ASISA STANDARD ON EFFECTIVE ANNUAL COST (EAC)

1. Introduction

All ASISA members are committed to operating within the Treating Customers Fairly six outcomes framework. Outcomes 1 and 3 have relevance to this Standard: "Customers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture"; and "Customers are provided with clear information and are kept appropriately informed before, after and during the point of sale".

In seeking to achieve these outcomes, ASISA members have developed the Effective Annual Cost measure (EAC), a standardized disclosure methodology that can 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 so that consumers are placed in a position to make better informed decisions around retail savings and investment product choices. 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.

2. Scope

This Standard sets out the minimum disclosure requirements in addition to the disclosures required in terms of the relevant legislation. It does not replace any existing standards. 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 disclosure requirements contained in this Standard.

This Standard applies to participatory interests in collective investment schemes (including foreign collective investment schemes duly approved for marketing in South Africa), contracts under a linked investment services provider license, all insurance contracts (other than pure risk-based insurance contracts and compulsory and voluntary purchase guaranteed non-profit Life Annuities) and products wrapped in a life wrapper, and memberships of retirement annuity funds and preservation funds. These are collectively referred to as "Financial Products" for the purposes of this Standard.

Where any other financial products, not falling into the definition of "Financial Products" above, are made available to retail customers, ASISA members should comply with the provisions of this Standard in relation to such other financial products as far as possible.

Where the Financial Product is a living annuity, ASISA members must consider the ASISA Standard on Living Annuities in addition to this Standard.

3. General principles and governance

3.1 General principles

3.1.1 In the application of this Standard, a provider shall comply with the following well-accepted principles that disclosures should:

- be timely;
- be relevant and comprehensive;
- promote product understanding;
- promote product comparisons;
- highlight important information; and
- have regard to consumer needs.

3.1.2 Where a provider is required to exercise its discretion in applying this Standard, its discretion will be exercised 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.

3.1.3 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 used and explained in the free text notes.

3.1.4 Where this Standard specifies the component to which a charge must be assigned, the charge must be assigned to that component. Where no component has been specified for a charge, and the charge does not appear to align exactly with a component, a provider must exercise its reasonable discretion to assign the charge to one or more components to which it most closely aligns and must explain the reasons for its decision in the free-text notes.

3.1.5 A provider must ensure that all values used in calculations are accurate and comprehensive, and that its calculations are accurate. Where any value is not available, a provider shall use a reasonable and best estimate of the value and shall state that it has done so in the free text notes.

3.1.6 A provider shall not manipulate any values or calculations, or use any wording in free text notes which purports, to, at any point in time:

3.1.6.1 inflate the projected or anticipated performance of a Financial Product;

3.1.6.2 make a Financial Product appear less expensive; or

3.1.6.3 present any other skewed, inaccurate, untrue, biased, misleading or incomplete view of a Financial Product to an investor.

3.1.7 Where prescribed, the exact form and wording of mandatory disclosures must be utilised. Members may add further explanatory wording to the mandatory wording as they deem necessary taking cognisance of the principles set out in the Standard.

3.1.8 In all free text notes, a provider must use plain language appropriate to the target market and ensure that the disclosure or explanation therein adheres to the rules, principles and objectives set out in this Standard, and the well-accepted disclosure principles set out in paragraph 3.1.1 above. The free text notes must in addition, appear directly beneath the table in an easily legible font size.

3.1.9 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 must be shown net of the rebate, and the relevant EAC component to which the rebate is added must be shown as including the rebate, and this must be explained in the free text notes.

3.1.10 Where rebate arrangements exist and the rebate is passed on to the investor, the relevant EAC components from which the rebate was deducted must be shown net of the rebate, and this must be explained in the free text notes.

3.1.11 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 must be clearly explained in the free text notes.

3.1.12 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 must be clearly disclosed in the free text notes. (See Example 2 in Annexure B)

3.1.13 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 must be clearly explained in the free text notes.

3.1.14 Benefit payments received outside of the Financial Product structure should be excluded from the calculation component and must be explained in the free text notes.

3.1.15 Other disclosures and communications directed at customers and prospective customers must not undermine, obscure or contradict the EAC disclosures.

3.2 Governance

3.2.1 Every provider shall submit a certificate to ASISA, annually, within 3 months of 31 December, which certificate shall:

- be signed by the provider's CEO and either the provider's auditor, statutory actuary, or chief compliance officer; and
- 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.

3.2.2 Any third party 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.

3.2.3 A provider shall respond in writing to such third party's request within 15 business days of receipt of the request.

