAL PRINCIPLES

In the application of this Standard:

- 3.1. Providers should subscribe to the following well-accepted principles, as outlined in the General Code of Conduct for Authorised Financial Services Providers and Representatives, 2003 ("**General Code of Conduct**") and the Treating Customers Fairly Framework ("**TCF**") set by the Financial Sector Conduct Authority ("**FSCA**") that disclosures:
- 3.1.1. be timely;
  - 3.1.2. be relevant and comprehensive;
  - 3.1.3. promote product understanding;
  - 3.1.4. promote product comparisons;
  - 3.1.5. highlight important information; and
  - 3.1.6. have regard to consumer needs.
- 3.2. Providers should exercise their discretion in applying this Standard reasonably, with due regard to the objectives of this Standard as set out in the Introduction and Scope sections above, and with due regard to the above disclosure principles.
- 3.3. All charges that an investor incurs and will incur over the relevant period are included in the EAC measure for that Financial Product. Where a charge is not available, a reasonable best-estimate should be used and explained in the free text notes.
- 3.4. Charges are assigned to the components set out in this Guideline. Where no component has been identified for a charge, and the charge does not appear to align exactly with a component, a Provider should exercise its reasonable discretion to assign the charge to one or more components to which it most closely aligns and explain the reasons for its decision in the free-text notes.

- 3.5. Providers should do their best to ensure that all values used in any EAC calculations are accurate and comprehensive, and that its calculations are accurate. Where any value is not available, a Provider should use a reasonable and best estimate of the value and include a statement that it has done so in the free text notes.
- 3.6. Providers should not manipulate any values or calculations, or use any wording in free text notes which purports, to, at any point in time:
- 3.6.1. inflate the projected or anticipated performance of a Financial Product;
  - 3.6.2. make a Financial Product appear less expensive; or
  - 3.6.3. present any other skewed, inaccurate, untrue, biased, misleading or incomplete view of a Financial Product to an investor.
- 3.7. The form and wording of disclosures as set out in this Standard should be utilised.
- 3.8. Any further explanatory wording added by Providers should takes cognisance of the principles set out in this Standard, the General Code of Conduct, and the TCF framework.
- 3.9. In all free text notes, Providers should use clear, plain and unambiguous language appropriate to the target market, with due regard to the principles and objectives set out in this Standard, the General Code of Conduct, and the TCF framework including the well-accepted disclosure principles set out in paragraph 3.1 above. In addition, the free text notes should appear directly beneath the table in an easily legible font size.
- 3.10. Where rebate arrangements exist, but the rebate is not passed on to the investor, the relevant EAC component from which the rebate has been deducted should be shown net of the rebate, and the relevant EAC component to which the rebate is added should be shown as including the rebate, and this should be explained in the free text notes.
- 3.11. Where rebate arrangements exist and the rebate is passed on to the investor, the relevant EAC components from which the rebate was deducted should be shown net of the rebate, and this should be explained in the free text notes.
- 3.12. Where the purchase of a Financial Product requires an investor to waive or forego a benefit related to that Financial Product (such as, for example, dividends), the loss of such

benefit and the effect thereof on the investor should be clearly explained in the free text notes.

- 3.13. Where a Provider applies a charge which relates to one Financial Product to another product (whether or not a Financial Product as defined in this Standard) or person or entity (a practice known colloquially as "charge-shifting"), the amount of the charge as it would or should have applied to the Financial Product in question should be clearly disclosed in the free text notes. (See example 2 in **Annexure "B"**).
- 3.14. Where a Provider shifts charges within a Financial Product by applying a charge which would ordinarily have been allocated to a particular EAC component (for example, advice) to another EAC component (for example, administration), this should be clearly explained in the free text notes.
- 3.15. If an investor has more than one Financial Product with a Provider, and as a result of the aggregated assets, there is a lower charge across all Financial Products, this lower charge may be used in calculating an overall EAC for that customer ("**Aggregated EAC**"). Detail of the Aggregated EAC and how it was compiled should be fully explained in the free text notes. Notwithstanding the above, an EAC per Financial Product should still be provided to a customer upon request. Similarly, where a customer requests an EAC in anticipation of making a further investment into any Financial Product with that Provider, and the additional investment will result in a lower charge across all Financial Products, an Aggregated EAC may be provided.
- 3.16. Any benefit payments which accrue and are received outside of the Financial Product should be excluded from the calculation of the EAC and explained in the free text notes.
- 3.17. If charges of a Financial Product are reduced due to the fact that a customer, for example:
- 3.17.1. belongs to a loyalty programme;
  - 3.17.2. is a member of a medical aid;
  - 3.17.3. undertakes a transaction of a financial nature such as taking out a loan or another product to which the EAC does not apply; or

- 3.17.4. due to any other mechanism operating outside of the Financial Product,
- the impact of the lower charges should not be taken into account in the calculation of the EAC. This is because such benefits operate outside of the Financial Product and the impact of such charges should only be disclosed in the free text notes.
- 3.18. Other disclosures and communications directed at customers and prospective customers should not undermine, obscure or contradict the EAC disclosures.

