For Adviser Use Only

COSTS AND CHARGES REPORTING ADVISER Q&A

ADVISER GUIDE

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1. Why are ex post costs and charges reports required?

MiFID II requires investment firms, such as platforms and adviser firms, involved in the distribution of investments, to report costs and charges related to those investments, both pre sale (known as 'ex ante') and post sale (known as 'ex post'). Both reports should aggregate all costs and charges with the total expressed as a cash amount and a percentage.

Ex ante disclosures provide details of the anticipated costs of purchasing and holding investments and must take place 'in good time' prior to the point of sale. This information is included each time you produce an illustration for your clients. The ex post costs and charges disclosure covers the actual costs and charges incurred by your clients and should be produced at least annually.

Whilst we produce ex post reports to primarily meet our disclosure obligations under MiFID II, you may find these reports help you meet your requirements under these regulations.

2. How are ex post reports being made available to my clients?

A Summary Report is included in your clients' Annual Statement, and a Detailed Report for each client, which includes a breakdown of costs and charges for each investment, is available on your adviser Pickup Page. Making the reports available to you in this way allows you to manage conversations about the contents of these reports with your clients yourself. Initially, we will direct client queries back to you to handle as you see fit. We will subsequently share the Detailed Reports with clients upon request.

You can also run a bespoke Costs & Charges Summary on Transact Online (TOL). You can access this via Reports > Costs & Charges Summary and share these reports with your clients as you wish.

3. What period do the ex post reports cover?

The costs and charges report we send your clients covers the tax year period and is included as part of their Annual Statement. We think it would be confusing for your clients if we issued ex post reports aligned to calendar years and Annual Statements covering tax years.

You can also run your own Costs & Charges Summary on TOL for the last tax year, calendar year, or any other 12 month period. This will allow you to generate the report from as early as 1st January 2018 to match your specific requirements or to fit with your clients' annual review/bespoke review period.

4. Which wrappers are covered?

In the spirit of transparency our ex post reports cover all Transact wrappers, providing an aggregated percentage and cash amount for service, investments and total costs and charges for the whole Portfolio. There is also a wrapper breakdown included which shows the total costs and charges and how these have reduced the value of the Portfolio over the reporting period.

While the scope of MiFID II and IDD don't cover pensions, we felt it important to give clients the same level of transparency across all wrappers. We believe this will help you avoid difficult conversations, for example, if a client questions why the report only covers part of their Portfolio. After all, there is little difference between the investments which can be held in each wrapper.

5. What do the reports contain?

The Summary Report in Figure 1 below and the Detailed Report (in Figures 2, 3 and 4) include information under the following headings.

a) **Service Charges.** These are charges deducted from cash in the client's Portfolio and include Adviser Charges, Transact Charges, DIM and Third Party Charges. Third Party Charges include charges incurred from HMRC and stockbroker fees.

b) **Investment Costs and Charges.** These costs and charges are typically reflected in the price of investments. Any rebates received from investment providers during the period are invested in the Rebate Reinvestment Fund and their value is deducted from the total.

Figure 1.

Costs and Charges Summary from 6 April 2020 to 5 April 2021

This report is not a replacement for the Costs & Charges summary which is included in your Transact Annual Report.

Portfolio Costs and Charges

This report shows the costs and charges incurred during the above period. Percentages have been calculated based on an average portfolio value of £199,385.59 over the reporting period.

Service Charges - These charges are deducted from cash in your Portfolio and include charges applied by Transact, your adviser and third parties including HMRC and Discretionary Investment Managers.

Transact Charges		£670.34
Adviser Charges		£1,465.24
Discretionary Investment Manager Charges		£314.20
Third Party Charges		£0.00
Total Service Charges	**1.23%**	**£2,449.78**

Investment Costs and Charges - These costs and charges are typically reflected in the price of investments. Any rebates received from investment providers during the period are invested in the Rebate Reinvestment Fund and their value is deducted from this total.

Total Investment Costs and Charges	**0.73%**	**£1,450.31**
Total Portfolio Costs and Charges	**1.96%**	**£3,900.09**

The Totals for the Service Charges and Investment Costs and Charges are shown both as a cash amount and a percentage. The regulations require us to provide the percentages for the Total Service Charge, Total Investment Costs and Charges and the Total Portfolio Costs and Charges for the period. Percentages have been calculated based on an average portfolio value, taking into account the Portfolio opening and closing balances and the inflows and outflows during the reporting period.

c) **The Impact of Costs and Charges.** In this section we have shown how the Total Costs and Charges have reduced the value of the Portfolio over the reporting period. This reduction is shown both as a monetary amount and also in terms of the reduction in performance. Please note that the percentages in this section have been rounded to two decimal places. Where the values involved are very small, rounding may cause zeros to be shown.

d) **Breakdown of Costs and Charges at Wrapper Level.** The table below in Figure 2 details a breakdown of Cost and Charges at wrapper level. It shows the growth of each wrapper before and after costs and charges are deducted. The total costs and charges generated by each wrapper are shown as a percentage and monetary amount in the final two columns.

Figure 2.