3.2.4 Where the 15 business day period in 3.2.3 is not adhered to, alternatively, the provider's response fails to resolve the request to the satisfaction of the third party, the third party 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.

3.2.5 All providers shall co-operate fully with ASISA and provide all such data and information to ASISA as may be requested by ASISA or the ASISA-nominated third party for purposes of verification of the provider's EAC calculations and disclosures.

3.2.6 Where ASISA and/or the ASISA-nominated third party is of the view 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 20 business days of receipt of ASISA's notification. The provider shall furthermore rectify any systemic causes for an erroneous EAC measure in order to ensure that such errors are not repeated.

4. EAC calculation principles

4.1 The EAC comprises four separate components into which various charges are allocated. The components are:

- investment management charges (IMC);
- advice charges;
- administration charges; and
- other charges.

4.2 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:

EAC[total] = EAC[IMC] + EAC[Advice] + EAC[Admin] + EAC[Other]

4.3 The value for each of the components, as well as the total EAC, is displayed in a table at four mandatory disclosure periods in accordance with the tables in Annexure A, Annexure B and Annexure C below. Annexure C specifically sets out the disclosure requirements for Guaranteed Return Investment Products and Guaranteed Term Annuities.

4.4 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), will determine whether a simplified approach to the calculation is used or whether a reduction in yield methodology is required.

4.5 The simplified methodology requires that a charge ordinarily complies with all of the following conditions, and is then included in the EAC as the actual percentage of the charge:

4.5.1 the charge is expressed as a percentage of the value of the investment; and
4.5.2 the charge is deducted from or added to the investment on a consistent and ongoing basis; and
4.5.3 the percentage of the charge is level over the duration of the disclosure period.

4.6 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 must 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.

4.7 All charges that do not conform to the simplified methodology conditions above, must be 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 must then be added to any charges which were able to be calculated on the simplified basis.

4.8 All charge components are to be shown inclusive of VAT where applicable. This may be explained in the free text notes.

4.9 All values are to be shown in percentages to one decimal place, where a calculation yields more than one decimal place.

5. The calculation methodology for each component

5.1 The Investment Management Charge [EAC(IMC)]

The investment management component includes all costs and charges for all underlying investments, as set out in the "ASISA Standard: Calculation and Disclosure of Total Expense Ratios and Transaction Costs". In the absence of a TER or Transaction Costs, an equivalent charge calculated according to the principles in the "ASISA Standard: Calculation and Disclosure of Total Expense Ratios and Transaction Costs" should be utilised.

The investment management charge is equal to the sum of the weighted average TER and transaction costs of the underlying funds and investments. Providers should endeavor to use the latest available costing values in the calculation. The EAC(IMC) is calculated as follows:

Investment Type	No initial charge	Initial charge (IC) percentage
Lump Sum	EAC = TER + transaction costs	EAC = TER + transaction costs + IC/n
Lump Sum + Recurring	EAC = TER + transaction costs	EAC = TER + transaction costs + RIY (IC)

n = number of years in disclosure period
TER = net TER after deduction of all rebates (refer to 3.1.9 and 3.1.10 above)

5.2 The Advice Charge [EAC(Advice)]

5.2.1 All charges that an investor incurs for the provision of financial planning by an adviser or representative (as defined in FAIS) should be included in the EAC(Advice) component.

5.2.2 In the event that an advice charge is calculated by a provider as an annual percentage charge, the EAC(Advice) will be equal to that annual percentage. 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	Initial charge (IC) percentage
Lump Sum	EAC = Annual Advice Charge	EAC = Annual Advice Charge + 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

5.2.3 Where the adviser charge is not facilitated by the provider, or the investor has not engaged the services of an adviser, the Advice Charge must be reflected as 0.0%. In such a case, a footnote must be included explaining that as no advice fee has been supplied none could be included in the calculation.

5.3 The Administration Charge [EAC(Admin)]

The administration charge component includes all charges that an investor 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.

The EAC(Admin) is calculated using the RIY methodology in paragraph 6 below, except in cases where the administration charge meets the conditions required for the simplified calculation methodology as set out in paragraph 4.5 above.

Investment Type	No initial charge	Initial charge (IC) percentage
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

5.4 The Other Charges [EAC(Other)]

The EAC(Other) calculation should include all termination charges, penalties or loyalty bonus payments that are reasonably foreseen if the investor terminates his or her contract and withdraws all of the funds at the end of the disclosure period being calculated. These shall also include but shall not be 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 is not required to 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. If exit penalties or loyalty bonuses apply, a free text note must be included that explains the contribution thereof to the EAC for each disclosure period.