## 4. GOVERNANCE

### Compliance certificates

- 4.1. Every Provider shall submit a certificate to ASISA, annually, within 3 months of 31 December, which certificate shall:
- 4.1.1. be signed by the Provider's CEO and either the Provider's auditor, statutory actuary, or chief compliance officer; and
  - 4.1.2. certify that the signatories are satisfied that all the Provider's EAC calculations and disclosures comply in all respects with the letter and spirit of this Standard.
- 4.2. If a Provider offers third-party named portfolios (i.e. third-party co-branding arrangements), it is that Provider's responsibility to ensure compliance with this Standard in respect of those portfolios and to provide a certificate to ASISA that includes those portfolios. Such certificate must list the third-party named portfolios offered by the Provider.

### Complaints and/or Disputes

- 4.3. Any third party ("**Complainant**") may request a Provider in writing for confirmation that its EAC calculations and/or disclosures for any Financial Product are correct and comply in all respects with the letter and spirit of this Standard.
- 4.4. A Provider shall respond in writing to such Complainant's request within 15 (fifteen) business days of receipt of the request.
- 4.5. Where the 15 (fifteen) business day period referred to above is not adhered to, alternatively,

the Provider's response fails to resolve the request to the satisfaction of the Complainant, the Complainant may elect to notify ASISA by setting out a concise description of the complaint in writing. ASISA may in turn refer the matter to an ASISA-nominated third party for verification.

- 4.6. All Providers shall co-operate fully with ASISA and provide all such data and information to ASISA as may be requested by ASISA and/or the ASISA-nominated third party for purposes of verification of the Provider's EAC calculations and disclosures. All correspondence received will be treated confidentially (maintaining anonymity of the Complainant) and shared only between the Complainant, the Provider, ASISA and/or the ASISA-nominated third party.
- 4.7. Following investigation of the complaint, ASISA and/or the ASISA-nominated third party will initially provide a provisional determination. If either the Complainant or Provider is not satisfied with the determination, that party has 15 (fifteen) business days following receipt of the determination to respond with their concerns, which response shall then be sent to the other party for their right of response within 15 (fifteen) business days of receipt thereof. Upon receipt of all responses by ASISA and/or the ASISA-nominated third party, the matter will be re-assessed, and a final, binding determination provided.
- 4.8. Where ASISA and/or the ASISA-nominated third party's determination finds that the Provider's EAC calculations and/or disclosures do not comply with this Standard, the Provider shall, to the fullest extent possible, withdraw all erroneous EAC measures from the public domain and rectify the erroneous EAC measure in the manner specified by ASISA and/or the ASISA-nominated third party within 30 (thirty) business days of receipt of ASISA's notification; or such other reasonable period as agreed with ASISA and/or the ASISA-nominated third party. The Provider shall furthermore rectify any systemic causes for an erroneous EAC measure in order to ensure that such errors are not repeated

## 5. EAC CALCULATION PRINCIPLES

The following principles should be applied in the EAC calculation adopted by a Provider:

### General

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

The components are:

- 5.1.1. investment management charges ("**EAC[IMC]**");
  - 5.1.2. advice charges ("**EAC[Advice]**");
  - 5.1.3. administration charges ("**EAC[Admin]**"); and
  - 5.1.4. other charges ("**EAC[Other]**").
- 5.2. The EAC is calculated separately for each of the four components and then summed to derive the EAC for the Financial Product as a whole, using the following formula<sup>1</sup>:
- $$\text{EAC[total]} = \text{EAC[IMC]} + \text{EAC[Advice]} + \text{EAC[Admin]} + \text{EAC[Other]}$$
- 5.3. The value for each of the components, as well as the total EAC, is displayed in a table at four disclosure periods in accordance with the tables in **Annexure "A"**, **Annexure "B"** and **Annexure "C"** attached hereto ("**EAC table**"). **Annexure "C"** specifically sets out the disclosures for guaranteed return investment products and guaranteed term annuities. The four disclosure periods are 1, 3, 5 years and the end of term (where there is a specified term). Where there is no specified term, 10 years should be used as the last disclosure period. In the case of a retirement annuity or other retirement product which does not have a term, age 55 should be used as the last disclosure period.
- 5.4. All charge components should be shown inclusive of VAT, where applicable. This may be explained in the free text notes.
- 5.5. For the sake of consistency and ease of reference, all values are shown in percentages to either one or two decimal places at the discretion of the Provider (rounded up from 5 and above and rounded down below that – see below examples). However, different products within a Provider's group of companies need not adopt the same approach to decimal places (for example, the life company within a group may utilise 1 decimal place whereas the Manco may utilise 2 decimal places).

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<sup>1</sup> This formula has been derived from (i) contributions from ASISA members; (ii) considerations of internal and local industry cost measures; (iii) engagements with National Treasury and the FSCA; and (iv) consultations with independent actuaries, True South Actuaries & Co.

