The Value for Money Framework:

Consultation on draft regulations and draft FCA rules

FCA CP26/25

July 2026

Contents

About this consultation

The purpose of this consultation is to seek views on the development of the Value for Money (VFM) Framework for both FCA- and TPR-regulated schemes. Insofar as it is possible, the Framework will create a consistent policy across workplace schemes, while reflecting the distinct regulatory regimes that apply. This document therefore combines policy proposals in respect of trust-based schemes with those for contract-based schemes.

This policy has been developed between the FCA, TPR and DWP over several years, and as part of this, both DWP and the FCA have previously consulted on these proposals.

This document builds on the preceding consultation (CP26/1). It serves three purposes:

1) In relation to the FCA, it provides responses to CP26/1 and seeks views on the policy in respect of FCA-regulated schemes.
2) In accordance with section 11(7) of the Pension Schemes Act 2026, it sets out and seeks views on the policy in respect of TPR-regulated schemes.
3) It provides proposed draft FCA rules and DWP regulations.

Who this consultation is aimed at

We would particularly welcome responses from:

- pension scheme trustees and managers, particularly those from DC Master Trust schemes;
- those operating sector-wide pension schemes;
- employers who sponsor an occupational pension scheme;
- pension scheme service providers, other industry bodies and professionals;
- pension scheme members; and
- groups representing pension scheme members.

Scope of consultation

In relation to DWP regulations, this consultation applies to Great Britain, as pensions is a reserved matter for Scotland and Wales.

Occupational pensions are a devolved matter for Northern Ireland, and it is anticipated that the Northern Ireland Assembly will make corresponding legislation.

Duration of the consultation

The consultation period begins on 13 July and will run until 1 September.

How to respond to this consultation

Please send your consultation responses to the DWP VFM Policy Team at the shared email address: caxtonhouse.vfmconsultation2026@dwp.gov.uk.

These responses will be shared with FCA and TPR.

Government response

We will publish the government response to the policy consultation on GOV.UK.

How we consult

Consultation principles

This consultation is being conducted in line with the revised Cabinet Office consultation principles published in March 2018. These principles give clear guidance to government departments on conducting consultations.

Feedback on the consultation process

We value your feedback on how well we consult. If you have any comments about the consultation process (as opposed to comments about the issues which are the subject of the consultation), including if you feel that the consultation does not adhere to the values expressed in the consultation principles or that the process could be improved, please address them to:

DWP Consultation Coordinator
Legislative Strategy Team
4th Floor, Caxton House
Tothill Street London
SW1H 9NA
Email: caxtonhouse.legislation@dwp.gov.uk

Data Protection and Confidentiality

For this consultation, we will publish all responses except for those where the respondent indicates that they are an individual acting in a private capacity (e.g. a member of the public). All responses from organisations and individuals responding in a professional capacity will be published. We will remove email addresses and telephone numbers from these responses, but apart from this we will publish them in full.

For more information about what we do with personal data, you can read DWP's Personal Information Charter.

Ministerial Foreword

Over the past decade and a half, automatic enrolment has brought millions more people into pension saving. The automatic part of that enrolment means it is more important than ever that those savings are well governed, efficiently managed, and deliver strong long-term returns. Indeed, it places a particular significant responsibility on both government, and the pensions sector, to ensure that they are.

Recognition of that responsibility has underpinned a strong consensus for the need for a Value for Money Framework, to put the returns to savers centre stage in our pension landscape. Over recent years, we have worked closely with industry and stakeholders to develop that robust Value for Money Framework, including via an initial discussion paper and three formal consultations. This iterative approach has allowed us to build a Framework that is both proportionate and effective, and that reflects the experience and expertise of the sector.

This consultation moves the policy towards implementation. It sets out a detailed proposed approach to metrics, standards, and disclosures that will provide greater transparency on costs, investment performance and service quality. For the first time, this will enable consistent and meaningful comparisons across pension schemes, supporting better decision-making by trustees, scheme managers, employers and ultimately savers.

The Value for Money Framework sits at the heart of a wider and coherent package of pensions reform that we are bringing forward. I am conscious that the scale of those changes requires clarity about their sequencing. Alongside this consultation, we have therefore published an updated Pensions Roadmap which sets out a clear pathway for implementation across the decade. This includes reforms to support greater scale and consolidation in the market, the introduction of default pensions, complemented with targeted support to help savers make informed decisions.

Together, these measures are designed to improve outcomes across the whole pensions journey. The Value for Money Framework's part of that, at least initially, is to increase accountability and transparency during the accumulation phase. This will make it easier to identify both strong and under performance.

We are taking a pragmatic, phased, approach to implementation by focusing the first phase of implementation on larger schemes who are better placed to complete the full assessment process, and delaying the application of consequences attached to red and amber ratings until 2029. This reflects the need to balance ambition with ensuring that schemes and regulators are able to embed the new requirements effectively.

We recognise the importance of getting the detail right. We are therefore seeking views on the proposals set out in this consultation to ensure that the VFM

Framework is practical, proportionate, and delivers the intended benefits without imposing undue burdens.

Taken together with our wider roadmap of reforms, this consultation is part of moving from discussing the better pensions landscape that we all recognise is needed to actually building it.

Chapter 1: Summary

1. Following the success of Automatic Enrolment (AE), record numbers of individuals are now saving for their retirement in defined contribution (DC) schemes, with over 22 million people participating in a workplace pension.[1] However, the DC pensions market can do more to focus on what matters most to savers – the returns that are delivered and value received more generally. Too often today providers compete predominantly on low cost rather than overall value.

2. The Value for Money (VFM) Framework (referred to as 'the Framework' throughout this document) aims to shift the market focus from cost alone to overall value, protecting savers from remaining in consistently underperforming schemes. It will require DC workplace schemes to disclose and assess standardised performance metrics across three key areas: quality of service, investment performance and costs and charges. Where a scheme falls short, the Framework will require poorly performing arrangements to improve or ultimately protect savers by transferring them elsewhere.

3. This will raise standards across the market and ensure savers are getting the best value out of their investments. Currently, over a five-year period, there can be up to a 55% cumulative difference between the highest and lowest performing pension scheme (on a gross investment basis), underscoring the importance of transparency and comparability.[2] Whilst there will naturally be some variation in returns, we cannot ignore large and persistent differences which in turn could result in big losses to savers.

4. Implementation of the Framework will take place in the context of a considerably evolving market, in which there will be consolidation and broader reform to how providers operate and compete. The Framework, together with other initiatives set out in the Pension Schemes Act 2026 such as a requirement for scale and easing the ability of providers to transfer members into alternative arrangements where that is in savers interests, will help drive this change.

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[1] Workplace pension participation and savings trends: 2009 to 2023 - https://www.gov.uk/government/statistics/workplace-pension-participation-and-savings-trends-2009-to-2023

[2] Based on CAPAdata for younger savers as at q12026 - https://www.capadata.co.uk/

5. The VFM Framework has been developed through an iterative programme of consultation and refinement. This includes:
    - FS22/2: Driving Value for Money in Defined Contribution pensions (September 2021)
    - Value for Money: A Framework on metrics, standards, and disclosures (January 2023)
    - CP24/16: The Value for Money Framework (August 2024)
    - CP26/1: The Value for Money Framework: Response to consultation, further consultation and discussion paper (January 2026)

6. This consultation represents the final set of proposals ahead of implementation. It builds on earlier proposals and incorporates stakeholder feedback to ensure the Framework is proportionate, effective and deliverable, while maintaining a consistent approach across both trust-based and contract-based workplace pensions insofar as possible.

Main changes proposed since consultation CP26/1

7. We previously proposed that all in-scope schemes would complete the full assessment in the first year of the Framework. We now propose a phased implementation so that in 2028, Master Trusts (MTs), large Single-Employer Trusts (SETs) (only those with 50,000 or more members) and all firm-designed, open, multi-employer contract-based schemes will complete full VFM assessments and assign ratings, while smaller SETs, legacy and bespoke arrangements will only submit data to regulators, and their data will not be published. From 2029 onwards, all in-scope schemes will be required to complete full disclosure, assessment, ratings and face consequences. See Chapter 2 (Scope).

8. We previously proposed that, in the first year of the Framework, where relevant, data would be collected from January to December 2027. We now propose shortening this initial data collection period to July to December 2027. This will ensure arrangements have sufficient lead-in time and that FCA rules and DWP regulations are in place ahead of the data collection period.

9. We are committed to a pragmatic implementation of what is a major change for both providers and the pension landscape. We previously proposed immediate application of consequences for underperforming schemes. We now propose that no formal consequences will apply in 2028 in direct relation to the VFM Framework, with consequences (including closure measures) only taking effect from the second assessment cycle onwards. See Chapter 9 (Actions for arrangements offering poor value). FCA-regulated firms will still

be subject to the FCA handbook and their obligations under it, including the Consumer Duty. Trustees will still be subject to their existing duties.

10. We previously sought views on when VFM data should be published. We are now consulting on whether data submitted in March should only be made public in November, after schemes have published their assessment reports. During the period between March and October, trustees/managers and IGCs/firms would have access to all disclosed VFM data required for assessment purposes. This would ensure data only becomes public alongside assessment reports but does carry some risk. We discuss this in Chapter 10 (Disclosures) and welcome views on the updated proposals.

11. We previously proposed that all arrangements be assessed against the same commercial comparator group at all year to retirement (YTR) points. We now propose a more tailored approach for the 0YTR point dependent on the decumulation aim sought, whereby arrangements at the point of retirement (0YTR) are compared only with others targeting similar decumulation outcomes (e.g. those targeting annuity purchase compared with those targeting annuities, drawdown with drawdown). For 30 YTR, trustees and IGCs should continue to use the full commercial comparator group as all members of the group are expected to be following a pot maximisation strategy. See Chapter 8 (Assessment Process).

12. We previously proposed an arithmetic approach to measuring investment performance. We now propose a new geometric averaging methodology based on representative members' actual experience as they move towards retirement. As a result of this change, the 5YTR data point will be removed as it becomes redundant. The new approach aims to better align with industry practice and reduce reporting burden. See Chapters 3 (Investment Performance – Backward-looking metrics) and 6 (Costs and Charges).

13. We previously proposed that firms and trustees obtain third-party advice on forward-looking metrics (FLMs). We now propose replacing this requirement with mandatory disclosure of underlying assumptions, enabling scrutiny and reducing additional cost for possibly limited benefit. See Chapter 4 (Forward-Looking Metrics).

14. We previously proposed that each arrangement should be assessed on an employer cohort level in step 1 (investment performance) and against the minimum, median, and maximum investment performance. We now propose that as part of the phased implementation of the Framework in the first year, the multi-employer cohort tables will not be used for assessments, shared

with other providers nor made public. We continue to explore options for future years in relation to these disclosures. On the net investment performance data for multi-employer arrangements, the median net investment performance at scheme-level will be disclosed to participating IGCs and trustees. Alongside this, aggregated average minimum and maximum net investment performance will be made available to IGCs to use for comparison purposes in the assessment process. We propose that IGCs and trustees must compare their own arrangements against the comparative data, as well as assessing how the arrangement compares to the individual arrangements in the comparator group more broadly in relation to the median net investment performance metric.

Next Steps

15. The Pension Schemes Act 2026 grants the Secretary of State the power to make regulations setting out the details of the Framework for occupational pension schemes that provide money purchase benefits ("trust-based arrangements"). Following this consultation, DWP intend to issue a response document which will be published alongside the final regulations, implementing the VFM Framework for trust-based schemes, by January 2027. TPR will also consult, as appropriate, on any necessary Codes of Practice and/or Guidance.

16. In parallel with this legislative process, the FCA will be preparing a Policy Statement and rules to be published Q1 2027 to set out the details of implementing the Framework for the contract-based market.

17. We welcome feedback on this document by **1 September** using the details on page 3. In addition to the specific questions set out in each chapter, respondents are invited to provide any further comments on the policy more broadly, to ensure all relevant views are considered as proposals are refined.

18. The FCA, TPR and DWP will use responses to help develop and implement the VFM Framework. For trust-based schemes, responses will inform refinements or changes to proposals outlined in the regulations made under the Pension Schemes Act 2026 and TPR Code and/or guidance. For contract-based arrangements, responses will inform further refinements or changes to proposals to the FCA draft Handbook rules and guidance.

19. Due to differences in regulatory frameworks, there are inevitable differences in the ways that the DWP regulations and FCA rules are drafted. But we intend that the VFM Framework and underlying policy intent will be introduced consistently across the trust-based and contract-based sides of the market.

We welcome comments if specific drafting differences raise practical questions.

20. We will continue to offer roundtables and stakeholder events to discuss practical aspects as we develop the Framework. As confirmed in the DC Roadmap, we intend that requirements for both contract and trust-based arrangements will come into force at the same time.

Chapter 2: Scope and Thresholds

21. We have previously set out our intention that the scope of the VFM Framework should be proportionate. This requires balancing the inclusion of arrangements – particularly those with more disengaged savers, who may be at greater risk of poor outcomes – with the burden placed on those providing and overseeing workplace pensions schemes.

22. Consistent with CP26/1 and earlier consultations, we propose that, in the first instance, the requirements set out in this consultation will apply to the savings in accumulation of default and quasi-default DC arrangements within workplace schemes. This reflects our understanding that most workplace pension savers are invested in such arrangements.

23. In response to consultation feedback, we are proposing a phased approach to the implementation of the VFM Framework which is set out in more detail below.

Terminology used

24. When we refer to 'providers' we mean providers of workplace pensions, including FCA-regulated firms, as well as Master Trust schemes and single employer trust-based schemes regulated by TPR.

25. The term 'scheme' is used in different ways within the contract-based market. It may refer to either a HMRC-registered pension scheme (such as a GPP or Group SIPP) or to an individual employer's pensions arrangement for employees. Each trust-based scheme is registered with HMRC, whether it be for multiple employers (such as a master trust) or a single employer. For the purposes of this consultation, unless otherwise stated, we use 'scheme' to mean a pension scheme registered with HMRC.

26. When we refer to "arrangement" we mean the default (or quasi-default) arrangement. In some multi-employer schemes, an individual employer may tailor a default arrangement for their employees. We refer to these as "bespoke arrangements".

27. The VFM Framework is designed to operate at arrangement level. The exception to this is quality of service metrics which are considered at scheme/platform level.

Summary of Responses to CP26/01

28. Most respondents supported the proposed scope on which we consulted in CP26/1. However, as in earlier consultations, there was some divergence in views, with suggestions to either narrow or widen the initial scope of the VFM Framework. We acknowledge the suggestions to broaden the scope of the Framework to cover, for example, decumulation products and non-workplace pension schemes. However, at this stage, we intend to continue with our stated approach to prioritise implementation of the Framework where it is likely to have the greatest impact, while ensuring it can be delivered as soon as practicable. The first phase of implementation will therefore focus on default arrangements in accumulation. Over time, we intend to broaden the scope of the VFM Framework to extend its benefits to members across a wider range of schemes, including those in decumulation. This will require some elements of the Framework to be adapted.

29. Many respondents called for a phased introduction of requirements to reduce operational burden, support data quality, and manage implementation costs. We recognise these benefits and have introduced new proposals for a phased approach to implementing the VFM Framework which we set out below.

30. Some respondents also raised concerns that the proposed scope could capture more arrangements than intended, and that the criteria for inclusion were overly complex. There were also requests for further clarification of some of the definitions used throughout this chapter. We have suggested some revisions to our approach in response to these concerns.

31. Our proposed approach to the treatment of unlinked members – those who cannot be associated with a particular employer – was supported by most respondents. Some sought further clarity on how this would operate in specific circumstances and we have refined our approach in this response.

32. A significant majority of respondents who expressed a view on our proposals relating to members transferred without consent supported the policy intention. However, some suggested that an exemption should apply where a member is transferred from a self-selected arrangement into another arrangement with a similar investment strategy. We address this suggestion below.

33. In relation to proposals to exempt arrangements from the scope of the VFM Framework where all members are being transferred, most respondents agreed with our proposals. Some respondents suggested the approach for contract-based arrangements should go further, and they should be exempt from the VFM Framework earlier, i.e. once they notify the FCA of their

intention to transfer their members and close. However, in our opinion, to ensure the transfer is sufficiently advanced and certain, it remains important that these arrangements continue to be subject to some aspects of the VFM Framework, in particular the requirement to disclose VFM data. This data could support the contractual override process, including enabling the best interest test to be carried out using consistent and transparent data.

Pension Schemes Act 2026

34. Section 11(1)(a) and (b) of the Pension Schemes Act 2026 grants the power to prescribe the description of pension schemes and arrangements to which the value for money regulations apply ("regulated VFM schemes" and "regulated VFM arrangements").

Draft regulations

35. Draft regulations 1 to 5 outline which trust-based schemes and arrangements are in-scope for the VFM Framework. This largely follows what was set out in CP26/1, with updated proposals and finer detail below.

Updated Proposals

36. We propose to largely retain the scope previously consulted on. However, following feedback, we have made some proposed amendments.

Phasing of the VFM Framework

37. There was strong industry feedback to CP26/1 indicating that a phased implementation of VFM requirements would reduce operational burdens, manage delivery risk and support the development of robust and reliable data. We recognise these concerns, while also recognising the importance of ensuring that the benefits of the Framework are realised as early as possible.

38. We therefore propose a phased implementation in some areas of both requirements and scope.

39. **In the first year** (2027-28), all in-scope arrangements will be required to collect and enter their VFM data onto the database. However, **only a subset of those arrangements will have their data published and be required to undertake and publish an assessment.** All other in-scope arrangements will still need to produce the data and provide it to regulators (via the database) but will not be required to prepare an assessment and their data will not be published in the first year.

40. We propose that the following types of arrangement should be required to submit VFM data and undertake and publish a VFM assessment in the first year, as these types of arrangement are more likely to impact a larger number of savers overall and be best placed to comply with the VFM requirements:
    - Scheme-designed (non-bespoke) Master Trust default arrangements
    - Default arrangements within large single-employer trusts (SETs). In this context, we propose that 'large' would mean 50,000 members (both active and deferred) or more within that arrangement.
    - Firm-designed (non-bespoke) multi-employer contract-based arrangements.

41. We propose that the following arrangements should not be required to prepare an assessment in the first year nor have their data published by the VFM database:
    - Arrangements closed to new employers (legacy arrangements)
    - Bespoke arrangements
    - Remaining in-scope SETs (i.e. those not classed as 'large')

42. We would nevertheless encourage providers and trustees of these arrangements to consider their data in light of VFM publications, recognising that this temporary easement is intended to apply in the first year only.

43. For those arrangements that are required to undertake an assessment in year one, we also propose to phase the introduction of automatic consequences for amber and red rated arrangements. In the first year, there will be no automatic requirement under the proposed VFM Framework for arrangements to close to new business, produce action or improvement plans, or transfer members.