The Impact of Costs and Charges

If it had been possible to hold the cash and investments without incurring any costs or charges, the value of your Portfolio would have been £237,603.42 rather than £233,703.33, a difference of £3,900.09. Similarly, your Portfolio would have grown in value over the period by 27.27% rather than 25.19%, a difference of 2.08%.

Breakdown of Costs and Charges at Wrapper Level				
	Growth before Costs and Charges	**Growth after Costs and Charges**	**Reduction in Growth**	**Amount**
General Investment Account	0.00%	0.00%	0.00%	£0.00
ISA (Stocks/Shares)	10.14%	9.32%	0.82%	£253.18
Personal Pension	30.65%	28.31%	2.34%	£3,646.91
Total Portfolio Costs and Charges				**£3,900.09**

A Detailed Breakdown of Costs and Charges is available on request.

6. How does the Detailed Report differ from the Summary Report?

The Detailed Report provides more granular information and includes details of the types of costs and charges that the client has incurred. The Service Charges are paid from the cash balance of the client's Portfolio and can usually be reconciled with transaction listings. The exception, however, is where another Portfolio pays some of the Service Charges via a Fee Payment Account.

Figure 3

Service Charges

These charges are deducted from cash in your Portfolio and include charges applied by Transact, your adviser and third parties including HMRC and Discretionary Investment Managers.

Transact Charges	
Annual Commission	£517.47
Brokerage	£2.26
Wrapper Administration Charge	£11.80
Total	**£531.53**
Adviser Charges	
Annual Payment	£1,969.19
Total	**£1,969.19**
Third Party Charges (e.g. HMRC)	
Total	**£0.00**
Total Service Charges	**£2,500.72**

The Investment Costs and Charges are detailed for each asset and the charges are shown for:

- Purchase Costs
- Ongoing Charges
- Transactional Costs
- Fund Manager Rebates
- Incidental Charges
- Sale Costs.

Any Fund Manager Rebates (invested in the Rebate Reinvestment Fund) are shown as negative amounts and effectively reduce the total cost.

Definitions for all of these terms are included in the glossary at the back of this document. Where an assumption has been made about a cost or charge, a caveat is displayed. Detailed explanations of the most common caveats are also included in the glossary.

Figure 4.

Investment Costs and Charges

These costs and charges are typically reflected in the price of investments. Any rebates received from investment providers during the period are invested in the Rebate Reinvestment Fund and their value is deducted from this total. Please see the notes section at the end of the report for further information on the headings and symbols.

	Purchase Costs	Ongoing Charges	Fund Manager Rebates	Transactional Costs	Incidental Charges	Sale Costs	Total Costs
Current Investments							
Cash	N/A	N/A	N/A	N/A	N/A	N/A	£0.00
Amazon.com (XNAS:AMZN) *US0231351067*	£224.28	£124.27	N/A	£9.97	£0.00	N/A	£358.52
Dimensional UK Value (Inc) *GB0033771659*	£0.00	£128.79	N/A	£11.51	£0.00	N/A	£140.30
Threadneedle UK Equity Income Z (Acc) *GB00B888FR33*	£1.52	£38.03	N/A	£4.16	£0.00	N/A	£43.71
Vanguard LifeStrategy 60% Equity Fund (Acc) *GB00B3TYHH97*	£24.50	£346.56	N/A	£32.70	£0.00	N/A	£403.76
Previous Investments							
Apple Inc (XNAS:AAPL) *US0378331005*	£20.93	£85.89	N/A	£9.11	£0.00	N/A	£115.93

Total Investment Costs and Charges **£1,062.22**

7. Do all platforms show the costs and charges in the same way?

No, each platform has their own solution to providing ex post reports, based on their own interpretation of the regulations. Whilst the regulations require costs and charges to be split and to be shown as a cash amount and percentage, there is no standard format for these reports.

8. How are ongoing, transactional and incidental cash amounts calculated in the investment costs and charges section?

We use multiple external sources to obtain costs and charges data from manufacturers, typically receiving the information in the European MiFID Template (EMT) format. The data is provided as a percentage covering either a rolling 12-month period or specific period (e.g. 3 months to align with fund accounts). We multiply the relevant percentages to the month end valuation, taking into account any inflows and outflows during the month.

Where some information required to report is missing, we extrapolate from the costs and charges information we do have, to fill the gap. Any extrapolation covering more than 6 months will be identified as an estimate in the Detailed Report.

Where the manufacturer has failed to provide ex post information for the entire period, we will attempt to create an estimate with reference to fund accounts, ex ante information and similar investments. This is to ensure your clients' costs and charges are not significantly understated. There could be rare occasions where we are unable to calculate an estimate. Where this occurs the Detailed Report will indicate that the data is not available. This is could mean the client's costs and charges for this investment will be understated.

9. How are fund manager rebates calculated?

The cash amount is the sum of the rebates actually received in the period, rather than the rebates we anticipate receiving. This could lead to the report showing larger or smaller rebates than anticipated if the fund manager fails to send rebates frequently or in a timely manner.