Rounding example:	One decimal place (i.e. look to the nearest hundredth)	Two decimal places (i.e. look to the nearest thousandth)
1.446	= 1.4	= 1.45
1.456	= 1.5	= 1.46

### Simplified approach vs reduction in yield (“RIY”) methodology

- 5.6. The incidence of the cash flow (i.e. lump sum or recurring investment) and the nature of the charge (i.e. initial or annual charge), would ordinarily determine whether a simplified approach to the calculation is used or whether a reduction in yield methodology is more appropriate.
- 5.7. The simplified methodology is used where a charge ordinarily complies with all of the following conditions, and is then included in the EAC as the actual percentage of the charge:
- 5.7.1. the charge is expressed as a percentage of the value of the investment; and
  - 5.7.2. the charge is deducted from or added to the investment on a consistent and ongoing basis; and
  - 5.7.3. the percentage of the charge is level over the duration of the disclosure period.
- 5.8. For lump sum (single premium) Financial Products, where there is an initial charge that is expressed as a percentage of the investment, the charge which is included in the EAC should be amortised on a straight-line basis over the relevant disclosure period, i.e. the initial charge is divided by the number of years in the disclosure period being considered.
- 5.9. All charges that do not conform to the simplified methodology conditions above, are calculated on a RIY basis as set out in more detail in paragraph 6 below. In this event, a single RIY calculation per component should be performed. This RIY determined charge would then be added to any charges which were able to be calculated on the simplified basis.

### Recurring premium Financial Products

- 5.10. Where the Financial Product has a recurring premium, Providers may, in addition to the existing EAC table and disclosures, disclose an additional line item in respect of the year 1 disclosure period EAC value, indicating the percentage reduction in investment value at the end of that period as a result of all applicable charges during and at the end of year 1. This charge is calculated as follows:

$$1 - [\text{Year 1 termination value} / \text{Year 1 gross premiums accumulated at the prescribed growth rate}]$$

- 5.11. This additional charge may be reflected either in a separate table underneath the EAC table (as set out in the examples in **Annexures "A" and "B"**), or as part of the free text notes, but it should clearly disclose that the value depicted is in respect of the year 1 disclosure period only.

### Existing Financial Products

- 5.12. When calculating an EAC for existing Financial Products, the market value as at the date of the EAC calculation should be used. The market value of a specific investment is ordinarily the sum of the values of all the underlying funds or assets (as applicable) in which that investment invests and which are attributable to the customer. Providers may, in addition to the existing EAC table and disclosures, disclose an additional row below the EAC table, indicating the EAC value using the realisable value as a starting point (as set out in the examples in **Annexures "A" and "B"**).
- 5.13. The realisable value is the market value at the time of calculation less any termination charge plus any loyalty bonus which would be added to the investment on immediate termination. This additional EAC value should be clearly explained and disclosed in the free text notes.
- 5.14. If the EAC is calculated for an existing Financial Product as a result of a qualifying event<sup>2</sup> the total investment is to be considered and not only the additional investment. The EAC should therefore reflect the charges on the original investment, as well as any charges

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<sup>2</sup> Qualifying events are limited to any additional investments into an existing Financial Product whether by way of a recurring premium increase or lump sum, and changes in intermediary remuneration charges. Non-qualifying events would include, but are not limited to, annual contractual premium increases; premium reductions/terminations; a discontinuance or termination of a Financial Product; switches between different underlying funds; and withdrawals of investments.

applicable to the additional investment.

- 5.15. If the EAC is required for an existing Financial Product in the middle of the month, the EAC calculation may be done using any of the following as the starting point of the calculation, taking into account all charges from the current date: the starting date of the current quarter (subject to paragraph 5.16), or the current date, or any date within a month from the date of request.
- 5.16. Subject to paragraph 3.1.3, when calculating an EAC for a Financial Product, no information or data that is more than one quarter out of date is to be utilized.
- 5.17. If the market value of an existing Financial Product falls below zero at any point in the RIY calculation, the disclosure of an EAC from that point onwards is probably not necessary.

## 6. THE CALCULATION METHODOLOGY FOR EACH COMPONENT

Providers should make use of the following calculation methodology for each component in the EAC calculation adopted by a Provider:

### The Investment Management Charge (EAC[IMC])

- 6.1. Where an investment is a South African domiciled investment, the investment management charge would ordinarily include all costs and charges for all underlying investments, as set out in the **ASISA Standard on Calculation and Disclosure of Total Expense Ratios and Transaction Costs**. In the absence of a total expense ratio ("TER") or transaction costs, an equivalent charge calculated according to the principles in the **ASISA Standard on Calculation and Disclosure of Total Expense Ratios and Transaction Costs** may be utilised.
- 6.2. Where an investment is a foreign domiciled investment, the ongoing charges figure ("OCF") (as published in the key investor information documents applicable to foreign domiciled investments) plus performance fee (if applicable) would ordinarily be utilised. In the absence of a published OCF, the published 1-year TER should be used, or, if the published 1-year TER is unavailable, an equivalent charge calculated according to the principles in the **ASISA Standard on Calculation and Disclosure of Total Expense Ratios and Transaction Costs** should be utilised.