44. However, we would expect providers and trustees of these arrangements to consider carefully the drivers of such ratings, engage with regulators as appropriate, and take steps to improve outcomes for savers. For contract-based arrangements, the FCA Handbook, including Consumer Duty requirements, would continue to apply. For trust-based arrangements, trustees would still be subject to their existing duties.

45. Additionally, we propose that for the first year of implementation, the first data collection period be limited to 6 months (1 July – 31 December) following DWP regulations and FCA rules coming into force. While we do not expect this to impact metrics measured at a point in time (i.e. costs and charges and investment performance metrics), this means that Quality of Service (QoS)

metrics will be measured over a 6-month period, rather than a 12-month period, in the first year of implementation. More information on QoS metrics can be found in Chapter 7 of this consultation. This is intended to provide schemes, trustees and IGCs with sufficient time between regulations and rules coming into force and the data collection period starting to prepare for data collection.

46. There is also some interplay between this proposed phasing and existing value assessments for FCA-regulated arrangements and for arrangements which have an exemption from the assessment requirement due to proposals to transfer all members. These additional considerations are covered in the relevant chapters of this paper.

47. From the second year of implementation, full requirements would apply. This would include extending public disclosure of data and assessment requirements to all in-scope arrangements alongside the full application of consequences and supervisory action for arrangements assessed as not delivering value. We are also proposing to implement a simplified assessment process for year one of the Framework. Detail on the proposal for the simplified assessment process can be found in Chapter 8: Assessment Process.

Question 1: Do you have any comments on our proposals for phasing?

Question 2: Do you have any comments on our proposal to limit the first data collection period to 6-months?

Scope of the proposed requirements

48. As set out in CP26/1, we continue to propose that the VFM Framework will apply to the following arrangements which contain assets in accumulation where, except in the case of chain-linked arrangements (see Chapter 3: Investment Performance – Backward Looking Metrics) they have been operating for at least 1 calendar year (1 January to 31 December):

- **Default arrangements** – where contributions to an automatic enrolment (AE) scheme are invested without the employee having made an active choice.

- **In-scope legacy ('quasi-default') arrangements** – where a pre-AE arrangement of a workplace pension scheme is treated as akin to an AE default arrangement. This is an arrangement which:
  - May be open or closed to new savers, and

- Is used by at least 80% of employees and ex-employees (active and deferred members), of at least 1 employer.

49. We received feedback on the risk of creating “accidental” quasi-defaults, in which a small number of individuals from a micro-employer might cause a much wider arrangement to be brought within scope. To address this, we propose to introduce a ‘de-minimis’ threshold for multi-employer arrangements such that for multi-employer arrangements, the 80% test will only be applied to employers who have 50 or more employees (current or former) in the scheme.

Example: *‘Arrangement A’ sits within the VFM Pension scheme, which has 2000 members. Arrangement A is not an automatic enrolment default. Amongst the members in arrangement A are a number of employees (current and ex) of ‘Example PLC’.*

To determine whether arrangement A would be considered a quasi-default, it is necessary to look at the number of employees (current and ex) of Example PLC in the scheme as a whole.

If 120 employees were members of the wider VFM scheme, with 100 of those employees being members of arrangement A, this would meet the 80% and minimum 50 employees test (i.e., the scheme has more than 50 employees associated with that employer, and over 80% of those employees are members of Arrangement A).

Alternatively, if there were 40 employees in Arrangement A and 45 employees in the scheme as a whole, it would exceed 80%. However, as there were less than 50 employees in total, the arrangement would not be considered quasi-default (based on that employer).

Determining quasi-default status

50. We continue to propose that determination of whether an arrangement is a quasi-default arrangement will be a one-off decision based on data as of 31 December following the Framework coming into force. Some respondents to CP26/1 suggested that this determination should be subject to review.

51. The proposed FCA rules and draft DWP regulations do provide some flexibility in this area, including the ability for providers to revisit the classification periodically where appropriate, such as to assess whether the arrangement continues to be treated as an in-scope legacy arrangement. We believe that this offers a suitable degree of flexibility.

Exemptions from the scope of the Framework

52. Our intention is to initially target the VFM Framework on areas where the greatest number of members are at the most risk of receiving poor value for money. In practice, this is likely to include arrangements in which savers have been enrolled with limited or no active decision-making by those savers. We therefore propose to exclude certain types of arrangements from the initial scope of the VFM Framework, with the intention of keeping the scope under review and extending over time where appropriate.

53. In CP24/16, we suggested that arrangements exempt from the VFM requirements may be able to participate in the Framework on a voluntary basis. Whilst we continue to believe there would be some merit in voluntary participation, the introduction of the VFM central database and other proposals mean there would be additional considerations with regards to voluntary participation. We therefore propose to drop this approach for now with an intention to revisit it when we consider a potentially expanded scope in due course.

Exemption for additional arrangements with under 1,000 members

54. We continue to propose that default or quasi-default arrangements will be in scope of the VFM Framework where at least one of the following conditions are met:

- The arrangement has at least 1,000 members in accumulation (this threshold applies to all members invested in the arrangement, not only those who have been automatically enrolled).
- The arrangement has fewer than 1,000 members but is the sole default or quasi-default arrangement provided by a scheme.
- The arrangement has fewer than 1,000 members and is not the sole default or quasi-default arrangement but is the largest such arrangement within a scheme.

55. In response to consultation feedback, we have clarified the definition of a ‘member’ for the purposes of these tests. We propose that, in relation to the tests above, a member is an individual who has pension contributions invested in an in-scope arrangement within the relevant scheme, and is either:

    1) Currently receiving contributions into that scheme made by, on behalf, or in respect of that member); or

2) No longer receiving employer contributions or making their own contributions but has not yet started to receive pension or other benefits in respect of the arrangement in which they are invested.

Exemption of EPP, SSAS, AVCs and CDC arrangements

56. As set out in earlier consultations, we propose to exclude Executive Pension Plans (EPPs) from the VFM requirements as they are typically tailored to the needs of senior executives. Similarly, Small Self-Administered Schemes (SSAS) will initially be excluded from the VFM Framework.

57. We are aware that Collective Defined Contribution (CDC) arrangements are being developed and an active market is yet to emerge. As such, we propose they are exempt from VFM requirements at this stage. However, we propose to keep this under review and revisit the question of their inclusion at an appropriate point in the future.

58. We also propose to exempt in-house Additional Voluntary Contribution (AVC) arrangements given that such arrangements result from active decision-making on the part of the saver and often have complex relationships, including in relation to investment choice and benefits, with the main schemes to which they are linked.

Other arrangement characteristics

Hybrid arrangements

59. We previously proposed that VFM would apply only to the DC element of hybrid schemes. Hybrid schemes operate in different ways: some combine DC and DB elements, while others operate on an ‘underpin’ basis, whereby a scheme primarily operates on one basis (e.g. DC) but guarantees members a minimum benefit calculated under an alternative formula (e.g. DB). Consultation responses highlighted potential complexity where an arrangement includes both DB and DC elements.

60. We have considered the different types of hybrid arrangement, including the implications of excluding some or all these arrangements from the scope of the VFM Framework. To meet the Framework’s objective – protecting savers who have made limited or no active choice from poor value – the DC elements of hybrid arrangements remain in scope of the VFM Framework, unless excluded on other grounds. For clarity, the VFM Framework will not apply to the DB elements of these schemes.

Different packages of services

61. We continue to propose that where a firm or trustees offer commercially different propositions, where service levels differ beyond minor variations but use the same default fund, these should be treated as separate sub-arrangements. This is likely to arise, for example, where different service levels are delivered through separate platforms. In such cases, each sub-arrangement would be subject to separate disclosures across all VFM Framework metrics, as well as its own VFM assessment.

Bespoke arrangements

62. We continue to propose that bespoke arrangements used as a default within contract- and trust-based schemes be treated as in-scope arrangements. However, these arrangements will not be required to provide asset allocation disclosures and will be subject to reduced reporting requirements within Independent Governance Committee (IGC) reports and VFM reports (set out in Chapter 10: Disclosure Requirements).

Question 3: Do you have any concerns about our proposed exemptions and inclusions?

'Unlinked' members in quasi defaults (multi-employer arrangements)

63. CP26/1 recognised that some multi-employer arrangements may include members for whom a link to a specific employer cannot be confirmed (or where a link has been confirmed not to exist). The presence of these 'unlinked members' can makes it more difficult to determine whether an arrangement meets the criteria for 'quasi-default' status, particularly where this depends on the proportion of members linked to a given employer. In CP26/1, we proposed that where there is evidence that such arrangements are being used in a manner analogous to a default, they should fall within the scope of the VFM Framework.

64. Two potential approaches were identified, with a preference of assessing where unlinked members are invested. Under this approach, arrangements with a higher-than-average proportion of unlinked members (relative to the scheme) would be treated as a quasi-default arrangement.

65. Most respondents who commented on this issue supported the inclusion of unlinked members and proposed approach, although some suggested alternative approaches, and a small number questioned whether unlinked members should be considered at all.

66. We continue to consider it appropriate to take unlinked members into account and therefore maintain the preferred approach set out in CP26/1.

67. However, in response to feedback, we propose a refinement: where an arrangement contains fewer than 50 unlinked members, these members will be included in calculating the scheme average, but the arrangement itself will not be treated as a quasi-default arrangement on that basis alone.

Example of unlinked members decision

Arrangement within scheme	No. of unlinked Members	Treated as quasi-default under CP26/1 proposal	Treated as quasi-default under new proposal
A	30	Yes	No
B	50	Yes	Yes
C	5	No	No
D	25	No	No

Note: the total number of unlinked members in the scheme is 110 and the average is therefore 27.5 (rounded up to 28).

68. In CP26/1, we set out the view that unlinked members may not affect trust-based arrangements in the same way as contract-based arrangements, and sought feedback on this position. While most respondents agreed, a significant minority highlighted that similar issues could arise in multi-employer trust-based schemes where it may not always be possible to link savers to a specific employer. We accept that this may be the case, but it should not be an issue for master trusts as they do not generally have legacy arrangements so should not need to decide whether they have a ‘quasi default’.

69. However, to ensure consistency of treatment across scheme types, we propose that the same approach to unlinked members should apply to trust-based arrangements.

Transfer of members without requiring their explicit consent

Contract-based arrangements

70. As set out in CP26/1, we propose that where at least one member has been transferred without their explicit consent into an arrangement that would otherwise be out of scope of the VFM Framework, the receiving arrangements should be treated as default arrangements for the purposes of the Framework. This approach is intended to ensure that these savers are included within the VFM assessment and are protected from the risk of poor value outcomes.

71. We also proposed introducing a new definition - ‘in scope transferred member arrangement’ - to capture relevant scenarios. These arrangements will be considered in scope of the VFM Framework.

Avoiding the creation of accidental defaults

72. Feedback to CP26/1 was largely supportive of the proposed approach. However, some respondents raised concerns about the potential creation of 'accidental' default arrangements, particularly where a member who had actively selected a fund is transferred, without their consent, into another arrangement that is not materially different in its investment strategy than the one they were previously in.

73. We agree that, in such cases (such as 'fund mapping') the receiving arrangement should not automatically be treated as a default arrangement. We therefore propose to amend our previous approach so that these types of transfers are excluded.

Exemptions for closure / transfer of all members – Contract Based Arrangements

74. In CP26/1, we proposed two types of exemptions to the VFM Framework for contract-based arrangements undergoing a transfer of all members.

75. A full exemption would apply where a firm is undertaking a Part VII transfer under the Financial Services and Markets Act 2000 (FSMA), from the point at which the firm applies to court for an order to sanction the transfer, or where a firm is using the contractual override power in Part 7A of FSMA, from the point at which:
    - The receiving scheme has been identified;
    - Any required best interests test has been carried out and certified as required by FSMA; and
    - Employers and members have been notified.

76. A partial exemption would apply where there is a clear plan to transfer all members and the FCA has been notified but the process has not yet started or is not as advanced as described above. In such cases, we propose that in-scope FCA-regulated firms would not be required to undertake a VFM assessment but would still need to gather and disclose all VFM metrics. We are interested in feedback on whether this is proportionate, particularly in the first year of implementation.

77. This approach is intended to support the contractual override process, including enabling the best interest test to be carried out using consistent and transparent data. We are continuing to work through the interaction between Scale, VFM and Contractual Override, and the FCA will consult on rules relating to contractual overrides, including the best interests test, in due course.

78. We recognise that there are cost implications for preparing VFM data for legacy products that are clearly not value and will be transferred to more modern products. For some products this will be clear cut, and we expect firms will be able to make progress to initiate the contractual override process. For other products, considerations may be more complex, and we expect that VFM data will help support decision making, with transparency driving further action. Our proposed approach is intended to cater for both situations.

79. In both of the above scenarios, the arrangement must be closed to new employers.

80. Where a transfer does not proceed, or there is insufficient progress by the following assessment cycle, the exemption will cease to apply, and the arrangement will be required to complete a VFM assessment.

81. Additionally, where the data from a scheme that is being closed is relevant for chain linking for another scheme, the firm will still have to ensure it has data to meet the obligations of the receiving scheme.

Question 4: Do you agree with the proposed exemptions (full and partial) for contract-based arrangements where there is a transfer or a plan to transfer? Why or why not?

Trust-based arrangements

Exemptions for closure/transfer all members

82. For trust-based schemes, we propose that where trustees have taken a decision to wind up the entire scheme, they should be exempt from the requirement to produce VFM data and undertake a VFM assessment. This exemption would apply from the point at which trustees notify TPR, in accordance with section 62(5)(b) of the Pensions Act 2004, that the winding up of the scheme has commenced.

83. We further propose that where trustees decide to transfer members out of a default arrangement (for example, a disinvestment to that arrangement), but do not intend to wind up the scheme, they should be exempt from the requirement to produce both VFM data and a VFM assessment from the point at which TPR has been provided with evidence that an agreement in principle has been reached with an alternative provider to accept the transfer of those members to a new arrangement.

84. In both scenarios, the arrangement would be treated as no longer in-scope of the VFM Framework.

Question 5: Do you have any further comments on our proposed scope?

Chapter 3: Investment performance – Backward-looking metrics (BLMs)

85. This chapter sets out updated proposals for the definition and calculation of backward-looking investment performance metrics (BLMs).

Summary of Responses to CP/29

86. In CP26/1 we set out a number of proposed updates to the BLM proposals previously consulted on in CP24/16. Feedback from respondents primarily focused on the following areas: calculation methodology, disclosure of median and range net performance, risk metrics and chain linking. Our response to this feedback is detailed below.

Calculation methodology

87. In CP26/1, we proposed moving from the geometric averaging approach set out in CP24/16 to an arithmetic averaging methodology, in order to address issues that arise when the underlying portfolio is not static. Most respondents did not support this proposal. Many respondents highlighted that arithmetic averaging would represent a departure from established market practice and could introduce additional operational complexity and burden. Some also noted that it may create unintended incentives towards higher risk investment strategies, given its more favourable treatment of volatility.

88. However, the most consistent feedback was that the resulting metrics would not accurately reflect member outcomes. Respondents emphasised that performance measures should capture the experience of members over time, and several respondents expressed a clear preference for a calculation methodology that tracked the performance delivered to members through their investment strategy glidepath to various points in the retirement journey.

Disclosure of median and range net performance

89. For multi-employer arrangements with variable charging structures, we proposed disclosure of maximum, minimum and median investment performance net of all costs. There was broad support for this proposal, although some respondents raised a number of concerns.

90. Many respondents highlighted that calculating minimum, maximum and median net performance at saver level could introduce significant administrative burden.

91. Several respondents also noted the potential for distortions where cost calculations are not applied consistently, particularly in the context of more complex fee arrangements, such as compound charging structures. Others highlighted the impact of outliers on the resulting metrics. For example, where members with small pots are subject to flat charges – potentially skewing reported outcomes.

Risk metrics

92. As a result of the proposed shift to arithmetic averaging of performance metrics, we also proposed corresponding changes to the calculation of annualised standard deviation. We considered making similar changes to the maximum drawdown (MDD) risk metric but concluded that it would not provide sufficient additional insight to justify the associated calculation burden. Instead, we proposed introducing a dispersion metric to capture the variability in annual performance figures.

93. There was general support for these proposals, although this was typically caveated by respondents' broader disagreement with the move to arithmetic averaging. Most respondents agreed with the proposed removal of the MDD. However, a minority favoured its retention, in some cases suggesting it could be supplemented by an additional metric to capture the duration of drawdown periods.

Chain-linking

94. Gross performance chain-linking proposals remained broadly consistent with CP24/16. However, in CP26/1 we introduced an additional exemption to chain-linking where the receiving arrangement already met specified size and lifespan criteria at the point transfer. There was general agreement with these proposals, and the additional exemption was well received.

95. Some respondents, however, suggested that this exemption should be extended further. In particular, they proposed that once the receiving arrangement meets the relevant size and lifespan criteria, any historical chain-linking requirements could be removed, leaving disclosures based solely on standalone performance history of the current arrangement.

96. In considering how net performance should be derived from gross performance net of total costs and charges, we also sought views on whether costs should be chain-linked to ensure consistency with the treatment of gross performance. Responses to this question were mixed. Some respondents agreed that costs should be chain-linked, while others agreed with the underlying objective of ensuring accurate net performance calculations but questioned whether cost chain-linking was the most appropriate approach. A number of respondents did not support chain-linking more generally. Some respondents suggested an alternative approach, whereby costs are deducted from gross performance before chain-linking, allowing net performance histories to be chain-linked directly rather than applying chain-linking to costs and adjusting at a later stage.

Pension Schemes Act 2026

97. Section 12(1)(c) of the Pension Schemes Act 2026 specifies that metric data may relate to investment performance, and section 11(5)(a) grants the power to prescribe how this is to be calculated.

Draft Regulations

98. Draft regulation 19 sets out the definition of BLMs and the methodology for their calculation. BLMs are defined as:
    a) gross investment performance net of transaction costs
    b) gross investment performance net of investment charges
    c) gross investment performance net of all costs and charges, and
    d) the annualised standard deviation of investment returns minus transaction costs.

Updated proposals

99. As set out in CP26/1, we continue to propose that past investment performance should be disclosed at three levels:
    - Gross investment performance (net only of transaction costs).

- Gross investment performance net of investment charges – disclosed separately solely for the most recent calendar year.
- Gross investment performance net of all costs and charges.

100. We also continue to propose disclosure of backwards looking investment performance data based on reporting periods of 1 year, 3 years and 5 years where available, and 10 years where reasonably practicable to obtain.

