



ASISA Standard on Effective Annual Cost (EAC)



Introduction

The Association for Savings and Investment in South Africa (ASISA) is a collaborative association of several institutions striving to promote a culture of sustainable savings and investment in South Africa. One of the main objectives of ASISA is to ensure that consumers are provided with complete information and are fully kept informed before, after and during the sale. In line with this objective, the ASISA developed the Effective Annual Cost (EAC) measure.

The EAC is a standardised disclosure methodology that can be used by consumers and advisors to compare charges on most retail investment products, and their impact on investment returns. This enables consumers to make an informed investment decision. It will of course also have the effect of levelling the playing fields for a more transparent and open approach to cost disclosure, which could have the further impact of reducing costs. An important point to be noted is that the EAC is a measure of the charges that an investor will likely incur in purchasing and holding a financial product, and does not attempt to measure the features of a financial product.

Scope

This Standard is aligned to the Treating Customers Fairly regime, ensuring that financial products are aligned with customer expectations. For the first time consumers will be able to compare the costs of various investment products, from life assurance products (excluding risk only products) to collective investment scheme products, linked investment service providers and retirement annuities.

Overview of key requirements

- This standard recommends that the disclosures made by financial firms are timely, relevant, and comprehensive, promote understanding and most importantly highlight consumer needs
- All charges that an investor incurs and will incur over the relevant period are to be included in the EAC measure for that Financial Product. Where a charge is not available, a reasonable best-estimate must be provided

- A provider must ensure that all values used in calculations are accurate and comprehensive, and that its calculations are accurate
- A provider must ensure that the values underlying the calculation do not inflate the performance of the financial product, make a financial product appear less expensive, or present other misleading information to investors
- Effort must be made to ensure that the language is simple and easy to understand
- Where the purchase of a financial product requires the investor to forego any benefits, the same should be disclosed
- Every provider will be required to submit an annual compliance certificate to ASISA by 31 March, confirming that all the provisions have been complied with. This should be signed by the CEO and either the provider's auditor, statutory actuary or chief compliance officer.

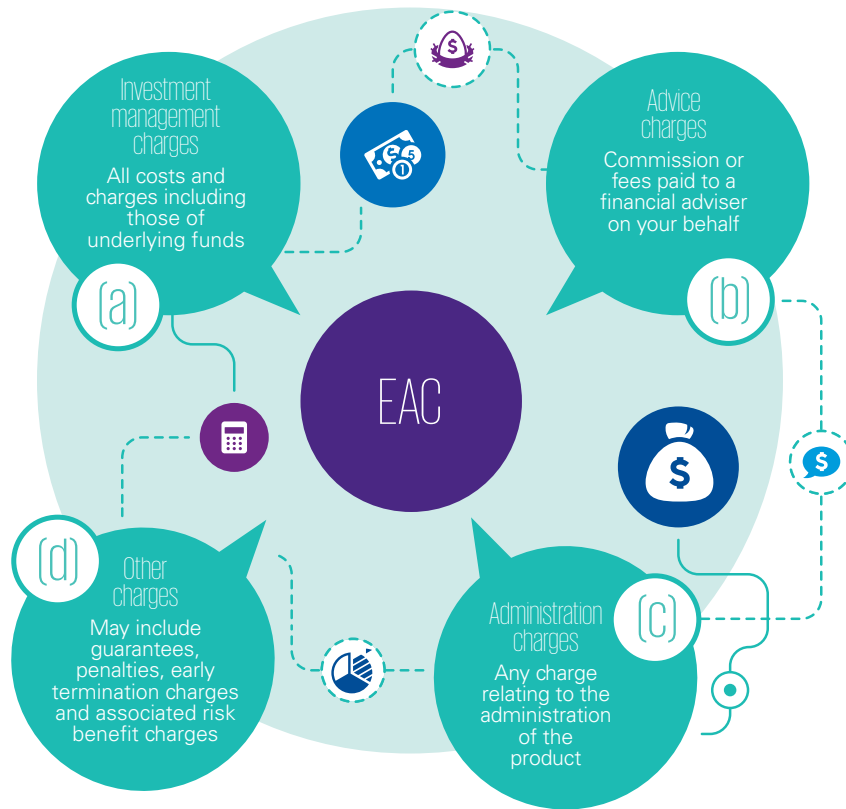
How KPMG can help

KPMG have the appropriate skills, subject matter experts and insight into market practice in this regard. We are well placed to provide assurance over EAC disclosure, or advisory services including model development ensuring appropriate disclosure of the EAC in the four separate components as prescribed by ASISA.

Overview of the calculation methodology underlying EAC

The EAC comprises four separate components into which various charges are allocated and must be disclosed

The components are:



The EAC is the summation of each of these components, expressed as an annual percentage of your investment.

Key dates

This Standard will be effective from 1 June 2016 with members to complete implementation by 1 October 2016 ("the Effective Date"), from which latter date the EAC measure must be calculated and disclosed in point of sale client documentation.

Source: ASISA EAC Concept Note



Gustaaf Kruger

Director

Tel: +27827191730

gustaaf.kruger@kpmg.co.za



Michelle Dubois

Senior Manager

Tel: +27609974512

michelle.dubois@kpmg.co.za

kpmg.co.za

kpmg.com/app