6.2.1. The investment management charge is equal to the weighted average of the applicable cost measures (as set out above) of the underlying funds and investments.

6.2.2. Providers should use the latest available costing values in the calculation.

6.2.3. The EAC[IMC] is calculated as follows:

#### South African domiciled investments

Investment Type	No initial charge	Initial charge ("IC") percentage
Lump Sum	$EAC = TER + \text{transaction costs}$	$EAC = TER^{**} + \text{transaction costs} + IC/n^*$
Lump Sum + Recurring	$EAC = TER + \text{transaction costs}$	$EAC = TER^{**} + \text{transaction costs} + RIY (IC)$

#### Foreign domiciled investments

Investment Type	No initial charge	IC percentage
Lump Sum	$EAC = OCF + \text{Performance Fee}$	$EAC = OCF^{**} + \text{Performance Fee} + IC/n^*$
Lump Sum + Recurring	$EAC = OCF + \text{Performance Fee}$	$EAC = OCF^{**} + \text{Performance Fee} + RIY (IC)$

Where:

**\*n** = number of years in disclosure period

**\*\*TER** and **OCF** must be net TER or OCF after deduction of all rebates (refer to paragraphs 3.10 and 3.11 above)

6.2.4. If the EAC is calculated for a Financial Product and the fund allocation of the future premiums / additional investment differs from that of the existing investment, the simplified approach is not used to determine the EAC[IMC]. The RIY methodology, or any other method which approximates the outcome of the RIY methodology at each disclosure period, is more appropriate.

#### The Advice Charge (EAC[Advice])

- 6.3. All charges that a customer incurs for the provision of financial planning by an adviser or representative (as defined in FAIS) should be included in the EAC[Advice] component.
- 6.4. In the event that an advice charge is calculated by a Provider as an annual percentage charge, the EAC[Advice] should be equal to that annual percentage.
- 6.5. In the event that an initial advice charge is levied by a Provider, the EAC[Advice] is calculated as follows:

Investment Type	No initial charge	IC percentage
Lump Sum	EAC = Annual Advice Charge	$EAC = \text{Annual Advice Charge} + \frac{\text{Initial Advice Charge}}{n^*}$
Lump Sum + Recurring	EAC = Annual Advice Charge	EAC = RIY measure of Advice Charge

\* Where **n** = number of years in disclosure period.

- 6.6. Where the adviser charge is not facilitated by the Provider, or the customer has not engaged the services of an adviser, the advice charge is reflected as 0.0%. In such a case, include a footnote explaining that, as no advice fee has been supplied, none could be included in the calculation.

#### The Administration Charge (EAC[Admin])

- 6.7. The administration charge component includes all charges that a customer incurs relating to the administration of a Financial Product. Termination charges, exit penalties, loyalty bonuses or any similar structure should be excluded from the administration charge calculation.
- 6.8. The EAC[Admin] is calculated using the RIY methodology in paragraph 7 below, except in cases where the administration charge meets the conditions for the simplified calculation methodology, as set out in paragraph 5.7 above.

Investment Type	No initial charge	Initial charge percentage (IC)
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Lump Sum	EAC = RIY measure of Administration Charge	EAC = RIY measure of Administration Charge
Lump Sum + Recurring	EAC = RIY measure of Administration Charge	EAC = RIY measure of Administration Charge

### The Other Charges (EAC[Other])

- 6.9. The EAC[Other] calculation should include the impact of termination charges, penalties or loyalty bonus payments that are reasonably foreseen if the customer terminates his or her contract and withdraws all of the funds at the end of the disclosure period being calculated. These include (but are not limited to) guarantees, smoothing or risk benefits, guarantee charges, the cost of limiting investment returns, wrap fund charges and the cost of any risk benefits such as waiver of premium or death benefits. (If the cost of any risk benefit is separately identifiable and the risk benefit can be removed or added to the financial product at any point in time without otherwise impacting the savings/investment product or its terms, the cost need not be included in the EAC[Other] calculation, but should be disclosed separately in an accompanying free text note.) In essence it is the “catch all” to contain any remaining charges that will be levied against a Financial Product and a free text note should be included setting out exactly what charges are contained under EAC[Other], including, but not limited to, exit penalties, loyalty bonuses and guarantee charges.
- 6.10. The EAC[Other] component is only shown in the EAC table where it has a non-zero value. Where a Provider earns all or part of its income from the Financial Product by limiting the customer’s exposure to investment returns, the cost to the customer of the risk adjusted expected annualised foregone investment returns should be shown and clearly explained in the free text notes.
- 6.11. Depending on the nature of the charge, the EAC[Other] calculation will either follow the simplified methodology or the RIY methodology.