101. In line with CP24/16, we continued to propose that legacy arrangements with valuable guarantees disclose their BLMs by reference to the performance of underlying investments, with features such as smoothing or guarantees disclosed separately and not accounted for in BLM calculations. Respondents remained largely supportive of this approach. However, some respondents raised concerns about the feasibility of obtaining the required look-through investment data, particularly for older or more complex legacy products, noting that this could present practical challenges to implementation.

Calculation methodology

102. Having considered feedback regarding arithmetic averaging, we are now proposing a revised approach to the calculation of the BLMs, designed to better reflect member experience over time (on a basis that excludes contributions).

103. Under this approach, gross investment performance is defined as the annualised return experienced over the previous reporting periods for a hypothetical non-contributing member who has reached a specific ‘years to retirement’ (YTR) point (30 YTR; 0YTR, see next section) at 31 December in the prior calendar year.

104. These figures would be calculated by annualising the gross monthly returns (net of transaction costs) underlying each relevant reporting period.

105. The following example illustrates how the gross investment performance metric should be calculated over a five-year period to track the experience of a hypothetical member at 30YTR on 31 December 2025. For simplicity, the example uses annual performance data rather than monthly returns.

	2025	**2024**	**2023**	**2022**	**2021**

Hypothetical member journey through to 30YTR	Aged 36 at 31.12.25 (30YTR)	Aged 35 at 31.12.24 (31YTR)	Aged 34 at 31.12.23 (32YTR)	Aged 33 at 31.12.22 (33YTR)	Aged 32 at 31.12.21 (34YTR)
Underlying gross investment performance	7%	-4%	4%	10%	13%
5y gross investment performance	= 5.84% annualised				

106. Gross investment performance net of investment charges for each relevant reporting period would be calculated by deducting the investment charges applicable to that period from the gross investment performance metrics.

107. Similarly, gross investment performance net of all costs and charges for each relevant reporting period would be calculated by deducting the total costs and charges applicable to that period from the gross investment performance metrics.

Question 6: Do you agree with the proposed updated methodology? Do you envisage any issues with calculating investment performance metrics on a basis that tracks members experience over time, while excluding contributions? Please specify where problems might arise, if any.

Year to retirement cohorts

108. Given the shift to BLMs that track member experience over time (on a basis that excludes contributions), we now propose that BLMs should be disclosed for each reporting period at:

- 30 years to retirement (YTR) – reflecting the “growth” phase of accumulation; and
- 0 YTR – reflecting the pre-retirement (often de-risking) stage of accumulation.

109. We no longer propose to require BLM disclosures at 5 YTR. We consider that this change will reduce the data burden on trustees, IGCs and firms, without materially diminishing transparency or insight. This is because the move to multi-year performance metrics that track member experience over time enables the presentation of outcomes across the retirement journey,

including through any de-risking glidepath to 0YTR. This approach is also supported by the updated proposal in the assessments chapter whereby an arrangement's 0YTR performance metrics will only be compared against those in the comparator group with similar decumulation objectives (see Chapter 8: Assessments Process).

Question 7: Do you agree with the removal of standalone BLM disclosures at 5YTR? Are there any issues associated with its removal?

Multi-employer arrangements with variable charges

110. In line with CP26/1, we continue to propose that multi-employer arrangements with variable charges disclose the maximum, minimum and median for BLMs affected by the variability of the charges. In practice, this will primarily affect investment performance net of all costs and charges, as well as investment performance net of investment charges.

111. To address concerns regarding administrative burden and potential distortions arising from complex fee arrangements, we are also consulting on revisions to the approach to calculating costs and charges (see Chapter 6: Costs and Charges).

Risk metrics

112. As a consequence of the proposed move away from arithmetic averaging to a geometric averaging methodology, we have amended the calculation approach of the annualised standard deviation (ASD) to that set out in CP24/16.

113. Under this approach, ASD would be calculated using the monthly gross returns across each reporting period, based on the same monthly data points used to calculate the gross investment return. For reporting periods of more than one year, the ASD will be calculated for the series of monthly data points across the whole reporting period.

114. Consistent with this change and given that performance figures are no longer intended to be calculated discretely over each annual period, we no longer propose to require the disclosure of the dispersion of gross performance. While some respondents supported the reintroduction of the disclosure of maximum drawdown (MDD), this was often alongside the view that it should be paired with a complementary measure capturing the duration of drawdown in order to be meaningful.

115. Although we recognise that, taken together, these can provide a valid and easily understood measure of downside risk, we are cautious about to introducing additional metrics in light of wider concerns around data burden. We are also mindful that an expanded set of risk metrics could lead to inconsistent application or interpretation, with greater scope for subjectivity in how risk is reflected in assessments. We are therefore not proposing to reintroduce the maximum drawdown figure.

116. Given that ASD would remain as the sole risk metric, we are seeking views on whether it provides an appropriate measure of risk in the context of arrangements' decumulation objectives. We have made changes to the assessment process to better account for differing objectives in the decumulation phase (see Chapter 8: Assessment Process). However, we recognise that for arrangements targeting an annuity purchase at retirement, the volatility of investment returns leading up to retirement may not capture the primary risk experienced by members in that arrangement, namely, the potential mismatch between their assets and the price of an annuity. In such cases, ASD may not provide a fully meaningful measure of risk. We are therefore considering whether for the 0YTR retirement cohort, a modified ASD calculation measuring volatility relative to annuity prices (for example, by proxy, relative to the price volatility of a 15-year gilt) would be a more relevant risk metric.

Question 8: Are you comfortable with ASD as a risk metric for all arrangements, or should some arrangements calculate their volatility metrics differently? Please specify under what circumstances and what modified calculations you would recommend.

Chain-linking

117. Where two or more in scope arrangements offered by the same scheme or within the same firm are consolidated, such that the ceding arrangement ceases to be in-scope for the VFM Framework, we continue to propose chain-linking of historical performance records. We also continue to propose that a weighted average of the gross monthly returns of the merging arrangements is used to calculate gross performance and ASD calculations. We are now providing further clarification on the approach to the weighting between the monthly return track records, as detailed in the example below.

118. Example: Arrangement A is merged into Arrangement B on 1 January 2025. Arrangement B commenced on 1 July 2023. At 30YTR the three annual calendar performances required to calculate the 3-year average investment performance are:

	Calendar Year 2025	Calendar Year 2024	Calendar Year 2023
Relevant investment performance	12 monthly returns from Arrangement B	12 weighted average monthly returns from Arrangement A and Arrangement B, weighted as follows: $WAMR^{Month} = W_A^{Month} P_A^{Month} + W_B^{Month} P_B^{Month}$ Where P stands for Performance and W stands for Weighting	6 monthly returns from Arrangement A (from January to July, until Arrangement B is incepted) followed by 6 weighted average monthly returns from Arrangement A and Arrangement B, weighted as follows: $WAMR^{Month} = W_A^{Month} P_A^{Month} + W_B^{Month} P_B^{Month}$

119. There are two scenarios for weighting:

- Scenario 1: If the transfer of all members from A and B occurs in a single step, then the weights should be set by the relative size of the two arrangements at the month-end prior to the time of the merger:

$$W_A^{Every\ month} = \frac{Size\ (AuM)_A^{Month-end\ prior\ to\ merger}}{Size\ (AuM)_A^{Month-end\ prior\ to\ merger} + Size\ (AuM)_B^{Month-end\ prior\ to\ merger}}$$

- Scenario 2: If the transfer of members occurs in many steps, transferring them gradually, we would: expect every month prior to the first transfer to be weighted in line with Scenario 1, using a single weighting set by the relative size of the two arrangements at the month-end prior to the time of the merger. We would expect every month following the first transfer to be weighted with individual monthly weights set by the relative size of the two arrangements at the end of the previous month:

$$W_A^{Month} = \frac{Size\ (AuM)_A^{Previous\ month-end}}{Size\ (AuM)_A^{Previous\ month-end} + Size\ (AuM)_B^{Previous\ month-end}}$$

120. As set out in CP26/1 we continue to propose that chain-linking does not apply where:

- Two or more arrangements are consolidated across separate schemes (that may belong to different firms); or
- Arrangements are consolidated into an arrangement that:
  - Has at least three years history as an arrangement either in-scope of the VFM Framework or would have been in scope pre-2028 had the Framework been in place;
  - Has been able to accept contributions by or on behalf of individuals in each of the previous three years; and
  - Has at least 5% of scheme members who have made contributions in each of the previous three years. This requirement is to prevent the risk of empty arrangements being established.

121. We also propose that, once an arrangement meets these criteria, any prior chain-linking requirement will cease to apply. In practice, this means that arrangements which have previously required chain-linked performance may subsequently disclose BLMs solely on their standalone performance.

122. Given these exemptions, we expect chain-linking will only apply for a limited period, after which the receiving arrangement could disclose its standalone BLM metrics. It is therefore unlikely to apply to historical consolidation that happened more than three years prior. This should also mitigate concerns regarding availability of historical data required to carry out chain-linking.

123. Given the reduction in scope for the applicability of chain-linking, we are proposing that costs and charges be chain-linked following the same methodology used for gross investment performance. This should support a consistent calculation of net performance, which is derived by deducting cost metrics from the gross investment performance metrics.

Question 9: Are there any circumstances in which a scheme would not have access to the historical cost information required to apply the same chain-linking methodology to costs as done to gross performance figures, noting the more limited scope under which chain-linking is applicable?

124. We are interested in gathering views on whether there would be a material reduction in administrative burden if, instead of chain-linking costs and deriving net performance, trustees or IGCs were to first calculate the track record of monthly performance net of all costs and charges (for each chain-linking arrangement) and then chain-link these monthly net performance figures in line with the methodology for gross investment performance. Costs could then be derived as the difference between the chain-linked gross performance and the chain-linked net performance.

Question 10: Would there be a material reduction in burden if net performance were to be calculated first, and then chain-linking applied to it, rather than chain-linking costs in order to derive accurate net performance metrics?

125. We continue to propose that chain-linking be applied to arrangements that are in-scope or would have been in scope if the VFM Framework had been in place at the time the consolidation event took place. Whilst assessing whether an arrangement would have been in scope should be relatively simple for default arrangements, we are interested in whether schemes have the necessary data to assess whether an arrangement is likely to have been a quasi-default.

Question 11: Would trustees or firms have the necessary data to retrospectively determine if an arrangement would have been classed as quasi-default up to 10 years prior, so as to apply chain-linking where necessary?

Legacy arrangements

126. As set out in CP26/1, we continue to propose no changes to the treatment of arrangements that invest in products offering valuable guarantees or legacy features. We expect such arrangements to disclose BLMs by reference to the performance of the underlying investments, with the effects of the valuable guarantees or legacy features (such as adjustments of asset shares for with-profits funds, smoothing of returns or guaranteed returns) disclosed separately in the features table.

127. We recognise the concerns raised by some respondents regarding the availability of underlying investment performance information, particularly from

legacy product providers. We note that changes to the scope, including a phased approach to the first year of VFM Framework, should allow trustees and providers the opportunity to identify and engage with such providers and highlight the need to deliver the necessary data in order to comply with VFM duties. TPR will have powers in relation to non-compliance wholly or partly caused by third parties, and will be engaging with stakeholders to identify how to support trustees in successfully obtaining any data they might need. The FCA will consider its approach to this as the framework develops.

Illustration

	1y	3y	5y	10y (if reasonably practicable to obtain)
Performance metrics				
Gross investment performance				
Investment performance net of investment charges				
Investment performance net of all costs and charges [for multi-employer arrangements with variable charges: max, min and median]				
Risk metrics				
Annualised standard deviation				

Chapter 4: Investment performance - Forward-looking metrics (FLMs)

128. This chapter outlines our proposals for disclosing forward-looking metrics (FLMs) as part of the metrics to be included in the VFM Framework. Chapter 8 (Assessment Process) sets out our proposals for how FLMs should be used in the assessment process.

Summary of Responses to CP26/1

129. Most respondents supported the use of FLMs and own assumptions to complement the assessment of BLMs. Many responses highlighted the possibility of gaming and the need for robust safeguards to mitigate this risk. A minority of respondents disagreed with this approach, instead advocating for the use of standardised or set assumptions.

130. Some respondents argued that FLMs are less relevant for the 5YTR and 0YTR cohorts and suggested that disclosures for these cohorts should be reduced or removed. A smaller number of respondents also suggested that the approach for FLMs under the VFM Framework should align with the FCA's proposals on modellers and digital tools in the FCA's CP 25/39.[3]

131. While there was general support for the requirement for external advice to validate assumptions, many respondents agreed with the observation made in CP26/1 that the requirement would not necessarily be a strong safeguard, given that it would not require trustees or providers to follow the advice received. Many respondents supported the disclosure of the high-level capital market assumptions (CMAs) used for the FLMs, as an additional safeguard.

132. We agree with the majority view that the use of own assumptions is more appropriate. Introducing standardised or set assumptions could increase costs, lead to flawed results and create incentives around herding behaviour.

[3] CP25/39: Adapting our requirements for a changing pensions market - https://www.fca.org.uk/publication/consultation/cp25-39.pdf

Pension Schemes Act 2026

133. Section 12(1)(c) of the Pension Schemes Act 2026 contemplates the powers granted under section 11 being used to create metrics regarding investment performance. FLMs fall within this category of information.

Draft Regulations

134. Draft regulation 20 sets out the definition of FLMs, the methodology for their calculation, and requirements on trustees and managers in determining assumptions used.

Updated Proposals

135. Based on consultation feedback, we propose the following updates to FLM disclosures:

- Removal of the external advice requirement.
- A requirement to disclose key assumptions, including projected returns and projected risk by asset and sub asset classes; and
- Removal of disclosures for the 5 YTR cohort, as a consequent change arising from amendments to BLM measurements).

136. We agree with respondents' feedback that the external advice requirement would introduce additional cost while offering limited protection against gaming. As noted in CP26/1, this requirement would not oblige providers or trustees to follow advice received, as following the advice received was not required, and it could incentivise advisor "shopping". We therefore propose to remove this as a safeguard and instead enhance transparency through requiring the disclosure of high-level CMAs). We consider the disclosure of CMAs alongside FLM metrics in a central data repository will enable effective scrutiny by peers and regulators, and therefore act as a stronger deterrent to gaming.

137. We recognise that increased transparency may give rise to some risk of herding behaviour, especially if arrangements converge towards particular assumptions over time. However, on balance we believe that mitigating gaming risk is the more immediate priority in the early stages of the VFM Framework.

Forward-looking projections and risk disclosures

138. We continue to propose that firms and trustees should be required to report the expected net investment returns and expected ASD over the next

10 years, across the entire asset portfolio for both YTR cohorts (30YTR and 0YTR) for each of their in-scope arrangements.

139. For multi-employer arrangements with variable charging structures, firms and trustees should also disclose the expected median, maximum and minimum value of investment returns net of total costs and charges over 10 years, to ensure consistency with BLMs disclosures. This could be achieved either by estimating the median, maximum and minimum total costs and charges, or by holding the latest realised variable charging constant when doing this projection, if those are likely to be an accurate projection of future costs and charges.

140. For each arrangement, firms and trustees would be expected to determine their methodology and assumptions used to project the returns in line with their investment strategy. FLMs must be calculated based on the arrangement's strategic asset allocation (SAA) and must reflect the assumptions used in setting, or in subsequently monitoring, the ongoing suitability of the SAA. This approach allows assumptions to be updated over time, provided a consistent methodology. The use of firm’s and trustee’s own assumptions enables them to account for an arrangement’s specific factors such as fees and investment management approach.

141. Expected ASD would be calculated using the trustees’ or firms’ chosen modelling approach for projecting future returns (whether stochastic, deterministic or otherwise), based on the same long-term capital market assumptions used to calculate the expected investment return net of all costs.

142. For FCA-regulated, contract-based arrangements, we propose to exclude FLM disclosures under the VFM Framework from the requirements in COBS13.5 which require projections to be done in a certain way.

Guardrails

143. We propose a number of guardrails to manage the risks of inflated or unrealistic FLM disclosures.

Disclosure of FLMs

144. Requiring firms and trustees to disclose FLMs will enable meaningful comparisons between arrangements and their assumptions. We consider that arrangements are likely to have a long-term interest in making sure that their projections are reasonable, given that unrealistically high projected returns would be identified when compared to the comparator group average. Over

time, BLMs can also be used to assess the accuracy of an arrangement's FLMs. This will support supervisory engagement.

145. We propose that firms and trustees should be required to retain a record of the assumptions underpinning their projections for at least six years for audit and supervisory purposes.

YTR cohort	Expected annualised net returns over 10 years	Expected ASD over 10 years
30 YTR		
0YTR		

Disclosure of assumptions underpinning SAAs

146. Alongside the disclosure of FLMs, firms and trustees must disclose the projected return assumptions and projected risk assumptions (expected volatility) used to set and monitor their SAA and used to derive the expected net investment returns and expected ASD over the next ten years. These disclosures would be via the central data repository database, alongside the disclosure of other FLMs.

147. Projected return assumptions and projected risk assumptions should be disclosed for both YTR cohorts, across the relevant asset and sub-asset classes included in the arrangement's SAA. These are consistent with the asset allocation disclosures required in Chapter 5: Asset Allocation. Disclosure of assumptions would not be required where there is no allocation to that asset class.

Proposed assumption disclosures (for both YTR cohorts)

Asset class	Sub-asset class splits	Projected return assumption (% to 2 decimal place)	Projected risk assumption – expected volatility (% to 2 decimal place)
Listed equities	Developed markets		
	Emerging markets		
	Other markets		

Bonds	Fixed interest Government		
	Index-linked Government		
	Investment-Grade corporate		
	Non-investment-grade corporate		
	Securitised		
	Other bonds		
Private equity	Venture capital		
	Growth equity		
	Buyout / Leveraged		
	Other private equity		
Private debt / credit			
Infrastructure	Debt		
	Equity		
Property / Real Estate	Debt		
	Equity		
Cash			
Other [to disclose what falls into this category]			

Question 12: Do you agree with the proposed requirements for FLM disclosures and safeguards? Why or why not?

Chapter 5: Asset Allocation Disclosure

The purpose of asset allocation disclosure

148. In previous consultations, we have stated our view that asset allocation information provides important context for those assessing and operating arrangements. In particular, it enables assessors to look beyond investment performance outcomes alone and better understand the factors that may be driving those outcomes.

149. Our aim in relation to asset allocation disclosure is to deliver transparency without placing a disproportionate burden on trustees and providers.

150. We continue to propose that asset allocation disclosures should not form a direct part of the assessment process used to determine the VFM rating. However, we expect trustees, firms and IGCs to utilise these disclosures to support a focus on long-term value rather than short-term costs.