The EAC(Other) component is only shown in the EAC table where it has a non-zero value.

Where a product provider earns all or part of its income from the Financial Product by limiting the investor's exposure to investment returns, the cost to the investor of the risk adjusted expected annualised foregone investment returns must be shown and clearly explained in the free text notes.

Depending on the nature of the charge, the EAC(Other) calculation will either follow the simplified methodology or the RIY methodology.

6. Reduction in Yield (RIY) calculation methodology

6.1 Calculated on a cash flow basis

The RIY-calculation must 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]:

NAV[n]	**= the value of the product at time [n] after all cash flows at time [n]**
	= NAV[t] * (1+gt:n) + ΣCF[n]
Where:	
NAV[t]	**= product value at time [t] after all cash flows at time [t]**
gt:n	**= effective growth rate for the period from [t] to [n]**
	= (1+g) ^ t:n/365 – 1
g	**= the prescribed growth rate***
t:n	**= number of calendar days from time [t] to time [n]**
ΣCF[n]	**= sum of all cash flows at time [n]**
	= ΣP[n] + ΣOI[n] - ΣC[n] - ΣOO[n]
ΣP[n]	**= sum of all premium inflows at time [n]**
ΣOI[n]	**= sum of all other inflows or enhancements at time [n]**
ΣC[n]	**= sum of all charges levied against the product at time [n]**
ΣOO[n]	**= sum of all other outflows or deductions at time [n]**

* See paragraph 6.3

6.2 Assumed timing of cash flows

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

6.3 Conceptual 3-step calculation

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

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 ($g_{reduced}$).

Step 3: $RIY = g - g_{reduced}$

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

6.4 Special provision for calculation of last component

The last component may be calculated as described in paragraph 6.3 or Step 2 and 3 in paragraph 6.3 may be replaced with the following:

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_{total}).

Step 3: $RIY_{total} = g - g_{total}$

> e.g. Assuming your last component is the EAC(Other) component, the calculation will look as follows: EAC(Other) = RIY_{total} – EAC(IMC) – EAC(Advice) – EAC(Admin)

7. Effective date and phased implementation

7.1 This Standard shall 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 (such as but not limited to quotations or proposals) by all providers for all Financial Products. Sample/Example EAC disclosures can be used pre-sale where appropriate in the Entry Level Market with client specific EAC disclosure thereafter in New Business/Welcome Packs documentation and ongoing communications.

7.2 In addition the EAC must be disclosed to investors where they are considering making changes to Financial Products. The following phased implementation shall apply:

7.2.1 with effect from the first anniversary of the Effective date, in respect of all Financial Products sold after 1 June 2010, a provider must disclose the EAC of that Financial Product on at least an annual basis and make it available before a Qualifying Event takes place. Qualifying Events are limited to any additional investments into an existing product whether by way of a recurring premium increase or lump sum; changes in intermediary remuneration charges; Section 14 and Directive 135 transfer benefits. Non-qualifying events would include: annual contractual premium increases; premium reductions/terminations; a discontinuance or termination of a Financial Product; and withdrawals of investments. Providers must also be able to provide an EAC for these Financial Products on request;

7.2.2 with effect from the second anniversary of the Effective Date, in respect of all Financial Products sold between 1 June 2000 and 31 May 2010, a provider must disclose the EAC of that Financial Product on at least an annual basis and make it available before a qualifying event takes place. Qualifying Events are limited to any additional investments into an existing product whether by way of a recurring premium increase or lump sum; changes in intermediary remuneration charges; Section 14 and Directive 135 transfer benefits. Non-qualifying events would include: annual contractual premium increases; premium reductions/terminations; a discontinuance or termination of a Financial Product; and withdrawals of investments. Providers must also be able to provide an EAC for these Financial Products on request;

7.2.3 with effect from the third anniversary of the Effective Date, in respect of all Financial Products sold prior to 1 June 2000, a provider must disclose the EAC of that Financial Product on at least an annual basis and make it available before a Qualifying Event takes place. Qualifying Events are limited to any additional investments into an existing product whether by way of a recurring premium increase or lump sum; changes in intermediary remuneration charges; Section 14 and Directive 135 transfer benefits. Non-qualifying events would include: annual contractual premium increases; premium reductions/terminations; a discontinuance or termination of a Financial Product; and withdrawals of investments. Providers must also be able to provide an EAC for these Financial Products on request.