## 7. THE RECOMMENDED REDUCTION IN YIELD (“RIY”) CALCULATION METHODOLOGY

### 7.1. Calculated on a cash flow basis

- 7.1.1. The RIY calculation should be performed on a cash flow basis, with exact

allowance for the timing and size of all flows, i.e. the Financial Product value is cumulatively built-up from each time [t] to time [n], where there are no cash flows between [t] and [n]:

$$\begin{aligned}\text{NAV}[n] &= \text{the value of the Financial Product at time [n] after all cash flows at time [n]} \\ &= \text{NAV}[t] * (1+g^{t:n}) + \Sigma\text{CF}[n]\end{aligned}$$

Where:

$$\begin{aligned}\text{NAV}[t] &= \text{market value at time [t] after all cash flows at time [t]} \\ g^{t:n} &= \text{effective growth rate for the period from [t] to [n]} \\ &= (1+g)^{t:n/365} - 1 \\ g &= \text{the prescribed growth rate*} \\ t:n &= \text{number of calendar days from time [t] to time [n]} \\ \Sigma\text{CF}[n] &= \text{sum of all cash flows at time [n]} \\ &= \Sigma\text{P}[n] + \Sigma\text{OI}[n] - \Sigma\text{C}[n] - \Sigma\text{OO}[n] \\ \Sigma\text{P}[n] &= \text{sum of all premium inflows at time [n]} \\ \Sigma\text{OI}[n] &= \text{sum of all other inflows or enhancements at time [n]} \\ \Sigma\text{C}[n] &= \text{sum of all charges levied against the Financial Product at time [n]} \\ \Sigma\text{OO}[n] &= \text{sum of all other outflows or deductions at time [n].}\end{aligned}$$

\* See paragraph 6.3.

## 7.2. Assumed timing of cash flows

7.2.1. Flows that have a contractually determined timing (e.g. “premiums monthly in advance”) should be allowed for on those contractual dates. For the timing of all other flows, the dates which are utilized should be the dates on which the Provider reasonably expects them to occur (i.e. on a best estimate basis).

## 7.3. Conceptual 3-step calculation

7.3.1. Step 1: Including all charges, including those determined on the simplified methodology, calculate the expected pay-out to the customer at the specific

disclosure point, using the above methodology and the growth assumption (g) i.e. the result is the pay-out that the Provider would have been able to guarantee at the specific disclosure point, had all the relevant assumptions been borne out in practice.

7.3.2. Step 2: The calculation in this step excludes the charge(s) relating to a specific component for which the RIY is being calculated but includes all other charges. Using this value, solve for the growth rate up to the same point in time that would set the value of the investment at that disclosure point equal to the pay-out value as calculated in step 1 above. Refer to this solved- for growth rate as ( $g_{\text{reduced}}$ ).

7.3.3. Step 3:  $\text{RIY} = g - g_{\text{reduced}}$

7.3.4. For purposes of the RIY calculation, investment growth is ordinarily fixed at 6% effective *per annum* (gross of all charges, but net of tax).

#### 7.4. **Special provision for calculation of last component**

7.4.1. The last component may be calculated as described in paragraph 7.3 or steps 2 and 3 in paragraph 7.3 may be replaced with the following:

7.4.2. Step 2: The calculation in this step assumes no charges apply to the investment. Solve for the growth rate up to the same point in time that would set the future value of the cash flows at that disclosure point equal to the pay-out value as calculated in step 1 in paragraph 6.3. Refer to this solved-for growth rate as ( $g_{\text{total}}$ ).

7.4.3. Step 3:  $\text{RIY}_{\text{total}} = g - g_{\text{total}}$

e.g. assuming your last component is the EAC[Other] component, the calculation will look as follows:

$$\text{EAC}[\text{Other}] = \text{RIY}_{\text{total}} - \text{EAC}[\text{IMC}] - \text{EAC}[\text{Advice}] - \text{EAC}[\text{Admin}]$$

#### 7.5. **Additional calculation for existing business**

7.5.1. The additional, optional row to the EAC table as set out in paragraph 5.12 should be calculated as described in paragraph 7.3. Rather than undertaking separate calculations for each of the components, only one combined calculation will be

necessary. This calculation should exclude the charges related to all the components. The realisable value at the time of the calculation should be used and solved for the growth rate up to the same point in time that would set the value of the investment at that disclosure point equal to the pay-out value as calculated in step 1 of paragraph 7.3. Refer to this solved-for growth rate as ( $g_{\text{additional}}$ ).