151. Over time, the availability of consistent asset allocation data in the public domain will help to highlight the significant impact allocation decisions can have on returns, particularly where arrangements are supported by persistently underperforming allocations.

Summary of Responses to CP26/1

152. The FCA's 2026 consultation (CP26/1) did not propose any changes to the asset allocation proposals set out in the 2024 consultation (CP24/16). However, it confirmed that TPR and the FCA intended to run voluntary data collection exercises which would help to test the VFM asset allocation proposals.

153. Following these exercises, and in light of wider consultation comments, we are proposing a number of amendments to our asset allocation disclosure proposals, particularly in relation to certain definitions used.

Pension Schemes Act 2026

154. Section 12(1)(b) of the Pension Schemes Act 2026 specifies that metric data may relate to classes of assets invested in.

Draft Regulations

155. Draft regulation 16 defines the asset allocation metric and specifies the asset classes to be disclosed. These are: listed equities; bonds; private equity; private debt; infrastructure equity and debt; real estate, equity and debt (excluding assets classified as infrastructure); cash and other assets.

Updated Proposals

156. As set out in CP24/16, we continue to propose that trustees and providers should disclose the percentage allocation of each trustee or provider designed default arrangement across key asset classes: cash, bonds, listed equities, private equity, property, infrastructure, private debt and other.

157. We continue also to propose that trustees and providers should disclose:

- The percentage allocations to specified sub-asset classes
- The percentage allocations split between listed and unlisted assets
- The percentage allocations split between UK and non-UK assets, though we have now added a new category where such a split is unknown

158. The categories for disclosure, and the proposed definitions that apply to them, are set out in the table below.

159. In line with CP24/16, trustees and providers will also be required to provide, in a text box, any additional information they consider material to investment performance, including the use of hedging or derivatives.

Splitting investments between UK / non-UK

160. Feedback from the data collection exercise indicated that the level of granularity required to report the split between UK and non-UK assets may not always be available.

161. In light of this, we propose to amend the asset allocation table to include additional fields for cases where this information is unavailable. We expect that these ‘unknown’ fields should be used only in exceptional

circumstances. Where a trustee or providers make use of them, they should provide supporting information in the mandatory additional disclosure text box.

162. We also considered whether a similar ‘unclassified’ category would be appropriate for the split between listed and unlisted assets. On balance, we do not propose to include such a category, as we consider that this distinction should be identifiable in almost all cases.

Calculating asset allocations

163. We continue to propose that trustees and providers should disclose asset allocation for relevant retirement age cohorts (30 years to retirement (30YTR) and at retirement (0YTR), reflecting the proposal that 5YTR is no longer required). Disclosures should be based on the portfolio mix as at the end of the calendar year as at 31 December, to ensure a consistent point-in-time basis. We consider that this will support consideration of the factors driving investment performance, and whether the investment design of an arrangement could be improved.

164. We continue to propose that trustees and providers should disclose the overall asset allocation of the default arrangement, to support transparency and on-going monitoring.

165. In line with CP24/16, we propose that asset allocations should be expressed as a percentage of:

- The assets invested for the benefit of in-scope savers in the relevant retirement age cohort, as at 31 December, when calculating the asset allocation for that cohort; and
- The total assets in the trustee or provider designed default arrangement, as at 31 December, when calculating the asset allocation for the arrangement as a whole.

Number of decimal places

166. We had previously proposed that asset allocation disclosures should be displayed to one decimal place, however our data survey trial has indicated that for increased accuracy, two decimal places would be both preferable and achievable. We therefore propose to move to this approach. We do not believe that this would place undue additional burden on trustees and providers but would appreciate any views on this.

Asset allocation must add up to 100%

167. As set out in CP24/16 we propose that total asset allocation disclosures should add up to 100%. However, we recognise that rounding may result in slight variances from this figure. As a result of this, we now

propose that the cash allocation percentage should be adjusted to account for the variance in cases where this is necessary. Alternatively, if the cash figure is zero, then the largest allocation should be adjusted to ensure summation to 100%.

168. We also recognise that some strategies may make use of borrowing or derivatives, which can result in exposures exceeding 100%. We propose that where this occurs, any leverage must be reflected through a balancing negative cash position, so that the disclosed asset allocation continues to sum to 100% and remains comparable across arrangements.

Example

A scheme invests 90% of its net assets in global equities and 10% in a leveraged property portfolio giving 15% property exposure.

Equities:	90%	
Property:	15%	
Cash:	-5%	
Total:		**100%**

Treatment of synthetic exposures

169. As set out in in CP24/16, we continue to propose aligning with DWP's Disclose and Explain statutory guidance on the treatment of synthetic exposures. The nature of such synthetic exposures can be complex and may not clearly transcribe into the specified asset allocation list. Where arrangements use assets that do not use a physical allocation, such as derivatives, trustees and providers should aim to state what their synthetic allocation would provide in physical asset terms, distinguishing between UK and non-UK exposure. In cases where this is not possible, the assets should be classed as "other" to ensure that the total asset class percentage remains at 100% and, an explanation should be provided. The box in the table labelled 'mandatory disclosure of anything else that is material to performance' may also be used for this purpose.

Avoidance of double counting

170. As set out above, asset allocations should sum to 100%.

171. In some cases, we recognise that there is the potential for double counting — for example where an infrastructure investment is also a private equity investment. To address this, we continue to propose that trustees and providers should follow the primary purpose of an investment when determining where to place the asset in the disclosure table. In many cases, this will be clear from the fund mandate, particularly where arrangements

invest through specialist managers (for example, infrastructure, real estate, private equity / private debt managers). Where there is uncertainty, we propose that the following attribution hierarchy should be applied:

1. Infrastructure
2. Real estate
3. Private equity
4. Private debt

Passive index funds

172. We do not expect any infrastructure or real estate exposure within a passive index fund to be disclosed under infrastructure or real estate in the table, unless the index is focused on such investments.

Clarifications

Deployed / committed capital

173. We continue to propose that private market figures should be based on capital that has been deployed, rather than capital that has merely been committed. Schemes may access private markets through Long-Term Asset Funds (LTAFs) in different ways.

174. For example, some schemes allocate their full intended private markets exposure to an LTAF, with a proportion temporarily held in liquid assets until it can be invested in underlying illiquid strategies. Others transfer assets into an LTAF only when specific investment opportunities arise, retaining the remaining allocation in liquid assets outside the LTAF.

175. We consider that using deployed capital provides a more consistent basis for comparison across these different approaches.

Look-through of pooled investments

176. We continue to propose that where an arrangement invests through pooled vehicles - for example, mutual funds, investment trusts, LTAFs, credit funds or funds of funds - asset allocation should be reported on a look-through basis to the underlying economic exposures, where this is reasonably practicable. This will help ensure the underlying investments are reported accurately.

177. As set out in previous consultations, we propose that where full look-through is not feasible, trustees and providers should use the best available data and apply a reasonable estimation approach consistently over time.

Definition of ‘cash’

178. As previously proposed, we define ‘cash’ as including both cash and low-risk assets that are close substitutes for cash. For example, money-market funds, treasury bills or insurance funds linked to these, or cash-like assets. It excludes recent contributions that have not yet been allocated or cash held for operating expenses. These amounts are not included within overall asset allocations, as they are not yet invested.

Addition of a funding source identification for property / infrastructure

179. In light of changes to our proposals on forward-looking metrics, we are introducing a new requirement for property and infrastructure disclosures. Specifically, we propose that these assets classes should be further categorised to identify their funding source, distinguishing between equity-funded and debt-funded investments.

Bespoke arrangements

180. Bespoke arrangements are typically designed for a specific employer and, as a result, their investment strategies are less likely to be relevant for meaningful comparisons across employers. In line with previous consultations, we therefore propose that asset allocation disclosures should apply only in relation to trustee or provider-designed in-scope arrangements, and not bespoke arrangements.

181. Trustee or provider-designed arrangements for the majority of members and assets will typically include principal default arrangements.

Question 13: Do you agree with our revised proposals in relation to Asset Allocation? Please provide details of any concerns you have relating to our proposals.

Asset Definitions for the purposes of VFM

182. Drawing on feedback from previous consultations and the asset allocation data collection exercise, we propose the following definitions for the purposes of asset allocation disclosure.

Investment	Definition	UK definition
Equities	An investment in company stocks and shares on a listed market.	Assets with a primary listing on a UK market and

		constituents of UK market indices. Where investment is via a pooled fund, the proposed measure is UK allocation within the fund and would include, for example, UK market exposure within global equity funds.
Bonds	Loans made to an issuing entity (such as a government, organisation or a company) which undertakes to repay the loan at an agreed later date.	
Fixed interest government bonds	Debt securities issued by a national government to borrow money, which provide a set, regular interest payment (a "coupon") and the return of the principal amount at a fixed maturity date.	UK gilts
Index-linked government bonds	Debt securities issued by governments that adjust their principal value and interest payments based on an inflation index.	UK index linked gilts
Investment-grade corporate bonds	Debt securities issued by financially stable companies with a low risk of default, generally rated above a certain level on a recognised index. We acknowledge that different rating agencies may use different methods to determine whether a security is investment-grade. We do not propose prescribing which agency should be used. However, to avoid double counting when one agency places a bond issuer into a different category than another, we recommend that a consistent definition is used by the arrangement.	Issued by UK-registered companies and subsidiaries of UK-registered companies
Non-investment grade corporate bonds	Debt securities issued by companies with a rating which does	Issued by UK-registered companies and subsidiaries of UK-registered companies

	not allow them to classify as investment-grade corporate bonds.	
Securitised bonds	Instruments created by pooling illiquid income-generating assets and selling shares of the generated income flows to investors. These bonds are structured into tranches with varying risk/return levels, backed by specific collateral.	Issued by a UK based entity.
Other bonds	Any bond type not covered above, including supranational and agency bonds.	Issued by a UK based entity.
Private equity	Investment in companies that are not publicly traded on a stock exchange.	Underlying investments in UK registered private companies or partnerships.
Venture capital	Private equity, generally for small, early-stage businesses that are expected to have high growth potential but with access to other forms of financing.	Underlying investments in UK registered private companies or partnerships.
Growth equity	Investment in more mature, growing businesses,	Underlying investments in UK registered private companies or partnerships.
Buyout/Leveraged	Purchasing a controlling share in a company with own funds or using debt (borrowed money) (leveraged buyout)	Underlying investments in UK registered private companies or partnerships.
Private debt/ credit	Instruments creating or acknowledging indebtedness which do not fall within the description of bonds.	Borrowers located in the UK - registered private companies or partnerships.
Private Infrastructure	Physical structures, facilities, systems, or networks that provide or support public services including water, gas and electricity networks, roads, telecommunications facilities, schools, hospitals, and prisons.	The percentage of the underlying economic assets located in the UK (estimated)

Private Property/Real Estate	Property, residential, commercial or industrial, which does not fall within the description of infrastructure above. Commercial property should include industrial, office, retail, hospitality/leisure and specialised sectors such as healthcare, student accommodation etc. Other areas such as data centres should be classed as infrastructure. Assets which do not fit within these categories such as "Natural Capital" should be placed in the "other" category and the detail provided. For clarity, investment directly in physical property should be considered an unlisted investment.	The percentage of the underlying economic assets located in the UK (estimated).
Cash	Cash and assets that offer low-risk alternatives to cash, e.g., money-market funds, treasury bills or insurance funds linked to these, or cash-like assets. It excludes recent contributions that have not yet been allocated or cash held to meet operating expenses (such contributions would not be counted in the overall asset allocations).	Assets, accounts and instruments located in, or issued by, UK companies, government etc.

Question 14: Do you have any comments on the definitions used above? In particular, do you have any comments on the definition of 'UK-based entity'? Is there an alternative definition you would suggest?

183. For clarity, to prevent double counting, in all cases, 'non-UK' asset definitions should exclude any asset already captured withing the UK category.

184. Some assets may fall under more than one category. For example, treasury-bills may be classified as a cash investment but could also be considered government debt. We have sought to minimise the situations

where such overlaps arise while avoiding an overly prescriptive framework. However, it remains important that where an asset could be included in more than one category, it is reported in one category only to ensure consistency and avoid double counting.

Other proposed definitions

Developed markets

185. We define developed markets as the financial markets of countries with advanced economic structures, including high per-capita income, sustained growth, industrialized sectors, and sophisticated infrastructure that supports efficient capital allocation. This definition excludes the UK, which is reported separately.

Emerging markets

186. We define emerging market (EM, also an emerging country or an emerging economy) as those that exhibit some characteristics of a developed market but do not yet fully meet all their standards. These include markets that may develop further overtime or were developed in the past. We recognise that different organisations may classify countries differently within this category. We do not intend to be prescriptive about the specific classification framework to be used and consider that a best endeavours approach will provide a sufficient degree of accuracy.

Other markets

187. Any market not falling under ‘developed’ or ‘emerging’ categories.

Listed / unlisted assets

188. For the purpose of VFM disclosures, ‘listed’ assets are those admitted to trading on a regulated market. ‘Unlisted’ assets are those **not** admitted to trading on a regulated market.

189. Private market assets - such as private equity, private debt, infrastructure and property - should be shown as listed where they are accessed via a listed vehicle (such as an investment trust).

Quoted but not listed assets (e.g. AIM - Alternative Investment Market)

190. AIM is a recognised investment exchange but is not a regulated market. Many corporate bond investments may also fall into ‘quoted but not listed’. We do not propose a separate classification for such assets. Instead, they should be included withing the ‘unlisted’ category.

Question 15: Do you agree with our proposed definitions? In particular, do you agree with our definitions of UK assets? Are there any areas where definitions need to be tightened to ensure consistency of measurement?

Example asset allocation data table – required at each retirement age cohort

		Listed				Unlisted				Total (%)	Optional Hedged
		Total %	UK %	Non-UK %	Unknown %	Total %	UK %	Non-UK %	Unknown %		
Listed Equities	Developed Markets										
	Emerging Markets										
	Other Markets										
Bonds	Fixed interest government bonds										
	Index-linked government bonds										
	Investment-grade corporate bonds										
	Non-investment grade corporate bonds										
	Securitised bonds										
	Other bonds										

Private Equity	Venture capital										
	Growth equity										
	Buyout/Leveraged										
	Other types of private equity										
Private debt/ credit											
Infrastructure – equity funded											
Infrastructure – debt funded											
Property/ Real Estate - equity funded											
Property/ Real Estate - debt funded											
Cash											
Other (specify)											
Total											

Chapter 6: Costs and Charges

191. Under the proposed VFM Framework, costs and charges data helps show whether members are getting good value, by looking at how costs affect investment outcomes and the services savers receive.

Summary of Responses to CP26/1

192. CP26/1 asked for feedback on two areas:

- Disclosing employer subsidies; and
- The benefit of apportioning with-profits distributions.

193. In addition to comments on these areas, we also received feedback on other elements of costs and charges, particularly in relation to combination charging structures.

196. Many respondents supported disclosing employer subsidies because it would improve transparency. However, they said disclosures should be proportionate and should not make cost comparisons unfair or risk misleading members.

197. Respondents generally felt that employer subsidies should be explained in a narrative form or shown in a features table, rather than included directly in numerical charge metrics. They thought this would help trustees, IGCs and members understand the subsidies and consider them in the right context.

198. While some respondents thought that apportioning with-profits distributions could make the data more accurate and easier to compare, overall views were mixed. Respondents pointed to practical challenges, including operational complexity and the risk that different methods could lead to unreliable comparisons. Overall, there was broad support for a practical approach that avoids creating distortion.

199. At present, we believe combination charging structures are only found in trust-based arrangements. Here, respondents were concerned about the potential administrative burden, especially when calculating figures for individual savers across minimum, maximum and median values. Respondents were also concerned that the results could be skewed or

misleading, particularly where fixed charges disproportionately affect members with smaller pension pots.

Pension Schemes Act 2026

200. The Act provides for secondary legislation to specify the statutory definitions and requirement underpinning the Framework.

201. In particular, it enables regulations to require trustees or managers to publish and share prescribed categories of information for the purpose of enabling VFM assessments, including how those metrics are calculated.

202. The categories of information include costs incurred by the scheme or arrangement, as well as charges borne by members or employers in relation to the scheme or arrangement. Section 12(1)(d) and (e) of the Pension Schemes Act 2026 specifies respectively that metric data may relate to costs incurred by the scheme or arrangement, or charges on members or employers.

Draft Regulations

203. Draft regulation 21 outlines the costs and charges metric data in any VFM period as being investment charges, services costs and total costs and charges. This regulation also requires that where data is available, trustees and managers must compare each of the percentage figures with the percentage figure from the previous VFM period and share the increase or decrease as a single percentage figure.

Updated Proposals

204. As set out in CP26/1, for multi-employer arrangements where total costs vary, a maximum, minimum and median figures must be disclosed for all relevant time periods.

205. To address the concerns that our proposed approach to combination charging structures has the potential to be administratively costly and skewed (as mentioned above), we invite feedback on two alternative approaches which we set out below.

206. As set out in CP26/1, we continue to propose that where service costs vary, the maximum, minimum and median of these should be disclosed for the

1-year period, to provide an indication of the range of charges applied for services. Where investment charges vary, the maximum, minimum and median should also be disclosed.

207. To ensure consistency with changes elsewhere in the Framework, we propose that costs are calculated to reflect the experience over the previous 1 year, 3 and 5 years where available, and 10 years where reasonably practicable to do so. These should be calculated for a non-contributing hypothetical member as they reach either 30YTR or 0YTR as at 31 December of the previous calendar year.

208. In relation to employer subsidies, and in light of consultation feedback, our policy intent remains unchanged from CP26/1. We continue to propose that the use of employer subsidies should be disclosed, but that this should be done through narrative explanation rather than inclusion within numerical charge metrics.

209. We also propose that with-profits providers should align with standard VFM calculations and, where relevant, provide a narrative explanation to reflect distribution in the period in which they are credited to members.

Definitions

210. Investment charges: we continue to use the definition set out in CP24/16: fees and charges in relation to the investments of an in-scope arrangement, including any performance-based fees but excluding transaction costs.

211. Service costs: we continue to use the definition set out in CP24/16: service costs are total costs and charges less investment charges (and excluding transaction costs).

212. Total costs and charges: we continue to use the definition set out in CP24/16: total costs and charges should reflect the amount paid by savers and any relevant employer subsidies. This excludes contributions and other similar payments that accrue directly to the benefit of members.

Unbundling

213. In CP24/16, we proposed that firms which vertically integrate investment and other services would need to unbundle the costs in order to show investment and service charges separately. Some respondents to that consultation were concerned that the complexity involved in doing this would mean inconsistencies of approach resulting in comparisons based on figures that are unrealistic or unachievable.