7.3 Disclosure of the EAC to an investor under clause 7.2 above may take the form of making an investor's EACs for his or her Financial Products available via a secure online portal, but shall not include online calculators requiring inputs by the investor.

7.4 Where a provider has the systems 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.

ANNEXURE A

EXAMPLE NO. 1 OF AN EAC TABLE

Note to ASISA Members: the values used are for illustration only. The format of the table and paragraph above the table are mandatory. Members may add further explanatory wording to the mandatory wording as they deem necessary 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 product as required by the Standard.
It is mandatory to use four time periods being 1,3,5 years and end of term where there is a specified term, or ten years if no term or age 55 term in the case of a Retirement Annuity or other retirement product.
Where the financial product has a monthly recurring premium, you may elect to use the following mandatory wording in a footnote below the table relating to one or more rows where applicable:
**Where you have a monthly 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 has been introduced to allow you to compare the charges you incur and their impact 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 an investor terminates his or her investment in the Financial Product at the end of the relevant periods shown in the table.

Impact of charges	1 Year	3 Years	5 Years	Term to maturity xx years.
Investment management[2]	1.1%	1.1%	1.1%	1.1%
Advice	0.5%	0.5%	0.5%	0.5%
Administration[1]	0.9%	0.9%	0.9%	0.9%
Other[3,4]	0.3%	0.3%	0.3%	0.0%
Effective Annual Cost	2.8%	2.8%	2.8%	2.5%

[*Note to ASISA Members: explanations to be in plain language appropriate to the target market*]
[1] Includes a rebate of 0.5% 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 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

EXAMPLE NO. 2 OF AN EAC TABLE

Note to ASISA Members: the values used are for illustration only. The format of the table and paragraph above the table are mandatory. Members may add further explanatory wording to the mandatory wording as they deem necessary 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 product as required by the Standard.
It is mandatory to use four time periods being1,3,5 years and end of term where there is a specified term, or ten years if no term or age 55 term in the case of a Retirement Annuity or other retirement product.
Where the financial product has a monthly recurring premium, you may elect to use the following mandatory wording in a footnote below the table relating to one or more rows where applicable:
**Where you have a monthly 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.*

EAC: EFG PRODUCT OF COMPANY ABC

The Effective Annual Cost (EAC) is a measure which has been introduced to allow you to compare the charges you incur and their impact 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 an investor terminates his or her investment in the Financial Product at the end of the relevant periods shown in the table.

Impact of charges	**1 Year**	**3 Years**	**5 Years**	**Term to maturity xx years**
Investment management	1.0%	1.0%	1.0%	1.0%
Advice	1.0%	1.0%	0.5%	0.5%
Administration	0.5%	0.3%	0.3%	0.2%
Other [1] [2] [3] [4]	0.3%	0.3%	0.3%	0.0%
Effective Annual Cost	2.8%	2.6%	2.1%	1.7%

[*Note to ASISA Members: explanations to be in plain 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 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).

Notes:

Qualifying investors 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 investor'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 investor'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

EXAMPLE NO. 3 – AN EAC TABLE FOR GUARANTEED RETURN INVESTMENT/ TERM ANNUITY PRODUCTS ONLY

Note to ASISA Members: the values used are for illustration only. The format of the table and paragraphs above and below the table are mandatory. Members may add further explanatory wording to the mandatory wording as they deem necessary taking cognisance of the principles set out in the Standard.
It is mandatory to use up to four time periods being (1,3,5 years and end of term), depending on the term of the Financial Product. Use wording for either two, three or four charges as appropriate for the Financial Product, in the paragraph above the table and correspondingly only show the same number of charges in the table. Termination charges are shown under "Other".

Effective Annual Cost (EAC): HIJ GUARANTEED RETURN PRODUCT OF COMPANY ABC

The Effective Annual Cost (EAC) is a measure which has been introduced to allow you to compare the charges you incur and their impact 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 [*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 an investor 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 Charges	**1 Year**	**3 Years**	**5 Years**	**Term to maturity 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%[1]
Administration (only include if appropriate)	0.5%	0.3%	0.3%	0.3%
Other [2]	5.7%	1%	0%	0.0%
Effective Annual Cost	**9.7%**	**2.8%**	**1.4%**	**1.4%**

[*Note to ASISA Members: explanations to be in plain 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 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 ASISA Members: if the client carries some or all of the investment default risk, add the following mandatory paragraph:

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.