$$RIY = g - g_{\text{additional}}$$

## 8. EFFECTIVE DATE AND PHASED IMPLEMENTATION

- 8.1. For new investments and receipt of transfers, this Standard shall be effective from 1 June 2016 with Providers to complete implementation by 1 October 2016 ("**Effective Date**"), from which latter date the EAC measure must be calculated and disclosed in point-of-sale investor documentation (such as but not limited to quotations or proposals) by all Providers. Sample/Example EAC disclosures can be used pre-sale where appropriate in the entry level market and for direct marketing sales with investor specific EAC disclosure thereafter in new business/welcome packs documentation and ongoing communications.
- 8.2. For any existing Financial Product, the EAC must be made available to investors on request. This may take the form of making the EACs available via a secure online portal, but shall not include online calculators requiring inputs by the investor.
- 8.3. In addition, where a Qualifying Event (see definition below) takes place, the EAC must be made available to investors. This means that if a quotation is provided for a Qualifying Event, the EAC must be disclosed as part of the quotation. Alternatively, if a Qualifying Event occurs online as part of an online application process, it must be clearly disclosed as part of the online process that an EAC is available on request. Qualifying Events are limited to any additional investments into an existing Financial Product whether by way of a recurring premium increase or lump sum, and changes in intermediary remuneration charges. Non-Qualifying Events would include, but are not limited to, annual contractual premium increases; premium reductions/terminations; discontinuance or termination of a Financial Product; switches between different underlying funds; and withdrawals of investments.

- 8.4. Providers should notify investors on at least an annual basis about the availability of the EAC. This notification should include information on how investors are able to access their EAC (for example, via a call centre or online).
- 8.5. Subject to paragraph 8.7, the following phased implementation shall apply:
- 8.5.1. with effect from the first anniversary of the Effective date, paragraphs 8.2 and 8.4 will be effective in respect of all Financial Products sold after 1 June 2010;
  - 8.5.2. with effect from the second anniversary of the Effective Date, paragraphs 8.2 and 8.4 will be effective in respect of all Financial Products sold between 1 June 2000 and 31 May 2010;
  - 8.5.3. with effect from the third anniversary of the Effective Date, paragraphs 8.2 and 8.4 will be effective in respect of all Financial Products sold prior to 1 June 2000.
- 8.6. In respect of paragraphs 8.5.2 and 8.5.3 this Standard must be read together with the Addendum to this Standard for Universal Life Products.
- 8.7. Where a Provider has the capability to provide an investor with an EAC for a particular Financial Product despite the fact that the Financial Product sold to that investor does not fall into a phase which is effective at the time of the request by the investor, the Provider shall provide such investor with an EAC for the particular Financial Product.

## DOCUMENT HISTORY

Date	Publication and amendments
7 August 2015	First published
22 May 2020	Updated governance provisions and minor clarificatory amendments.
17 September 2021	Updated ongoing charges for foreign domiciled investments and with-profit annuities.
19 July 2022	Amended certain table headings.
30 October 2024	Updated from a competition law perspective by external legal counsel.

## RESPONSIBLE COMMITTEES AND SPA

<b>Responsible Board Committee</b>	Marketing and Distribution Board Committee
<b>Responsible Standing Committee</b>	Disclosures and Standards Standing Committee
<b>Responsible Senior Policy Advisor</b>	ASISA Point Person to the Marketing and Distribution Board Committee

## ANNEXURE "A"

## NEW BUSINESS EXAMPLE OF AN EAC TABLE

**[Notes to Providers:**

*The values used are for illustration only. The format of the table and paragraph above the table are required by this Standard. Providers may add further explanatory wording taking cognisance of the principles set out in the Standard. The wording beneath the table provides an example of the type of explanations which may relate to a particular Financial Product.*

*Where the Financial Product has a recurring premium, Providers may elect to insert an additional line item as described in the Standard, called "Year 1 % reduction in investment value due to charges". This can take the form of a table (as indicated below) or be included as a free text note. Providers may also elect to use the following wording in a footnote below the table relating to one or more rows where applicable:*

*\*Where you have a recurring premium over the longer term, the reduction in return on your investment reflected in these numbers and the actual charges are similar. Over the shorter term, the reduction in return is higher than the actual charge. After 1 year, the reduction in return may be as high as double the actual charge incurred, but the amount you receive on termination may be higher than the termination values implied by the numbers in this row.]*

**EFFECTIVE ANNUAL COST: XYZ PRODUCT OF COMPANY ABC**

The Effective Annual Cost ("**EAC**") is a measure which seeks to assist you in your comparison of the estimated impact of charges on investment returns when you invest in different financial products. It is expressed as an annualised percentage. The EAC is made up of four components, which are added together, as shown in the table below. The effect of some of the charges may vary, depending on your investment period. The EAC calculation assumes that a customer terminates his or her investment in the financial product at the end of the relevant periods shown in the table.