214. In CP26/1 we revised our position, continuing to propose that firms and trustees providing vertically integrated in-scope arrangements be required to show a split between the two elements but adapting our proposals to account for the changed approach to the disclosure of investment costs/services charges overall (to only showing the year 1 figure).

215. Our revised approach proposed that we would not offer prescription as to how the split should be calculated but instead stating that it should be estimated on a reasonable basis, and supported by a short narrative explanation in the Assessment Report of how these figures have been calculated and the assumptions applied. This approach remains our proposal.

Summary of costs and charges data points

216. As set out in CP26/1, the VFM Framework will require the reporting of total costs and charges data over 1 year, 3 years and 5 years where available, and 10 years where reasonably practicable to obtain. We continue to propose that for 3, 5 and 10 year reporting periods, only total costs and charges data is required, with no requirement to split between service costs and investment charges.

217. For 1-year reporting period, disclosures should include both the total costs and charges figure and a breakdown between services costs and investment charges.

218. We also plan continue to propose that, from the second year, schemes should disclose the change in costs and charges compared to the previous year, to illustrate the trend over time.

Illustration of costs and charges data points proposal

	Year 1	Variation from previous year (%) [from year 2]	Year 3	Year 5	Year 10
Service costs & charges					
Investment costs & charges					
Total costs & charges					

Calculation methodology

219. We propose that those providing data calculate a total annualised costs and charges figures which reflect the experience of a non-contributing hypothetical member over the relevant time periods (1-year, 3-year, 5-year, 10-year), capturing how costs and charges evolve as members move towards 30YTR and 0YTR, consistent with the broader approach to BLMs.

220. Consultation feedback raised concerns over arrangements with combination charging structures and as a result, we have reconsidered our approach. Respondents highlighted that the previously proposed methodology could lead to misleading disclosures and may not support fair comparisons across arrangements. In light of this, we are proposing an alternative approach for arrangements with complex charging structures, set out below. This seeks to address these concerns raised while maintaining comparability and proportionality within the framework. We are also putting forward a simplified proposal for arrangements with simple charging structures, to avoid the need for calculations which add no value.

Simple charging structures

221. Where total costs and charges are based entirely on a percentage of assets and the effective fee rate does not vary by pot size (for example, through tiering or rebates), we now propose that the total costs and charges can be disclosed based on the percentage set out in the charging structure, without the need for further calculation. We believe this represents a simplification of our proposal consulted on in CP26/1 which required firms to calculate annual figures using monthly return and charge figures and is in response to comments received.

222. For multi-employer arrangements offering ‘variable commercial terms’, i.e. where total costs and charges vary by employer, we continue to propose that a maximum, minimum and median figure must be disclosed for all reporting periods. The maximum and minimum figures should reflect the highest and lowest total percentages available across all the arrangement’s possible commercial terms. The median total costs and charges should be calculated on a member-level basis.

Question 16: Based on the new proposed calculation methodology, we would be interested in views on whether, to help mitigate the risk that there are few – or no – members within the retirement cohorts, it would be more practical to calculate the median based on the number of employers, rather than members.

Complex charging structures

223. In response to feedback, which included concerns over the potential for administrative complexity and the risk of skewed results in the calculation of costs and charges for complex charging structures, we propose two options:

- **Option A**. As consulted on in CP26/1, with calculation on a member-by-member basis where commercial terms vary by employer to identify the maximum, minimum and median costs and charges, to reflect the proposed change of approach throughout the remainder of the framework.
- **Option B**. Simplifications to the ‘multiple employer with various terms’ element of Option A to reduce administrative burden by removing the need for member-by-member calculations.

224. We define complex charging structures as those where the effective total costs and charges varies by pot size. This may be because of combination charging structures (which combine flat charges or contribution charges and ‘percentage of assets’ changes) or because of fee-tiering or rebates.

Option A – As consulted on in CP26/1 with calculation on a member-by-member basis where commercial terms vary by employer.

225. For arrangements where commercial terms **do not** vary by employer, we continue to propose that for each calendar year in the reporting periods (1, 3, 5 and 10 years), total costs and charges are derived by aggregating all monetary costs and charges incurred by all members of the relevant

retirement age cohort, expressing them as a percentage of the average aggregate assets of these members in each calendar year. Geometric averaging of these calendar year figures will then produce the relevant annualised total costs and charge metrics in each reporting period.

226. In practice, this means:

- **Step 1: Identify the cohort**
  Identify all members in the relevant retirement age cohort — members who were 30 years to retirement (30YTR) or at retirement age (0YTR) as at 31 December of the previous calendar year.
- **Step 2: Add up the costs and charges**
  For each calendar year in the reporting period, add up the total monetary costs and charges incurred by the members identified in Step 1. The same cohort should be tracked over the full reporting period.
- **Step 3: Calculate the annual effective fee rate**
  For each calendar year, divide the total costs and charges from Step 2 by the cohort's average assets for that year. The average assets should be calculated by adding the cohort's assets at the start and end of the year, then dividing by two. This gives the annual effective fee rate, expressed as a percentage of the cohort's relevant assets.
- **Step 4: Annualise the result**
  For each reporting period, calculate the geometric average of the annual effective fee rates. This produces the annualised total costs and charges figure.

227. For arrangements that **do** offer variable commercial terms, such that total costs and charges may vary by employer, we propose that the same overarching calculation approach should apply. However, rather than aggregating across members within a retirement age cohort, calculations should be carried out on a member-by-member basis in order to identify the maximum, minimum and median figures. Specifically, we propose that:

- **Step 1: Member–level cost calculation**
  For each calendar year within the relevant reporting period, the total monetary costs and charges incurred by each member in the relevant retirement age cohort should be calculated, tracking the same members over time.

- **Step 2: Derivation of member-level effective fee rates**

For each calendar year within the relevant reporting periods, these member-level monetary costs should be divided by the average of the corresponding member's start- and end-of-year assets, to derive an annual effective fee rate expressed as a percentage of relevant assets.

- **Step 3: Annualisation**
  For each member, and for each reporting period, the geometric average **over** the underlying annual effective fee rates should be calculated to produce the annualised total costs and charges figures.
- **Step 4**: **Identification of distribution measures**
  For each reporting period, the maximum, minimum and median annualised total costs and charges should then be identified across members within the relevant retirement age cohort.

Option B – Simplifications to Option A

228. We recognise that the approach set out above for multi-employer arrangements with variable charges, particularly where complex fee arrangements apply, may be administratively burdensome due to the need for member-by-member calculations.

229. There is also a risk that there may be insufficient, or no, members precisely at 30YTR and 0YTR as of 31 December of the previous calendar year.

230. We are also mindful of consultation feedback which highlighted a concern that, in some situations, maximum fee disclosures may be skewed by outliers, particularly where very small pots are included.

231. We acknowledge these concerns but consider it valuable to disclose the impact of complex charging structures across all members, which includes those with small pots, for whom fee elements such as flat charges may offer particularly poor value for money.

232. To try to balance these factors we suggest an alternative, simplified approach on which we seek views. The approach is designed to:

- Replace member-by-member calculations with calculations based on model pots derived from the distribution of pot sizes within each arrangement;
- Avoid reliance on there being members at precise points (i.e. 30YTR and 0YTR at a specific date);
- Simplify the treatment of flat charges or combination charges, thereby reducing calculation burden; and
- Focus on the variability, where relevant, of the 'percentage of assets' portion of any charge structure, reflecting the assumption that most

commercial term variability will be negotiated in terms of this element of the charge.

233. Option B would require all in-scope arrangements with complex charging structures to:

- **Step 1: Define representative pot sizes using the distribution of all pots in accumulation.** Arrangements would be required to identify:
    a. Small pot – either the bottom 10th percentile pot, or the smallest pot on which the median flat charge (see Step 2 below) can be levied in full
    b. Large pot – the top 10th percentile pot
    c. Median pot – the 50th percentile pot

- **Step 2: Calculate effective flat charge rates (where applicable)** Where a flat charge is levied, identify the median flat charge (on a member basis) and express this as a percentage of each of the small, median and large pots, to derive three effective flat charge rates.

- **Step 3: Calculate effective contribution charge rates (where applicable)** Where a contribution charge is levied, identify the average annual monetary contribution across members in accumulation and calculate the corresponding contribution charge. This should then be expressed as a percentage of each of the small, median and large pots, to derive three effective contribution charge rates.

- **Step 4: Calculate 'percentage of assets' charges (where applicable):** Where a percentage of assets' charge applies, determine:

    a. Whether the charge varies by pot size (for example, through tiering or rebates). If so, calculate the applicable rate for each of the small, median and large pots; and
    b. Whether the charge varies by years to retirement or underlying asset allocation. Where this is the case, the applicable 'percentage of assets' charge should be calculated by weighting charges according to the asset allocation experienced by a hypothetical non-contributing member over the relevant time periods (1, 3, 5 and 10 years), as they approach 30YTR or 0YTR on 31 December of the reporting year.
- **Step 5: Derive total costs and charges:** For each of the small, median and large pots, combine (as applicable) the effective flat charge rate, effective contribution charge rate and 'percentage of assets' charge to derive total costs and charges.

Note: Where charges **do not** vary by commercial terms, arrangements may only carry out steps for (2) (3) and (4) for the median pot (with no requirement to do so for the small and large pots).

Total costs and charges	**Components**			
	Effective flat charge rate based on	*Effective contribution charge* based on	*Tiering or rebates* based on	"Percentage of assets" charge based on
Median	Median pot			Median commercial terms (employer-weighted)
Minimum	Large pot			Lowest commercial terms
Maximum	Small pot			Highest commercial terms

234. This proposal does not capture the variable effect of complex charges on small versus large pots for those arrangements without commercial variations in fee terms.

Question 17: We would be interested in views on whether all multi-employer arrangements should disclose maximum, minimum and median cost metrics, in order to highlight variations in the treatment of small or large pots.

235. Where charges **do** vary by commercial terms, we propose that trustees and providers consider variations in the 'percentage of assets' portion of the charging structure to derive the distribution of effective costs and charges. Specifically, we propose that:

1. **Median costs and charges:** The median effective costs and charges should be calculated by reference to the median pot (as defined in steps (2) and (3)), applying the median 'percentage of assets' charge across commercial terms (determined on an employer-weighted basis).
2. **Minimum costs and charges:** The minimum effective costs and charges should be calculated by reference to the large pot calculations of (2) and (3), applying the lowest 'percentage of assets' charge available across commercial terms.

3. **Maximum costs and charges:** The maximum effective costs and charges should be calculated by reference to the small pot calculations of (2) and (3), applying the highest 'percentage of assets' charge available across commercial terms.

Question 18: We would be interested in views on whether member-level calculations (Option A) or the model pot size approach (Option B) would be more effective.

Separating the effect of pot size on effective costs and charges

236. This section considers potential modifications to Option B through additional disclosures. Complex charging structures are present in the trust-based market but our understanding is that they are not used currently used by firms offering contract-based arrangements. For year 1 therefore, any option in this section would be applied only to trust-based arrangements through the secondary regulations. Consideration would then be given to extending this to contract-based arrangements through FCA rules for Year 2 if needed.

237. Within complex charging structures for multi-employer arrangements, costs and charges may be dependent upon both the commercial arrangements offered to different employers and on member pot size. While there is clearly a relationship between the two - member pot size may affect the commercial deal an employer is offered - there may be value in distinguishing between the two effects when comparing arrangements. Neither the current or alternative approaches distinguish between these two sources of variability.

238. We are seeking views on whether the two sources of variability should be separated through the following amendments to Option B's calculation methodology for costs and charges, applicable to in scope arrangements with complex charging structures:

239. Given the role that minimum and maximum costs (and the resulting maximum and minimum net investment performance metrics) play in the assessment (see Chapter 8: Assessment Process), we are seeking views on whether the two sources of variability should be separated and set out an option for this below. We believe complex charging structures are present in the trust-based market but are not used by firms offering contract-based

arrangements. Any option to separate the variability could be taken forward as part of the year 1 approach and applied to trust-based arrangements through the secondary regulations. Consideration can then be given to extending this to contract-based arrangements through the FCA rules for Year 2 if needed.

240. A possible further modification to Option B could be:

- For main costs and charges disclosures, carry out Step 6 described above using only the median pot as the model pot, as described in the following updated table.

241. Separately, specific disclosures on the variable effects of pot size disclose will be made as follows:

- Carry out Step 6 described above by reference only to the median commercial terms (determined on an employer-weighted basis), as described in the following updated table.

<table>
<tr><th rowspan="2">Total costs and charges</th><th colspan="4">Components</th></tr>
<tr><td>Effective flat charge rate based on</td><td>Effective contribution charge based on</td><td>Tiering or rebates based on</td><td>“Percentage of assets” charge based on</td></tr>
<tr><td>Median</td><td colspan="3">Median pot</td><td>Median commercial terms (employer-weighted)</td></tr>
<tr><td>Minimum</td><td colspan="3">Large pot</td><td>Median commercial terms (employer-weighted)</td></tr>
<tr><td>Maximum</td><td colspan="3">Small pot</td><td>Median commercial terms (employer-weighted)</td></tr>
</table>

Question 19: Do you agree with our suggestion that the variable effects of complex charging structures on pots of different sizes should be disclosed

separately from the effects of commercial variations of fee terms? Do you agree with our proposal for achieving this?

Question 20: How should the separate pot size effect disclosures be used in the assessment of value? Should they be based on peer-to-peer comparisons (consistent with the rest of the VFM Framework) or should trustees / IGCs carry out value assessment internal to the arrangement, to determine whether the small pot members are excessively disadvantaged compared to their fellow members with larger pots?

Employer subsidies

242. We continue to propose that employer subsidies should be disclosed. However, we now propose that this is done through:

- Answering a 'yes/no' disclosure option in the features table; and
- Providing an accompanying narrative explanation where needed (for example, where service costs are high because an aspect of this is subsidised by the employer).

243. We continue to propose that employer subsidies are not used in assessment outcomes.

Mutuals profit sharing and with-profits distributions

244. We continue to propose that where policyholders of mutual organisations receive profit shares, the costs and charges used for Framework calculations and disclosures should be net of profit share. In line with this, for multi-employer default arrangements a maximum, minimum and median (by member number) should be disclosed having taken into account profit share.

245. We also clarify that firms making distributions from a with profits fund to policyholders should calculate total costs and charges net of those distributions.

246. In CP26/1 we invited views on apportionment of with-profits distributions. While some respondents recognised the benefit of this, feedback indicated that in practice it would be difficult. This reflects the variability of profit-share arrangements, the timings they are paid, and whether that spans multiple-periods so that any requirement to apportion could lead to distortion and/or incomparability.

247. We propose that with-profits providers align with standard VFM calculations and, where appropriate, provide a narrative explanation to recognise a distribution in the relevant period (i.e. when paid to members).

Multi-employer in-scope arrangement cohorts

248. As previously proposed, multi-employer in-scope arrangements, some of which have total costs and charges (usually the service cost element) that vary by employer due to factors such as employer size and average contributions, will be required to make additional disclosures through cohort tables.

249. Trustees and firms will be required to disclose total costs and charges for the previous year for the 30 YTR retirement age cohort, in line with the tables set out below. We continue to propose that, for the purposes of these tables, all multi-employer arrangements disclose min/max/median, even if they do not vary charges, to disclose demographics by employer cohorts. The maximum, minimum and median for in-scope savers within each employer cohort should be disclosed as illustrated below.

250. For the first year in which the Framework operates we propose that these data points will not form part of the assessment and will only be available to regulators – i.e., will not be shared with other providers or trustees~~,~~ or made public.

251. We aim to give further consideration to how this approach will develop beyond year 1.

Multi-employer in-scope tables

30 years to retirement								
Employer size by relevant assets bands	**< £100k**	**£100k-£1m**	**£1m-£5m**	**£5m-£25m**	**£25m-£50m**	**£50m-£100m**	**£100m-£250m**	**>£250m**
Min, max and median of charges (e.g. 0.22%-0.41%, 0.31%)								

Average contribution per saver (active and deferred) £								
Distribution of employers across the in-scope arrangement (%)								

30 years to retirement									
Employer size by number of members	Under 100	100-499	500-999	1,000-4,999	5,000-9,999	10,000-24,999	25,000-49,999	50,000-99,999	>*100,000*
Min, max and median of charges (e.g. 0.22%-0.41%, 0.31%)									
Average contribution per saver (active and deferred) £									
Distribution of employers across the in-scope arrangement (%)									

Chapter 7: Quality of Services

252. Service quality is a key component of the value that an arrangement delivers, and poor service can lead to worse outcomes for members. We therefore remain committed to ensuring that the consideration of service quality forms an integral part of the VFM Framework assessment.

Pension Schemes Act 2026

253. The Act does not set out the Government's intended scope for the metrics related to the quality of services provided. However, it includes provisions for the secondary legislation to specify the requirements. Section 12(1)(a) of the Pension Schemes Act 2026 specifies that metric data may relate to the quality of services provided to members.

Draft Regulations

254. Draft regulations 10-15 outlines that quality of service metric data is information relating to accuracy of record keeping; promptness of core financial transactions; complaints and member engagement, with further detail explained for each of these areas.

Summary of Responses to CP26/1

255. In CP26/1 we proposed a streamlined set of key indicators of service quality, focused on the outcomes that matter most to members:

- Members can be confident that transactions are secure, prompt, and accurate; and
- Members are satisfied with the service they receive; and
- A standalone engagement metric – the percentage of savers who have nominated a beneficiary).

256. We received helpful feedback on the detailed definitions and proposed metrics. This feedback, together with our updated approach, is set out below.

258. There was considerable support for reintroducing a full set of engagement metrics as consulted on in CP24/16. However, as explained in

CP26/1, the development of engagement metrics that can be meaningfully used across industry has proved challenging. We remain committed to developing these in consultation with industry, along with a customer satisfaction survey, with an expectation that they will be introduced following the launch of the Framework.

259. More broadly, the majority of respondents supported phasing the VFM Framework requirements. In relation to service metrics, they highlighted the need for schemes and providers to adapt systems and processes to capture the new requirements. In light of this, we propose that, for the first year of reporting, data that would usually be collected over a full calendar year should instead be collected from 1 July.

Savers can be confident that transactions are secure, prompt, and accurate

Accurate record keeping

260. We did not propose any changes to these requirements in CP26/1 and did not receive any substantive feedback in the response. We therefore propose that these requirements remain unchanged.

Common data			
How frequently is common data reviewed?	More than annually	Annually	Less than annually
How frequently is action taken to correct common data?	More than annually	Annually	Less than annually
When was the common data last reviewed?			
At the last review date, what was the percentage (%) of savers with complete and accurate common data?			
At the last review date, what was the number (#) of savers with incomplete / inaccurate common data?			