10. How are purchase and sale costs calculated?

We use an arrival price methodology to calculate the costs incurred when purchasing and selling investments, in accordance with the answer to Question 12 of the Costs and Charges section of the ESMA Investor Protection Q&A (ESMA35-43-349). By comparing execution price to an arrival price we pick up all explicit and implicit costs including, where applicable, any initial charge deducted by a manufacturer, half the bid-offer spread and any currency conversion costs.

In the unlikely event that an arrival price is not available for a purchase or sale, we will use the nearest available price and identify the relevant cost as an estimate in the Detailed Report.

We have developed a guide called Purchase and Sale Costs Explained to help explain this complex topic.

Please note that we are currently unable to include these costs for exchange traded instruments, such as shares, ETFs, on the TOL report. Instead, a note will appear on the report to alert you and the client of this if they purchased or sold such investments in the period.

Purchase and sales costs are worked out as the difference between the arrival price, the best mid-price at the time the trade was executed, and the price achieved. For managed products (OEICs, Unit Trusts, etc.) Transact already has the ability to obtain and calculate the arrival price, which is why we can show you the derived purchase and sale costs in the new Costs & Charges Summary report on TOL.

For exchange traded assets we rely on a third party to provide us with arrival prices, and at present this information cannot be accessed for use on TOL throughout the year. We are currently working on a solution to resolve this. Until then, you will see that your detailed breakdown of the Costs & Charges Summary report will exclude those costs with a relevant caveat included where appropriate.

11. How are percentages calculated in the report?

We have calculated the percentage costs using the average Portfolio balance during the reporting period.

The percentage shown for the reduction in growth is the difference in growth before and after charges have been applied. The reduction in growth is also shown as a percentage and it will usually be different to the % costs (which are based on the average Portfolio balance).

12. What happens where another Portfolio pays some service charges via a Fee Payment Account?

We show the charge in the Portfolio that caused the charge to occur and this may not be the Portfolio which pays it. This ensures all costs associated with a Portfolio are accounted for in the ex post report for that Portfolio. To allocate the charges to the Portfolio acting as the Fee Payment Account might give the client the impression the charges hadn’t been incurred in the Portfolio generating the charge, masking the relative impact of charges on the Portfolio’s performance. A caveat is shown against each affected Portfolio where this occurs.

This will mean that the Costs & Charges Summary may not correspond to the cash summary in the Annual Statement for both the Portfolio generating the relevant Adviser and Transact charges and the Portfolio paying them.

13. What happens where another Wrapper pays some service charges via a Fee Payment Account?

Charges are allocated to the wrapper that generates the fee and not the fee payment account fees are paid from. This helps ensure compliance with each of the different regulations covering costs and charges disclosure, and it should be easier for clients to link costs to performance in each wrapper.

14. How will a service charge refund affect the report?

We sometimes receive requests to refund historical charges which can affect a client's ex post costs and charges report. Refunds of adviser, Transact or discretionary investment manager charges are deducted from the relevant service charge category in the client's ex post reports. If a refund relates to charges generated prior to the reporting period it might make the relevant service charge category look lower than expected. Conversely, the relevant service charge category might look higher where the recalculation of a previous charge results in an additional charge to the client.

15. What if my client has been both advised and non-advised during the period?

If your client has changed from advised to non-advised during the period, or vice versa, then the report shows charges relative to the status of the client at the end of the period but indicates that the Portfolio has been managed with and without advice during the period. This should only affect a small number of Portfolios.

16. Are pending fees applied to the costs and charges?

Any fees that are pending payment as a result of insufficient cash are included and allocated to the wrapper which generated it.

17. How has tax been treated in the Reports?

We have included transaction based taxes and levies, such as Stamp Duty Reserve Tax (SDRT) and Panel of Takeover and Mergers levy. We have not included any deductions for tax due on investment income or capital gains as a cost or a charge. Where applicable, these transactions are detailed in your client's Cash Summary. A breakdown of these charges is available on your client's Transaction Listing available on Transact Online.

18. How do you treat assets held in a foreign currency?

If any costs or charges are incurred in a foreign currency they are converted into sterling using the published 24-hour rolling average exchange rate from the previous day.

19. What resources are available to help me?

We have developed this Q&A, and a Client Ex Post Costs and Charges Reports User Guide to help you when explaining the report to clients.

20. Is the TOL Cost & Charges Summary the same as the reports provided as part of the annual statement?

The investment purchase and sale costs mentioned in question 10 are not included in any TOL Costs & Charges Summary for assets that are traded on the exchange. This is the only difference there is between the TOL report and the Annual Statement.

21. Why are the fund manager fees in my client's bespoke Costs & Charges Summary for the last tax year different to the ones in their annual report?

This is because we may receive new costs and charges data from the fund manager after your client's annual report has already been released, resulting in these discrepancies. This may also be the case when comparing reports generated on TOL for the same time periods that have been generated at different times.

In addition, if you are comparing this bespoke report with an annual report produced for 2020/2021 tax year or earlier, you can expect to see slightly different fund manager fees due to our calculation for the average value of the fund being amended.

This document is for use by financial advisers only. Unless stated otherwise any opinions expressed are our own and based on our interpretation of relevant rules and regulation. This document is for information purposes only and firms cannot rely solely on the information to ensure compliance with the rules.

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