Impact of future	Investment assumed to end after
------------------	---------------------------------

charges	Next 1 Year	Next 3 Years	Next 5 Years	Term to maturity - Next xx Years
Investment management <sup>2</sup>	1.1%	1.1%	1.1%	1.1%
Advice	0.6%	0.6%	0.6%	0.6%
Administration <sup>1</sup>	0.9%	0.9%	0.8%	0.7%
Other <sup>3,4</sup>	0.3%	0.3%	0.3%	0.0%
<b>Effective Annual Cost</b>	2.9%	2.9%	2.8%	2.4%

**[Note to Providers: This line item may be included:]**

Year 1 % reduction in investment value due to charges	x%
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**[Note to Providers: Explanations should be in clear, plain and unambiguous language appropriate to the target market.]**

- 1 The amount reflected includes a rebate (discount) of 0.5% passed on from the investment manager.
- 2 A reasonable best estimate has been used for transaction charges.
- 3 A catch-all, which measures any remaining charges that you may incur, such as wrap fund and termination charges.
- 4 You are eligible for transactional banking at a cost of 0.15%, which is included in the cost of this financial product. For more details, please refer to the product brochure.

#### Notes:

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

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

All calculations include value-added tax (VAT) at the prevailing rate, where applicable. Where applicable, inflation has been taken into account when calculating the EAC.

## ANNEXURE "B"

## EXISTING BUSINESS EXAMPLE OF AN EAC TABLE

**[Notes to Providers:**

*The values used are for illustration only. The format of the table and paragraph above the table are required by this Standard. Providers may add further explanatory wording taking cognisance of the principles set out in the Standard. The wording beneath the table provides an example of the type of explanations which may relate to a particular Financial Product.*

*For existing Financial Products, Providers may, in addition to the existing EAC table and disclosures, disclose an additional row below the EAC table, indicating the EAC value using the realisable value as a starting point (as described in the Standard and indicated below). This additional EAC value should be clearly explained and disclosed in the free text notes.】*

**EFFECTIVE ANNUAL COST: EFG PRODUCT OF COMPANY ABC**

The Effective Annual Cost ("EAC") is a measure which seeks to assist you in your comparison of the estimated impact of charges on investment returns when you invest in different financial products. It is expressed as an annualised percentage. The EAC is made up of four components, which are added together, as shown in the table below. The figures only show the estimated impact of immediate and future charges, and do not include the impact of any charges that have already been incurred. The effect of some of the charges may vary, depending on your investment period.

EAC for your current investment (if only using the first table below)

or

EAC if you intend to continue with your current investment (if using both tables below)

The table below shows the EAC calculation, assuming, that you continue with your current investment

in the financial product and terminate at the end of the relevant periods shown in the table. The figures ignore all charges incurred to date.

Impact of future charges	Investment assumed to end after			
	Next 1 Year	Next 3 Years	Next 5 Years	Term to maturity - Next xx Years
Investment management	1.1%	1.1%	1.1%	1.0%
Advice	1.5%	1.2%	0.8%	0.6%
Administration	1.5%	1.5%	1.5%	1.4%
Other <b>1,2,3,4</b>	3.3%	1.3%	0.3%	-1.0%
<b>Effective Annual Cost</b>	<b>7.4%</b>	<b>5.1%</b>	<b>3.7%</b>	<b>2.0%</b>

**[Note to Providers:** this section and line item is optional. If it is used the position paragraph is important]

#### **EAC if you are considering replacing your current investment**

The table below shows the EAC calculation using the current realisable value rather than the market value as the starting value for the EAC calculation. This is the value that would apply now if you were to terminate your current investment in the financial product in order to replace it. The EAC table of an alternative financial product should be compared with the information below in order to determine whether or not the replacement may be in your best interest from an effective annual cost-comparison perspective.

	Next 1 Year	Next 3 Years	Next 5 Years	Term to maturity - Next xx Years
<b>Impact of future charges<sup>5</sup></b>	2.8%	2.9%	3.4%	1.8%

**[Note to Providers:** Explanations should be in clear, plain and unambiguous language appropriate to the target market.]

- 1 The values shown are the expected annual reduction in return after your investment forgoes all or part of the return above a specified level. The actual reduction in return may vary significantly as it will depend on how the markets perform during your investment in this financial product.
- 2 Includes accrued guarantee charges.
- 3 Includes a termination charge that will be incurred if the investor terminates his or her investment in the Financial Product at the end of the periods shown in the table.
- 4 Includes an allowance for loyalty bonuses which will have been earned and vested at the appropriate period end (reducing the charge).
- 5 Total EAC, calculated by adding the four components and using the current realisable value rather than the market value as the starting value for the EAC calculation. The realisable value is the market value at the time of calculation less any termination charge plus any loyalty bonus which would be added to the investment on immediate termination.

**Notes:**

Qualifying customers will receive an additional 3% bonus payment of their total contributions to this financial product every 5 years. The payment will be allocated an FGH account at ABC Company in the customer's name. Due to the bonus payment being received outside of this financial product, the payment has not been taken into account in the calculation of the EAC above.

The FGH account is only accessible at the end of every 5-year period from the date of payment of the bonus and any cancellation of this Financial Product before such date will result in the forfeit of the total value of the customer's FGH account at ABC Company.

All calculations include value-added tax (VAT) at the prevailing rate, where applicable. Where applicable, inflation has been taken into account when calculating the EAC.