Scheme-specific data

How frequently is scheme-specific data reviewed?	More than annually	Annually	Less than annually
How frequently is action taken to correct scheme-specific data?	More than annually	Annually	Less than annually
When was the scheme-specific data last reviewed?			
At the last review date, what was the percentage (%) of savers with complete and accurate scheme-specific data?			
At the last review date, what was the number (#) of savers with incomplete / inaccurate scheme-specific data?			

Promptness and accuracy of core financial transactions

261. In CP26/1, we set out definitions for measuring five core financial transactions. These definitions clarify the period over which each transaction should be assessed. The definitions were as follows:

- **Payments in and investment of contributions**: from the point at which monies are paid into the scheme to the point at which they are invested in the appropriate investment fund.
- **Transfer between schemes**: from the point of a formal request for a transfer to the point at which the member's details and benefits have successfully been sent to the receiving scheme.
- **Transfers and switches between investments**: from the point of a formal request to switch or transfer to an alternative investment to the point at which the transaction is completed within the same arrangement.
- **Payments out to beneficiaries on death**: from the point at which the providers or trustees are notified of the member's death to the point at which payment is made to the beneficiary's receiving account.
- **Payments out as retirement income**: from the point at which a request is made for immediate payment to be issued, to the point at which the payment is sent to the receiving account.

262. We also sought views on the inclusion of a further core financial transaction: 'Payment of a Pension Commencement Lump Sum' (PCLS).

263. For each of these core transactions, we proposed that schemes should report the following metrics for the previous calendar year:

- The percentage of requests that took longer to complete than the time period specified in the firm's scheme service level agreement (SLA) or internal policy;
- The mean end-to-end time taken to complete each key financial transaction;
- The range of end-to-end times taken to complete each key financial transaction, presented in line with the table below.

Time taken (days)	Payments in and investment of contributions	Transfer between schemes	Transfer and switches between investments	Payments out to beneficiaries on death	Payments out to member/policyholder as retirement income
1-3					
4-6					
7-10					
11-20					
21-30					
31 - 50					
>50					

Summary of Responses to CP26/1

264. There were a number of general comments regarding the clarity of definitions. In particular, respondents highlighted issues with the definition used for measuring income payments at retirement (0YTR). The reference to 'immediate' payments was found to be unclear, with uncertainty as to whether the metric should apply to the first payment or to all subsequent payments. Respondents also noted that requests for income payments to commence on a specified future date could make the process appear artificially lengthy.

265. There was broad agreement for the inclusion of a metric for measuring the payment of a PCLS. Some respondents also suggested that payments made under an Uncrystallised Funds Pension Lump Sum (UFPLS) should also be included within scope.

266. Many respondents questioned the use of SLAs within reporting. They noted that SLAs are set by individual schemes, limiting comparability and could be gamed.

267. Some respondents also highlighted that proposed metrics focus on the promptness of transactions, but do not cover accuracy.

Updated Proposals

268. We have made some further minor changes to the definitions to improve clarity and have incorporated definitions for measuring both PCLS and UFPLS. We have also removed the requirement to report against the scheme's own SLA. We expect schemes to ensure that all core financial transactions are accurate. However, incorporating accuracy into a timebound measure that ends with a payment being made is not viable as inaccuracies may not be discovered until a later date. We are therefore not proposing to measure accuracy at this time.

269. Some respondents advocated for a stop/start approach for transactions such as transfers and death benefit payments, as delays are often outside providers/trustees' control. We consider that, on balance, all schemes will experience these delays, and the aim of the Framework is to measure saver experience. We have therefore decided to keep the simpler approach of measuring the end-to-end process. However, should any such requests be subject to significantly long third-party delays, this can be explained in the contextualisation section of the assessment.

270. 'Payments out as retirement income' has been replaced with 'Payments out as a PCLS' and 'Payments out as taxable retirement income', the latter is to make it clear that this applies to both drawdown and UFPLS. This definition is further split into regular and ad hoc payments. A definition of 'due date' has been provided to better manage reporting of requests for payment at a future date.

271. We would also like to clarify that time periods are to be measured in working days which we define as Monday to Friday excluding bank holidays (where the firm operates). The measurement of postal requests commences from the date of receipt.

272. Our revised definitions are:

- **Payments in and investment of contributions**: From the point monies are received by the scheme, to the point at which units are credited to the member's account.
- **Transfer between schemes/to an annuity provider**: From the point at which the member, or third party acting on the member's behalf, has formally submitted a transfer request to the ceding scheme, to the point at which the member's details and transfer value have been sent to the receiving scheme. If the transfer is for the purposes of purchasing an annuity, then the end date will be the point at which the member's details and transfer value have been sent to the annuity provider.[4]
- **Transfers and switches between investments**: From the point of a formal request for a transfer to an alternative investment within the same scheme, to the point at which the units are credited to the alternative investment.
- **Payments out to beneficiaries on death**: From the point at which the provider/trustees are notified of death, to the point at which the payment is sent to all the beneficiaries' receiving accounts.
- **Payments out as a Pension Commencement Lump Sum (PCLS) –** From the due date* of the PCLS to the point at which the payment is sent to the receiving account.
- **Payments out as taxable retirement income** (i.e. drawdown and UFPLS) **-**
  - **Regular payments:** From the due date of the first of a series of regular taxable income payments, to the point at which the payment is sent to the receiving account.[5]
  - **Ad hoc payments:** From the due date of any 'ad hoc' taxable payments to the point at which the payment is sent to the receiving account. [6]

273. Our revised reporting metrics are:

- The mean end-to-end time period to complete each core financial transaction in the previous calendar year
- The percentage of transactions that fell within each of the ranges of end-to-end time taken as set out in the table below

Time taken (days)	Payments in and	Transfer between schemes	Transfer and switches	Payments out to	Payments out as a PCLS	Payments out as taxable retirement income

[4] Formal submission of a transfer request is the point that the member or third party confirms that the transfer is to be paid.
[5] [6] By 'due date', we mean the payment date specified by the member, whether that be for immediate payment or payment at a future date.

	investment of contributions		between investments	beneficiaries on death		Regular payments	Ad hoc payments
1-3							
4-6							
7-10							
11-20							
21-30							
31 - 50							
>50							

274. We are aware that the majority of pension contributions and internal switches are carried out on a straight through processing (STP) basis. Strictly speaking, this means they are processed automatically with no manual intervention, in which case payment is immediate and they should be excluded from the metrics. However, it has become clear from our industry engagement that STP is not viewed by all schemes in the same way and therefore may not indicate that payment was immediate.

Question 21: Would it be helpful if we defined STP as a fully automated process for the purposes of VFM and asked schemes to confirm:

- **What percentage of payments fall within this definition?**
- **The mean and range of all contributions falling outside this definition?**

Savers are satisfied with the service they receive

Collection of complaints data at platform level

275. In CP26/1 we proposed that schemes capture complaints at platform level and proposed the following definition:

‘The single administration system used to manage and access investments, including the in-scope arrangement for which data is being disclosed’.

276. Our rationale has always been to collect data at the level at which savers receive the same service. We revised our proposal from collecting at scheme level to collecting at platform level to try and achieve this.

Summary of responses to CP26/1

277. However, respondents to the consultation felt that a clearer definition was needed. Their main concerns were that collecting at platform level would not eliminate all out-of-scope complaints where levels of service varied and would therefore lead to inaccurate reporting. For example, a single employer trust may have DB and DC benefits on the same platform. The inclusion of DB complaints may distort the metrics and not be a true reflection of the DC experience.

278. Others pointed out that they use the same platform as other unrelated schemes and wanted it made clear that they were not expected to report across the entire platform in that instance.

Updated Proposals

279. In view of the above comments, we have proposed a revised definition of platform, for trust-based arrangements: 'The single system used to manage members' pension savings, including the in-scope arrangement for which data is being disclosed, as far as it relates to the trustees' own scheme or schemes.'

280. For contract-based arrangements the exact wording reflects existing FCA Handbook terminology, but the meaning and intention remain the same.

281. Trustees and providers should aim to report solely on in-scope arrangements where possible if levels of service differ. If this is not possible, and results in a lower score, an explanation can be provided in the contextualisation section. It is worth noting that, as set out in the chapter on scope, where service levels vary significantly within an arrangement, we expect these to be treated as separate sub arrangements for VFM reporting and assessment purposes.

Definition and measurement of complaint

282. The definitions of 'complaint' were set out in CP24/16 as follows:

- **Complaint definition**: any oral or written expression of dissatisfaction, whether justified or not, from an individual, or on their behalf with their consent, about the provision of, or failure to provide, a financial service, which alleges that the complainant has suffered (or may suffer) financial loss, material distress or material inconvenience.
- **End-to-end definition**: from the point a complaint is received by the scheme, to the point the scheme provides the complainant with a

resolution that is either accepted, not accepted/escalated to the Pension / Financial Ombudsman.

Summary of Responses to CP26/1

283. Although we did not ask any questions about these two definitions, we did receive several comments about them. Some respondents felt the definition of a complaint should be limited to those related to service or investment performance. Others weren't happy that it captures dissatisfaction, as this could capture an unusually high number of unjustified complaints.

284. Trust based schemes pointed out that they are required to set up an Internal Dispute Resolution Procedure (IDRP) and that this was not reflected in the end-to-end definition. Others pointed out that once a scheme has resolved a complaint, a member has six months to refer the matter to the Ombudsman and may not do so at all. Including referrals in the end-to-end definition means that schemes would have to treat a complaint as open indefinitely, on the basis that the member may refer it to the Ombudsman.

Updated Proposals

285. We do not consider it appropriate to only measure complaints related to service or investment performance because the VFM Framework aims to consider the holistic offering to, and experience of, the member. Capturing and understanding all member complaints is an important aspect of the total value assessment.

286. Concerns around capturing dissatisfaction have been addressed by the revised data requirements set out below. We therefore do not propose any changes to the definition of complaint.

287. We have made the following changes to the end-to-end definition for trust-based arrangements:

- From the point a complaint is received by the scheme, to the point the scheme either upholds the complaint and provides the complainant with a resolution or does not uphold the complaint and notifies the complainant accordingly.
- For trust-based schemes, this should include complaints dealt with informally as well as those escalated to the IDRP, to be as comparable as possible with the contract-based process.

288. We believe this is more easily measured by schemes and is a genuine reflection of the time taken to deal with a complaint. Any subsequent Ombudsman referrals will be picked up by the complaints data.

289. For contract-based arrangements the exact wording used appears in FCA rules and reflects existing FCA Handbook terminology, but the meaning and intention remain the same.

Data requirements for complaints – internal resolution

290. In CP26/1 we proposed the following data be provided in respect of complaints escalated to the Ombudsman:

- What was the number (#) of complaints received in the previous calendar year?
- What percentage (%) of members raised at least one complaint in the previous calendar year?
- What was the average end-to-end time taken to close a complaint during the previous calendar year?
- What was the range of end-to-end times taken to close a complaint in the previous calendar year?
- What is the time period stated in the service level agreement (SLA) for the closure of a complaint?
- What was the percentage of complaints within the previous calendar year that were not closed within this time period?

Summary of Responses to CP26/1

291. There were many comments about the above data requirements, particularly the requirement to provide the number of complaints received over the year. Respondents felt this could be misleading, as schemes with a large number of members would appear to have more complaints.

292. They also felt that the requirement to provide the range of end-to-end times taken to close a complaint could be misleading if most complaints are dealt with quickly, but one or two take longer.

293. As with the core transaction metrics, respondents were opposed to disclosing the time period set out in the SLA for closing a complaint, as they felt it was not comparable or useful.

Updated Proposals

294. We agree that requiring the number of complaints received could be misleading so have removed that requirement. We have also removed the requirement to set out the time period stated in the SLA as it is not comparable.

295. Similarly, we are no longer requiring the percentage of complaints raised within the previous calendar year that were not closed within that time period. This could be misleading without knowing the date on which each complaint was made.

296. We have added a new metric requiring the measurement of the percentage of complaints upheld by the scheme. This is to address concerns around saver dissatisfaction being captured within the complaint definition.

297. We are adding further granularity when measuring the time taken to deal with complaints. The table below shows the additional requirement for the range of time taken for each stage of the IDRP process as well as the entire end-to-end period. This is to provide context, recognising that trust-based schemes have a different process. The range of end-to-end time taken to close a complaint will be the only metric used in the assessment when comparing against the average

298. The revised metrics are as follows:

- What percentage of members raised at least one complaint in the previous calendar year?
- What percentage of complaints raised in the previous calendar year were upheld by the scheme?
- What was the mean end-to-end time taken to close a complaint during the previous calendar year? (This includes complaints that commenced in previous years)
- What was the range of end-to-end time taken to close those complaints (expressed as a percentage) as set out in the table below:

Time taken		**Trust based schemes (for context only)**	
	End to end time taken to close a complaint	End to end time taken for IDRP stage one	End to end time taken for IDRP stage two
Under 1 week			
1-2 weeks			

2-4 weeks			
4-8 weeks			
Over 8 weeks			

Question 22: Do you agree that the metrics for trust-based and contract-based complaints processes are now comparable? Are there any further steps that we should take?

Data requirements for complaints – escalation to Ombudsman

299. In CP26/1 we proposed the following data be provided in respect of complaints escalated to the Ombudsman:

- What was the percentage of complaints escalated to the Pensions/Financial Ombudsman in the previous calendar year?
- What was the percentage of complaints determined by the Pensions/Financial Ombudsman in the previous calendar year?
- What was the percentage of complaints fully upheld by the Pension/Financial Ombudsman in the previous calendar year?
- What was the percentage of complaints partly upheld by the Pensions Ombudsman in the previous calendar year?

Summary of Responses to CP26/1

300. The requirement to provide Ombudsman referrals and determination data as a percentage was seen by many as unworkable as it is not clear what the percentage is based on. In many instances, the complaints being determined are likely to have been raised over numerous previous years, and schemes will not necessarily even be aware of the date of referral/escalation. It was suggested that the number of complaints determined during the year would be a better measure and, of those determinations, what percentage were upheld or partially upheld.

301. Others pointed out the Financial Ombudsman (FOS) and the Pensions Ombudsman (PO) work in fundamentally different ways, and it would therefore be helpful to split those metrics out.

Updated Proposals

302. We agree that referrals to, and determinations by, the Ombudsman are unlikely to occur in the same year that the complaint was raised, so requiring the percentage of escalations and determinations made each year is confusing.

303. We are therefore proposing that, based on the number of Ombudsman determinations that have been made during the previous calendar year (irrespective of the date they were referred to the Ombudsman) schemes calculate and disclose the percentage of those complaints which were upheld or partly upheld.

304. As requested, we have split out Pensions Ombudsman and Financial Ombudsman referrals. The revised metrics are as follows:

- Of the complaints determined by the Pensions Ombudsman in the previous calendar year, what percentage were upheld and what percentage were partly upheld?
- Of the complaints determined by the Financial Ombudsman in the previous calendar year, what percentage were upheld and what percentage were partly upheld?

305. We have included partly upheld complaints as a separate element of the Financial Ombudsman metric as we are aware that, on rare occasions, the Financial Ombudsman may make a judgement which includes a partly upheld narrative element. We want to ensure that this accurately reflects current practice.

Question 23: Are partly upheld Financial Ombudsman decisions recorded as a separate category by firms or included within the upheld figures?

Standalone metric

306. We advised in CP26/1 that we have been unable to agree suitably robust and comparable engagement metrics and have therefore introduced a new standalone metric:

- The percentage of savers who have nominated a beneficiary.

Summary of Responses to CP26/1

307. Responses to this proposal were mixed, with some disappointed but understanding why it is not appropriate to include further engagement metrics at this stage. Others felt that excluding engagement metrics weakens the Framework and results in value being defined by investment performance and charges alone. There were suggestions for additional engagement metrics, most of which we had already considered and dismissed as we could not obtain industry agreement as to their suitability.

308. Some respondents were of the opinion that engagement varies according to scheme demographics and therefore cannot be used as a direct measure of scheme quality.

309. Comments on the remaining proposed metric were mixed with some stating that it is not a measure of engagement and others welcoming it as an early simple starting point. A few felt that a single metric is not representative enough to be used alone and therefore all engagement metrics should be delayed until a full suite is available.

Updated Proposals

310. We accept that the proposed standalone metric does not provide a full picture of engagement within an arrangement, and our position remains that we will introduce additional engagement metrics as soon as is practicable. However, we maintain that it is important to retain an element of engagement measurement so do not propose any change to our previous proposal.

Chapter 8: Assessment Process

311. This chapter sets out the proposed process for VFM assessments. It builds on and adapts the process set out in CP26/1 in response to consultation feedback.

Summary of Responses to CP26/1

312. Overall, there was broad support for the proposed assessments approach. Many respondents asked for clarification on how assessments would operate alongside the proposed database (also referred to as the 'central data repository' in CP26/1). We provide some further information on this below and will set out further details in guidance in due course.

313. **Step 1.** Some respondents raised concerns about the comparator group, particularly whether the group should be segmented to reflect different decumulation aims or scheme types. We have amended our proposals in response to allow some segmentation at 0YTR to reflect decumulation aims and welcome feedback on the updated proposals set out below.

314. Most respondents agreed with the incorporation of FLMs, and nearly all respondents favoured Option 1 as set out in CP26/1, under which BLMs and FLMs would be considered together in Step 1, rather than creating a composite metric. A minority felt that FLMs should be used only as contextual information in Step 3. Most respondents agreed with the proposed weighting approach but emphasised the need for careful implementation and appropriate guardrails. We propose to proceed with consideration of both BLMs and FLMs together in Step 1 (Option 1).

315. **Step 2.** Most respondents accepted the proposal that at present, Quality of Service (QoS) metrics may only be used to downgrade a provisional finding of value following step 1 given the reduction in such metrics. However, many respondents expressed concern that this approach would risk downgrading QoS to a "hygiene factor" and represent a move away from a more holistic assessment. Some respondents disagreed with the idea that QoS should only be used as a downgrade mechanism. We continue to propose this approach but confirm we intend to revisit this when we have introduced a wider range of QoS metrics.

316. **Step 3.** Our proposals for revising a RAGG rating were supported by the majority of respondents, although there were calls for greater clarity and more detailed guidance. We propose to continue with the approach consulted on in CP26/1 for the rules and regulations. TPR will produce a Code and/or guidance to provide further support ahead of trustees beginning their first assessment process in March 2028.

317. Some respondents to CP26/1 were concerned that the proposed assessment process, based on comparative value, risks driving herding with the potential for default arrangements all largely pursuing the same strategy. While we intend for the Framework to drive up overall value and minimise the risk of members being left in poorly performing arrangements that they did not actively choose, we recognise that there should be opportunity for innovation and different strategies to provide value for consumers. We want to enable and encourage a broad range of investment strategies which offer value. We have sought to build this into the Framework in the following ways:

- The Framework balances clear and consistent overall assessment criteria with discretion for IGCs and trustees to acknowledge different investment approaches, self-assessing across a range of metrics.
- Comparator metrics are used to inform assessments value, but the Framework does not introduce formal benchmarking from the outset.
- Introduction of FLMs helps encourage a forward-looking strategic view and consideration of the aims and objectives of the investment approach
- Allowance for different decumulation strategies.

Pension Schemes Act 2026

318. Section 11(2)(a) of the Pension Schemes Act 2006 specifies that value for money regulations may require assessment of performance to be made, and section 11(4) provides that this may be accompanied by a rating. Section 13 provides further detail on what a VFM assessment may require, including how the results of comparisons are to be taken into account when assigning a rating under section 15(1). The Act includes a number of provisions relating to VFM assessments. It sets out that regulations may require comparison of metric data with other arrangements or relevant benchmarks; factors, criteria and use of evidence in the evaluation; and how comparisons should be taken into account in determining a rating.

319. The Act also outlined the rating categories as ‘fully delivered’, ‘intermediate’, and ‘not delivering’, with provision for secondary legislation to

further define the number of sub-categories within and conditions for assigning ‘intermediate’ ratings.

Draft Regulations

320. Draft regulations 23 to 34 detail the steps trustees and managers must take as part of the assessment process before arriving at a value rating for the scheme/arrangement. Draft regulations offer further detail of the intermediate ratings, amber and light green, along with their consequences.

Updated proposals

321. Based on feedback and the wider changes set out in other chapters, we propose the following updates to the assessment process:

- The removal of assessment for the 5 YTR cohort (amended due to changes to BLM measurements).
- Update to the commercial market comparator group for the 0 YTR cohort, and flow on updates to Step 1 and 3, to take into account decumulation aims.
- Moving forward with option 1 from CP26/1 for considering FLMs in Step 1.
- Steps to simplify the assessment process by removing consideration of multi-employer cohorts and pare back information sharing to allow time for further work to identify potential risks in relation to anti-competitive behaviour.
- Only require assessments in year 1 for some arrangements (phasing), as set out in Chapter 2: Scope.
- Further clarification to distinguish between light and dark green RAGG ratings.

Commercial market comparator groups

322. As set out in CP26/1, we propose that an online central data repository would be used to disclose and generate comparative data (e.g. the mean and median) for all investment performance, cost and charges, and relevant quality of services metrics relating to the commercial comparator group arrangements. This would allow a more objective and consistent approach to measuring value in the assessment process. The data repository will also make available to firms, trustees and IGCs from March/April all VFM data to be used in assessments, so that assessments can include consideration of individual arrangements as well. We are proposing that the repository data will only be made available to the public at large after assessments are public (see Chapter 10: Disclosure Requirements).

323. We propose that IGCs and trustees must compare their own arrangements against the comparative data, as well as assessing how the

arrangement compares to the individual arrangements in the comparator group more broadly for the relevant metrics, to enable a more nuanced assessment and evaluation, for example where they sit in the range and distribution.

324. We propose to separate the commercial market comparator group for the 0YTR cohort in Step 1 to account for different target decumulation aims. Comparisons for the 30YTR cohort will be against the whole commercial market comparator group, as set out below. In Step 2, comparisons would continue to be made against the commercial market comparator group as set out below, for both YTR cohorts.

30 YTR comparator group

325. As set out in CP26/1, we propose that the commercial comparator group for the 30 YTR cohort in Step 1 would comprise contract- and trust-based arrangements which meet the following criteria (identified by the repository using information provided in the features table):

- Fully open to all types of new employers, and
- Firm/scheme designed multi-employer arrangements (i.e. no bespoke arrangements or SETs).

326. In CP26/1, we also proposed that only arrangements rated as value the previous year be included in the comparator group. Given the phased approach to implementation set out in Chapter 2: Scope, under which there would be no automatic consequences under the Framework for red or amber rated arrangements, we propose that all arrangements meeting the two criteria above be included in the commercial market comparator group for years 1 and 2.

327. However, from year 3 of the VFM Framework being implemented, arrangements in the comparator group would have to have been rated as value the previous year (as not value arrangements would not be fully open to new business). These criteria mean that once the Framework is fully implemented, comparisons would be against arrangements assessed as offering value that other arrangements could be consolidated or transferred into.

0 YTR comparator group

328. We propose an update to the commercial market comparator sub-group for the 0 YTR cohort. We acknowledge feedback that having the same comparator group for arrangements targeting different decumulation aims

could unduly penalise arrangements targeting certain decumulation solutions. At the 30 YTR cohort, a default's objective will be pot maximisation, regardless of decumulation aim. However, at the 0 YTR cohort, where an arrangement is targeting annuity purchase or cash, different decumulation aims could heavily influence investment performance.

329. We therefore propose that for the 0YTR cohort, comparisons in Step 1 would be made against a sub-group of the arrangements in the commercial market comparator group which have the same decumulation aim as the arrangement being assessed.

330. The decumulation aim of arrangements would be disclosed in the features table, which will allow the data repository to filter for the appropriate decumulation comparator group. Decumulation aims would be:

- Drawdown/flexible/universal/flex-and-fix decumulation
- Annuities
- Cash
- Other (catch all for any who do not fit into the above, to be disclosed in the features table)

331. If an arrangement's decumulation strategy does not accurately fit into one of the decumulation categories listed above, the arrangement should select the 'other' category and compare against the whole commercial comparator group (as required for the 30 YTR cohort) in Step 1 and may consider decumulation in step 3 (rationalisation) if appropriate.

Minimum decumulation comparator group size

332. The sub-set of arrangements in the commercial market comparator group with the same decumulation aim must be made up of at least four arrangements. We think that this is the minimum to ensure a meaningful comparison. If the decumulation comparator sub-group is made up of three or fewer arrangements, then arrangements with that decumulation aim must compare against the whole commercial market comparator group (as required for the 30 YTR cohort). These arrangements will be able to take into account its decumulation aim in Step 3 rationalisation (see below).

Question 24: Do you agree with the proposed approach to consider decumulation aims separately for the 0 YTR cohort? Why or why not?

Question 25: Would decumulation aims be more appropriately considered in step 3 rationalisation?

Question 26: Do you agree with the decumulation aim sub-categories? Why or why not? Are they sufficiently clear, or do they need to be defined?

Approach to comparisons for different arrangement types

333. In CP26/1, we proposed that data relating to employer cohorts for multi-employer arrangements must be disclosed to regulators via the database and used in the assessment process.

334. Since the last consultation, we have identified potential competition-related concerns associated with providers and trustees having access to granular-level detail on scheme pricing. This concern applies in particular to the granular disclosure of information on employer cohorts, as well as minimum and maximum charges.

335. These concerns must of course be balanced with the consumer value and competition benefits that the granular detailed disclosures and assessment is intended to provide and that have formed the basis of earlier consultations.

336. We believe that granular detailed assessment can lead to a better assessment process and are exploring ways that this can be achieved in a way that balances our objectives, priorities and competition concerns~~.~~ We will be undertaking further work to better understand the nature of the risks and establish what steps, if any, we would need to take to enable more transparency responsibly.

337. Meanwhile in the first year of the Framework, as part of its phased implementation, we propose simpler assessments based on limited sharing and use of the multi-employer cohorts, maximum and minimum charges data:

- Providers will submit the data in the multi-employer cohorts tables to the database, but these data points will only be available to regulators – they will not be shared with other providers or made public.
- Providers will submit arrangements' min, max and median net investment performance data to the database, however only the median data will be shared with other providers and made public. The minimum and maximum data points will only be available to regulators – they will not be shared with other providers or made public.
- However, the min, max and median data points will all be used to calculate aggregate average min, max and median value for use as comparators in the assessment process.

338. Whereas in CP26/1, we proposed requiring IGCs and trustees to compare their own arrangements against the comparative data, multi-

employer cohort data where applicable, and individual arrangement data where they considered this relevant, we now propose for year 1 that assessment is against comparative data and individual median net performance data only.

339. We recognise that the inclusion or exclusion of these data points materially impacts the assessment process. We previously consulted on using multi-employer cohorts to provide greater transparency where charging levels vary by employers within an arrangement, and proposed to require IGCs and trustees to assess whether the charges for their arrangement are reasonable compared to others in the market using these cohort tables. This was to enable comparisons across charges for employers of similar characteristics and enable a more holistic assessment. We continue to support an in-depth assessment with more context and nuance for employers with different workforce demographics to the degree that it can be managed with potential competition related concerns. We recognise this will be limited in the first year.

340. Ahead of the second year of the framework, we will review the approach to the use and publication of the data described above, including the treatment of employer cohort-level data and minimum and maximum net investment performance metrics, with the aim of supporting more granularity, context and nuance in the assessment process where possible. This may include further consultation with industry.

341. Once we have fully assessed the potential risks related to more granular disclosure and should we conclude that these are manageable and there are good reasons and benefits in re-introducing the publication and use in the assessment process of the multi-employer cohort tables and max/min as set out in CP26/1, we may take those proposals forward into the final framework. We are therefore continuing to invite feedback on the proposal in CP26/1, alongside the simplified proposal for the first year of the Framework put forward in this paper. We are also seeking feedback on whether the simplified approach would be appropriate if it was applied from year 2, when the full Framework is in force for all in-scope arrangements.

342. Requiring this data to be submitted for year 1 ensures that if we reintroduce comparisons of multi-employer cohorts in future years of the Framework, the data will be readily available. Regulators will not be expected to conduct any separate value assessment of these metrics, but it may be used to facilitate other TPR/FCA functions where appropriate, for instance in advance of any future consultation and for supervision in relation to trustees and IGCs consideration of their own internal variable pricing.

Question 27: The proposed shift in approach for the first year of the Framework moves away from a more granular assessment of value that we have consulted on previously. We welcome feedback on where stakeholders consider there to be concerns in relation to the data sets, the proposals set out in CP26/1 for the publication and use of multi-employer cohorts, and the proposed changes.

The assessment process

343. We propose to keep the 3-step process proposed in CP26/1, which will lead to a determination of value against one of 4 ratings (red, amber, light green, or dark green).

344. The first 2 steps would use Framework data to consider value demonstrated by investment performance and services, compared to the market and to costs and charges. The third step allows for consideration of specific arrangement features (rationalisation) and requires determination of an overall RAGG (red, amber, light green, dark green) rating.

Step 1:

Value delivered from investment performance

For both YTR cohorts

Comparison and assessment of BLMs (investment performance, risk and charges) and FLMs.

Assign provisional value /not value rating to both cohorts, and then to arrangement overall.

Step 2:

Value delivered from services

Comparison and assessment of service metrics and costs.

May be used to lower a provisional "value" finding to "not value" if service metrics are poor, but service metrics cannot be used to improve a provisional finding of "not value" to "value".

Step 3:

Rationalisation and RAGG determination

Consideration of metrics and provisional value/not value rating with special features and demographics. These can be used to justify a different rating (rationalisation).

Determine RAGG rating.

Step 1 – Investment performance

345. As set out in CP26/1, we propose that under step 1, trustees/IGCs assess:

- Backwards looking investment performance metrics (BLMs) - factual, historical data demonstrating past performance delivered by arrangements that can be compared directly to the performance of other arrangements.
- Forward looking investment performance metrics (FLMs) – projections that allow trustees and IGCs to take into account the potential future performance of arrangements. This will be particularly relevant where short-term performance may not reflect trustees' or firms' expectations of long-term returns.

346. We want firms and trustees to take a holistic approach to investment to deliver the best possible long-term outcomes, and to make sure the assessment process accommodates that. BLMs are an assessment of the value delivered in the past, but may not be reflective of the optimum investment approach to deliver the best value going forward. Taking account of both backward and forward-looking metrics allows for a more considered approach. As part of this, using FLMs in comparisons will help make sure the VFM Framework does not discourage investment in private assets where this is in savers' best interests.

347. BLMs and FLMs would be assessed for both YTR cohorts. IGCs and trustees would consider the full range of available BLMs and FLMs to reach a preliminary finding of value/not value at YTR cohort level. Value would then be considered at arrangement level as set out below, to reach a preliminary finding of value or not value based on investment performance and cost metrics by the end of step 1.

348. In CP26/1, we consulted over two options for how FLMs could be considered in Step 1. We propose to go forward with option 1, with the majority of respondents favouring this approach.

Consideration of BLMs and FLMs together

349. As in CP26/1, we propose to consider both BLMs and FLMs, comparing these to the commercial market comparator groups and against each other and following guidance to reach a preliminary finding of value for each YTR cohort.

Consideration of BLMs

350. For BLMs, comparisons would primarily be against the generated comparative averages of the commercial market comparator groups. However, IGCs and trustees should also look to see how they compare to the arrangements in the comparator group more broadly, such as where they sit in the range and distribution. The full range of investment performance metrics would be considered here, including risk, as well as investment charges.

351. When comparing the metrics to those of the comparator groups, trustees and IGCs should determine if a difference is sufficiently material to indicate poor value backward looking investment performance. See further considerations and guidance below.

Consideration of FLMs

352. We propose that IGCs and trustees would also consider the YTR cohort's FLMs and use these to inform their view of the overall value of the cohort. FLMs would be considered against an arrangement's BLMs, and also against the comparator group average. Comparison against the comparator group average for FLMs may have limitations in terms of assessing relative value, as FLMs would be based on different assumptions. However, it would allow IGCs and trustees to see how their projections compare to the comparator group and if they believe they are targeting good outcomes for their savers compared to others. When considering FLMs and BLMs together to come to a view of value for each YTR cohort, we propose that IGCs and trustees would assign different weight depending on how accurate, relevant or representative they expect their BLMs to be as an indicator of good governance and saver outcomes. FLMs should never be given more weight than BLMs. Conversely, FLMs should always be part of the consideration of investment performance as an indicator of expected future value.

353. We propose that IGCs and trustees follow the steps set out in the below table when determining how much weight should be placed on BLMs and FLMs when determining overall cohort value. In CP26/1 we proposed that the table must be followed to create more consistency and objectivity in their approach. However, we are now proposing that it should be used as a guide to enable some discretion in approach, recognising that the below weightings will not always be appropriate in all instances. We continue to require, as set out further below, that IGCs and trustees explain in the assessment report how FLMs are used and balanced. Arrangements may 'move across' these scenarios over time, as strategies change or mature.

How weight could be assigned between BLMs and FLMs

Weighting	Near equal	Moderate weight to FLMs	Little weight to FLMs
Rationale for weighting	BLMs may not be good indication of future performance	Some reason to give moderate weight to FLMs	Very little reason to give weight to FLMs
Factors to consider	Recent significant changes to investment strategy AND Significant investments where	Recent significant changes to investment strategy OR Significant investments where the	No recent significant changes to investment strategy and no assets where actual returns experienced in recent periods do not reflect

	the actual returns experienced in recent periods do not reflect the beliefs on the long-term returns achievable in the asset class	actual returns experienced in recent periods do not reflect the beliefs on the long-term returns achievable in the asset class	the beliefs on the long-term returns achievable.

354. For example, IGCs and trustees could put more weight on FLMs where they have recently made significant changes to their investment strategy, making their BLMs less indicative of the potential future performance of their current strategy. More weight could also be put on FLMs where there have been recent investments in assets where the actual returns experienced in recent periods do not reflect the beliefs on the long-term returns achievable in the asset class. Nonetheless, any impacts of such investments on intergenerational fairness and cross-member subsidies must be appropriately addressed and managed.

Question 28: Does the second factor for consideration proposed for weighting BLMs and FLMs risk excessive use of FLMs? If so, should we restrict this factor more explicitly? For example, to significant investments in assets affected by 'J-curves'?

Consideration of overall cohort value

355. Taking into account both BLMs and FLMs and following the guidance set out in the table below, IGCs and trustees must then consider whether the YTR cohort should be rated provisionally value or not value.

Simplified assessment process for year 1

355. We continue to propose that all in-scope arrangements of different types would compare their metrics against the corresponding average metrics of the commercial market comparator groups, which will be made up of multi-employer arrangements. Some of these will have varying charges for employers, which would be displayed through an aggregated maximum, minimum and median average for the investment performance net of all costs and charges metrics.

356. IGCs and trustees should also consider how the arrangement compares to the individual arrangements in the comparator group more

broadly for the relevant metrics (all apart from minimum and maximum net investment performance), such as where they sit in the range and distribution.

Use of minimum, median and maximum net performance metrics

Approach for multi-employer arrangements

357. We continue to propose that IGCs and trustees should compare their multi-employer arrangements' minimum, median and maximum net investment performance metrics against the aggregated average minimum, median, and maximum net investment performance metrics of the comparator group. We propose that this approach applies to all multi-employer arrangements, even where they do not vary their costs and charges.

Approach for single employer arrangements (bespoke or SETs)

358. We propose that in year 1, single-employer arrangements should compare their net investment performance metrics to the aggregate average median net investment performance metrics of the comparator group. In proposing this, we are assuming that the larger single-employer arrangements in year 1 would be offered a typical fee deal if it were to transfer into a multi-employer arrangement. We acknowledge that this will not always be the case. We are interested in feedback on this approach. We will revisit this approach for year 2, and in year 1 only larger SETs will be required to carry out and publish an assessment, with no Framework consequences attached.

359. If, as set out above, future iterations of the Framework provide for use of more granular costs and charges data, this process will be amended accordingly.

Question 29: Do you agree with the simplified approached proposed for multi-employer arrangements for year 1? Why or why not?

Question 30: Do you agree with the simplified approach proposed for single employer arrangements for year 1? Why or why not?

Question 31: Would the simplified approach be appropriate if it was applied on an ongoing basis, for all in-scope arrangements completing assessments, with

consequences attached? In particular, we are interested in feedback in how it may impact the assessment outcomes of SETs, bespoke and legacy arrangements.

Guidance and considerations

360. Trustees and IGCs should broadly take into account what is known about the arrangements and the savers invested in them.