## ANNEXURE "C"

## GUARANTEED RETURN INVESTMENT/ TERM ANNUITY PRODUCTS ONLY EXAMPLE OF AN EAC TABLE

**[Notes to Providers:**

The values used are for illustration only. The format of the table and paragraphs above and below the table are required by this Standard. Providers may add further explanatory wording taking cognisance of the principles set out in the Standard.

Wording for either two, three or four charges may be used for the financial product, in the paragraph above the table and correspondingly the same number of charges in the table may be included. Termination charges can be shown under "Other".]

**EFFECTIVE ANNUAL COST: HIJ GUARANTEED RETURN PRODUCT OF COMPANY ABC**

The Effective Annual Cost ("EAC") is a measure which seeks to assist you in your comparison of the estimated impact of charges on investment returns when you invest in different financial products. It is expressed as an annualised reduction in your guaranteed rate of return. The EAC is made up of two/three/four **[Note to Providers: Delete whichever is not applicable]** components, which are added together, as shown in the table below. The impact of the charges may vary, depending on your investment period. The EAC calculation assumes that a customer terminates his or her investment in the financial product at the end of the relevant periods from inception date shown in the table. Only those charges that affect the guaranteed rate of return are shown in the table below.

Impact of future charges	Investment assumed to end after			
	Next 1 Year	Next 3 Years	Next 5 Years	Term to maturity - Next xx Years
Investment management (only include if appropriate)	0.5%	0.5%	0.5%	0.5%

Advice	3.0%	1.0%	0.6%	0.6% <sup>1</sup>
Administration (only include if appropriate)	0.5%	0.3%	0.3%	0.3%
Other <sup>2</sup>	5.7%	1.0%	0.0%	0.0%
<b>Effective Annual Cost</b>	<b>9.7%</b>	<b>2.8%</b>	<b>1.4%</b>	<b>1.4%</b>

**[Note to Providers:** Explanations should be in clear, plain and unambiguous language appropriate to the target market.]

- 1 The guaranteed rate of return applicable over the full term already allows for this advice charge and will not be further reduced by this charge.
- 2 These charges relate to termination of the investment prior to end of the full term and are determined assuming that interest rates remain unchanged from the date of the quotation

Terminating the investment prior to maturity/end of the full term will imply a lower rate of return than if you continued with the investment for the full investment term duration.

#### Notes:

In order to compare this financial product with that of other financial product Providers it is important that you compare the guaranteed rate of return or guaranteed gross income as applicable and the potential risk of the guarantee in conjunction with the EAC table above. Specifically, the guaranteed rate of return is applied to your initial investment amount to provide a guaranteed maturity value at the end of the term of the investment or a guaranteed gross income for the duration of the investment (and a return of your initial investment amount if applicable).

A higher guaranteed rate implies a larger guaranteed maturity value/gross income. All calculations include value-added tax (VAT) at the prevailing rate, where applicable.

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

**[Note to Providers:** If the customer carries some or all of the investment default risk, the following paragraph should be added:]

For the HIJ product of ABC Company you carry the investment default risk on the underlying assets. This means that the guaranteed maturity value/guaranteed gross income or guaranteed maturity value and gross income (*delete whichever is not applicable*) of your investment could potentially be negatively affected if the asset underlying your investment loses value. In an extreme scenario you might lose some or all of your investment value, or your income payments may be stopped, or both, as applicable.

## ANNEXURE “D”

## WITH-PROFIT ANNUITY PRODUCTS EXAMPLE OF AN EAC TABLE

*[Note to Providers: The values used are for illustration only. The format of the table and paragraph above the table are required by this Standard. Providers may add further explanatory wording taking cognisance of the principles set out in the Standard.]*

## EFFECTIVE ANNUAL COST: KLM PRODUCT OF COMPANY ABC

The Effective Annual Cost (“**EAC**”) is a measure which seeks to assist you in your comparison of the estimated impact of charges on investment returns when you invest in different financial products. It is expressed as an annualised percentage. The EAC is made up of four components, which are added together, as shown in the table below. The impact of the charges may vary, depending on your investment period. The EAC calculation assumes that a customer terminates his or her investment in the financial product at the end of the relevant periods shown in the table.

In practice, an investment in [KLM product] may not be terminated unless the customer and all others covered by the financial product have passed away or [company ABC] specifies a minimum amount below which the customer may terminate and receive their remaining interests in the financial product.

Impact of future charges	Investment assumed to end after			
	Next 1 Year	Next 3 Years	Next 5 Years	Next 10 Years
Investment management	0.15%	0.15%	0.15%	0.15%
Advice	1.73%	0.58%	0.35%	0.17%
Administration	0.96%	0.43%	0.32%	0.25%

Other <sup>1</sup>	1.00%	1.00%	1.00%	1.00%
<b>Effective Annual Cost</b>	<b>3.84%</b>	<b>2.16%</b>	<b>1.82%</b>	<b>1.57%</b>

**[Note to Providers:** Explanations should be in clear, plain and unambiguous language appropriate to the target market.]

<sup>1</sup> Includes guarantee premiums/charges.