- **Material difference:** When comparing investment performance and risk metrics to the metrics from the comparator group, trustees and IGCs will have to determine if a difference is materially worse to indicate a not value investment performance. We expect trustees and IGCs to take a data led approach to this where appropriate. For example, where the majority of metrics are below the comparator group average, or where one or two are well below the average, e.g., 30% below, then it may be reasonable to conclude that cohort is not value.
- **Multi-employer arrangement consideration of minimum, median and maximum**: When comparing net investment performance to determine if material differences are present, we expect trustees and IGCs of multi-employer arrangements to consider their own internal variable pricing (if any) and take account of this when comparing to comparator group averages. We also expect them to give more weight to the minimum and median net performance comparisons. This is to ensure that both typical members and members not benefiting from their employers' fee-negotiating power are receiving value. Where material difference is identified, as described in the bullet above, for either minimum-to-minimum or median-to-median net performance comparisons, we expect the trustees and IGCs to consider this indicative that value is not being provided to the YTR cohort.
- **Risk metrics alongside returns:** IGCs and trustees should consider investment returns in the context of risk taken. For the 0 YTR cohort, volatile performance may affect retirement outcomes although de-risking too much too early may reduce income in retirement. Consideration should also be given to the appropriateness of the risk given the decumulation strategy.
- **Reporting periods:** Particular weight should be given to metrics over 5 and 10 years (where available) as more robust statistical time frames to understand whether an investment strategy is delivering for members. An exception to this may be where an arrangement has recently made significant changes to its investment strategy.
- **Investment charges:** Investment charges will only be disclosed for 1 year, although these will build over time. As they do, we expect IGCs and

trustees to consider these, alongside the investment performance net of investment charges figure. For example, extremely low investment budgets may limit the available investment choices with a potential corresponding impact on how value is generated. Anecdotally, we have heard that investment budgets can be as low as 0.1% (10 basis points) of assets.

- **Legacy or quasi-default arrangements:** IGCs and trustees should start with the underlying investment performance relative to the comparator group. As they will be comparing against more modern products, any valuable legacy features such as guaranteed investment returns will need to be considered in Step 3.
- **With-profits arrangements:** Comparisons of arrangements invested in with-profits funds should focus on the performance of the underlying investments net of the cost of those investments. Smoothing and other features may be taken into account in step 3.
- **Asset allocations:** We propose that asset allocation comparisons should not be used directly in determining a RAGG rating. However, asset allocation disclosures will provide important context which can help those assessing arrangements see what might be helping to drive historic performance, and also future projections.

Examples

361. For example, an arrangement that has poor investment performance over 5 years (well below the comparator group average). Its investment strategy has not recently been changed, and the investment performance metrics over the 1- and 3-year reporting periods are also lacklustre compared to the comparator group metrics. It has not made any recent investments in assets where the actual returns in recent periods do not reflect the beliefs on the long-term returns achievable. Projected FLMs based on own assumptions may look positive, however minimal weight is given to these. On balance, the trustees / IGC are likely to conclude that the arrangement is not delivering value at the 30 YTR cohort.

362. In another example, an arrangement may have poor investment performance over 5- and 3- year periods compared to comparator group averages. However, it was near equal to the comparator group over 1- year reporting periods with positive FLM projections. It has recently updated its investment strategy. Its projected FLMs are high, and more than the market average. Trustees / IGCs may conclude that the changes to the investment strategy 1 year before are yielding positively for members. In that case, they may choose to apply more weight to FLMs on the grounds that the more recent performance shows value being increased and future favourable

projections, and decide the cohort is delivering value based on investment performance metrics.

Question 32: Do you agree with the proposal for multi-employer arrangement consideration of minimum, median and maximum? Why or why not?

Additional guardrails

363. We acknowledge the concerns from industry and stakeholders in CP26/1 and CP24/16 that FLMs can be gamed or overinflated to hide or excuse poor past performance. We have tried to balance this against the aim of avoiding an assessment process that disincentivises investment in certain asset types, noting both government aims and saver's interests in greater diversification. To address the risk of gaming, we proposed the above prescribed options for how FLMs must be taken into account in the assessment process, a requirement for disclosure of assumption as set out in the FLM chapter and the additional guardrails below.

364. As in CP26/1, we propose the following guardrails to prevent FLMs being used to hide poor past performance indefinitely:

- IGCs and trustees must explain in the assessment report how they have used FLMs to reach preliminary outcomes for each cohort, and the reasons and appropriateness for this – including with reference to their BLMs.
- Decreasing weight is to be given to FLMs over time, when IGCs and trustees consider BLMs and FLMs together, where performance should be substantiated in BLMs over time.

365. We also intend to keep the assessment process, particularly the use of FLMs, under review as the Framework is implemented to determine whether the proposed approach is working as intended.

Provisional rating for both YTR cohort and arrangement overall

366. After the consideration above, both YTR cohorts would have a provisional value/not value rating. We propose that IGCs and trustees would then need to reach an overall provisional rating for the whole arrangement at the end of step 1.

367. We proposed this would be done by applying a rebuttable presumption: Where one YTR cohort is found to be provisionally not value, there would be a presumption that the arrangement overall is not value. This presumption can

be rebutted by the IGCs or trustees if the number of members in the not value YTR cohort is not material, and/or if the impact to member outcomes would not be significant. This would place the onus on IGCs and trustees to justify why a whole arrangement can be provisionally value where a YTR cohort is not and encourages them to consider value equally across both YTR cohorts.

368. For example, an arrangement appears not to deliver value for the 0 YTR cohort. However, the trustees/IGC note their membership is overwhelmingly skewed towards younger members, and they have functionally no (or a negligible number of) members at the at retirement point. As such, they may conclude that the arrangement overall is delivering value for step 1. However, we would expect actions to be put in place to bring that YTR cohort up to value.

Step 2 – Services

369. As in CP26/1, we are proposing streamlined service metrics at this stage and as a consequence, propose that services and service costs metrics may now only be used to downgrade a provisional finding of value following step 1. We do not consider that performing well in the limited set of metrics would be sufficient justification for an arrangement rated as not value on investments to improve their provisional outcome to a value rating in step 2.

370. IGCs and trustees would need to consider the services provided by their schemes and service costs, and whether these represent value or if there is material difference between their services and those provided by the commercial market comparator group, to the extent that the services provided do not represent value for money.

371. Where IGCs and trustees find that services represent value, then the provisional rating given to the arrangement at the end of step 1 remains the same.

372. Where there is a finding that services do not represent value, then the rating in most cases should be downgraded. For example, if an arrangement is provisionally value after assessing investment performance metrics in step 1, but has particularly poor service metrics which put saver outcomes at risk, it should be downgraded to not value.

Guidance and considerations

373. In assessing service value, the disclosed 1-year service costs will need to be considered relative to service quality, as indicated by the service quality metrics.

374. A materially lower performance on service quality metrics overall for comparable service costs indicates poor service value.

375. IGCs and trustees may have concerns about a material shortfall in service quality even where service costs appear reasonable. IGCs and trustees should consider services poor value if they do not meet the needs of savers and put good outcomes in jeopardy. We do not propose to define minimum acceptable levels of service quality. It will be for trustees and IGCs to consider, but a substantial shortfall on a particular metric is likely to be a cause for concern.

Step 3 – Rationalisation and rating

376. In step 3, IGCs and trustees will need to take the provisional rating reached in steps 1 and 2 and come to an overall value or not value determination. They will need to determine whether rationalisation can justify a change in a value/not value finding, and then attribute an overall RAGG rating.

Rationalisation

377. Consistent with CP26/1, we propose that IGCs and trustees should take into account disclosed arrangement features and characteristics, such as member demographics and special features/safeguarded benefits. They should then determine whether a credible reason can be applied to rationalise a different value/not value rating. For consistency, for rationalisation we propose that IGCs and trustees may only use saver and employer demographics (such as number of savers, turnover rate, saver protected characteristics e.g., religion), and any special features or characteristics of the arrangement that may affect value delivered for savers (such as guarantees for some legacy arrangements like life insurance lump sums, guaranteed annuity rates or dependent pensions upon death).

378. In order to determine whether a credible reason can be applied to rationalise a different outcome, IGCs and trustees should assess whether the arrangement feature or characteristic is such that it makes comparison to the comparator groups unreasonable in determining value. As part of this exercise, the IGC or trustees may also wish to draw direct comparisons to

arrangements that share those features or characteristics, in order to evidence why a different value rating may be justified.

379. For example, an arrangement may appear to be underperforming compared to the market averages over various metrics. However, it may be a legacy arrangement with various valuable safeguarded benefits and special features which add significant value to savers. It may therefore be appropriate for an IGC or trustee to conclude that the arrangement overall represents value.

Decumulation aim

380. Where an arrangement cannot compare against its decumulation comparator group in Step 1, either because the comparator group is too small (three or less) or because it falls into the "other" category, then the arrangement's decumulation aim can be taken into account in Step 3 rationalisation.

381. IGCs and trustees should consider the arrangement's decumulation aim and why/if its investment performance looks different/poor in step 1 due to different decumulation aims compared to the majority of the arrangements in the commercial market comparator group.

382. IGCs and trustees should then evaluate the investment performance metrics of the arrangement against its strategy and consider whether the strategy is functioning correctly for what it is trying to target in decumulation e.g., is the investment strategy successfully targeting (tracking) annuity rates? It may also be useful for trustees/IGCs to look at other arrangements targeting similar decumulation aims (including those not in comparator group) and see if they are on par/above/below. It may then be appropriate for an IGC or trustee to conclude that the arrangement overall represents value where performance is at par/above.

Contextualisation

383. In step 3 of the assessment, IGCs and trustees may also refer to other contextual information which they believe has affected their VFM metrics and influenced the value outcome (e.g. external market impacts), but these cannot be used to change a rating. As part of this exercise, IGCs and trustees may want to draw comparison to other arrangements with similar characteristics.

Attributing a RAGG rating

384. IGCs and trustees must next attribute a RAGG rating to each in-scope arrangement. Where an arrangement is not value, it should be rated either

Amber or Red. Where it is value, it should be rated either Light Green or Dark Green.

385. We proposed a minor update to the RAGG ratings, in response to feedback, to help further distinguish between dark and light green. For an arrangement to be given a dark green, it must be clearly outperforming over time, both consistently across the member journey (YTR cohorts) and across multiple metrics to qualify.

386. The proposed RAGG rating is as set out below:

RED: Not value	AMBER: Not value	LIGHT GREEN: Value	DARK GREEN: Value
Cannot be improved to reach value – must transfer where in best interests of members	Can be improved to reach value	**Improvements could be made to increase value**	Clearly outperforming consistently, no or few improvements could be made

Dark Green: The arrangement is clearly outperforming most in the comparator group consistently, across both the YTR cohorts and multiple data metrics, and there are minimal areas where improvements could be made. We expect few arrangements would reach this standard.

Light Green: The arrangement is delivering value, but there are areas that could/should be improved. We would expect this would be a more common value rating than Dark Green.

Amber: The IGC or trustees must believe improvements are possible within 3 years to make the arrangement value for money. Despite this, the firm or trustees may still decide that a bulk transfer is the best course of action for members.

Red: A bulk transfer must follow where this is in the best interests of members. A transfer may not always be possible (i.e. would not be in best interests). In those cases, the firm and trustees must still take action to improve value where possible.

387. The proposed RAGG model aligns with the legislative categories described in clause 15 of the Pension Schemes Act 2026. A Red rating corresponds to the ’Not Delivering’ category, both Amber and Light Green are ranges within the ’Intermediate’ category and Dark Green correspond to the ’Fully Delivering’ category.

Distinguishing between Amber and Red

388. For arrangements assessed as not value, IGCs and trustees will need to decide between an amber and a red rating. For IGCs, this means engaging with the firm on what actions it proposes to take to address the shortfall in value. Trustees and IGCs can only give an amber rating if they are content that the proposed improvements can be reasonably expected to deliver VFM within a reasonable period of time – within 3 years (see diagram at paragraph 9.20 below).

389. For contract-based arrangements, some iteration between the firm and the IGC may be needed before the IGC can decide between amber and red. This will need to happen before the IGC Chair's annual report is published.

390. If an amber rated arrangement continues to be assessed as not providing value, we propose that at the fourth-year assessment, its IGC or trustees would be expected to rate it as red, unless the firm can demonstrate to the IGC or the trustees decide that an extension of amber is in the best financial interest of savers.

IGCs - Disagreement on a rating

391. Where a firm disagrees with its IGC's assessment of poor value, the firm will need to explain why, following the same assessment process proposed for IGCs. This is consistent with existing requirements under the Consumer Duty, where a firm must use its IGC's assessment of VFM in assessing fair value and there is provision for disagreement.

392. Given the need for engagement between the IGC and the firm, we do not expect continued disagreement to be common before a rating is finalised. If disagreement remains, the firm will need to raise this with the FCA, and the IGC is free to raise with the FCA directly. If the FCA agrees with the firm's conclusion, there would be no requirement on the firm to take action.

ESG considerations

393. Pensions are long-term investments, so ESG factors and the inherent systemic risks that are financially material to DC pension schemes may affect members' long-term returns. We know data and practice in this area are rapidly evolving, and that existing metrics may have limited value without accompanying qualitative assessments and narratives. The application of UK Sustainability Reporting Standards for occupational pension schemes is still under consideration. The DWP are also currently undertaking a review of the 2021 Taskforce on Climate-related Financial Disclosures-related requirements, while the FCA has recently consulted on simplifying its climate

disclosure rules for investment products, aiming to give consumers clearer insight into how climate risks could affect investment performance. We are therefore not proposing specific sustainability-related metrics as part of the VFM Framework or assessment process in this consultation. We will work with Government and industry to encourage and monitor evolution of the use of data, metrics, and practice to ensure the VFM Framework keeps pace.

394. It is widely acknowledged that Climate Scenario Analysis that does not take account of the complexity of climate and nature-related risks may overestimate returns. Climate Scenario Analysis is one of the few available tools that addresses this. As the market, climate scenario analysis practice and sustainability related metrics continue to evolve, we will consider the benefits of, and the best approach to, incorporating sustainability-related metrics into the Framework.

395. While not mandatory under the VFM Framework – and not featuring in the decision on a RAGG rating – trustees and IGCs should consider how ESG considerations have been taken into account across a firm's firm-designed in-scope arrangements and how this may have shaped their strategies. Under FCA existing requirements, IGCs must already provide an independent consideration of a firm's policies on financial ESG considerations and non-financial matters, and on stewardship. We see effective stewardship as important as it supports market integrity by improving the quality of markets and the effectiveness of capital allocation decisions. Trustees are required to ensure that financially material sustainability-related considerations – including, but not limited to, climate change and nature dependency – are incorporated into the design of each default strategy in a manner appropriate for delivering long-term value to members.

Bespoke arrangements

396. We propose a simpler assessment process for contract-based bespoke arrangements which are designed by a particular employer. We recognise the potential burden of more detailed assessments when in some cases a firm may operate more than 100 bespoke arrangements. Our aim is not to weaken an IGC's duty to identify poor value, but to keep the proposed requirements proportionate and allow more room for the IGC to exercise judgment.

397. We propose that at a minimum IGCs will need to conduct a quantitative screen of bespoke arrangements, using data readily available to the firm including Framework data. Any special features should also be taken into account. This screen is intended to identify potentially poor value bespoke arrangements.

398. An IGC should then use its judgement, acting on behalf of savers, on what further information it needs from the firm to reach a conclusion. If a firm is unable to provide further information on a particular bespoke arrangement, that itself may be a cause for concern. Without further information, a potentially poor value bespoke arrangement should be rated either amber or red. An IGC may of course also choose to conduct more in-depth assessments of any or all bespoke arrangements.

399. Given the requirements of fiduciary duty, we would expect bespoke, employer-defined arrangements within trust-based schemes to be subject to a different level of assessment to contract-based arrangements.

Chapter 9: Actions for arrangements offering poor value

400. Where poor value is identified, firms, trustees and IGCs are expected to take action. Actions include notifying regulators and employers, closing to new business, submitting action and improvement plans and transferring savers to value arrangements where this is in savers' best interests.

Summary of Responses to CP26/1

401. CP26/1 proposed expected actions for arrangements that receive a poor value VFM rating of amber or red rating.

402. The overwhelming majority of respondents agreed that red rated arrangements should automatically be closed to new business, but some felt that this was less appropriate for amber, as they felt it would make it harder for the arrangement to improve value as this could undermine their commercial viability. Some responses suggested that there should be a grace period of at least one year to allow amber rated schemes to improve before consequences take place.

403. Most respondents agreed that employers should be notified of amber and red ratings and most also agreed that red rated arrangements should be required to transfer members where possible and in members' best interests.

404. Most respondents agreed that red rated schemes or arrangements should be required to transfer members into a value rated arrangement, where this is in the members' best interests.

Pension Schemes Act 2026

405. Section 27 of the Pension Schemes Act 2026 sets out the following required actions when an arrangement has been identified as not delivering value:

- An action plan must be prepared and a copy provided to TPR which:

    - Must set out whether transferring members' benefits could reasonably be expected to result in the generality of those members receiving improved long-term value for money.
    - Proposes measures (or options for measures) for improving the VFM for the arrangement's members or subsets of members.
- Trustees must give notice to all participating employers of the VFM rating and any actions they consider appropriate for the employer to take.
- Ensure that, with effect from the date of publication of the assessment report, no new employers join the arrangement.

406. A power is also granted to prescribe further actions that must be taken when a scheme is not delivering value.

407. Section 16 of the Act also allows for details to be set out in regulations to specify the Secretary of State to prescribe required actions following the assignment of any grade of intermediate rating. These may include one or more of the following:

- Preparing an improvement plan or action plan and providing the plan to TPR.
- Giving notice to all participating employers of the VFM rating, any actions specified in an improvement plan and any actions the trustees consider it appropriate for the employer to take.
- Ensuring that no new employers join while the arrangement continues to have an intermediate rating.

Draft Regulations

408. The draft VFM regulations set out details for the information that must be included in the improvement plan, which must be completed by scheme trustees or managers of an amber rated scheme or arrangement, and for the action plan, which must be completed be a red rated scheme or arrangement.

Updated Proposals

409. Consistent with CP24/16 and CP26/1, actions under the VFM Framework are intended to supplement the actions required under the Consumer Duty for FCA authorised firms where they have identified poor value.

410. As proposed in CP24/16 and CP26/1, transfer requirements for red rated arrangements have been strengthened for contract-based

arrangements, with the amendment to the Financial Services and Markets Act 2000 made by the Pension Schemes Act 2026, which adds a new Part 7A that enables firms to transfer member's pension pots without their consent and make unilateral changes to their customers' contracts. To align with the Act, amber rated arrangements must submit an improvement plan. Amber rated multi-employer arrangements with variable charges will need to notify all employers, not just those in cohorts affected by higher costs that cause poor value.

411. Following feedback from CP26/1, we now propose to stagger implementation of the VFM Framework, meaning that all VFM Framework consequences will not apply until the second full VFM period in 2029. As per draft regulations 39 and 42, this will be the case for both amber and red rated schemes and arrangements. For FCA regulated arrangements, the FCA Handbook rules, including Consumer Duty, will continue to apply. From 2029 onwards, all schemes which are in-scope for VFM will be required to comply fully with VFM requirements, including the consequences of receiving a non-value rating.

412. For trust-based schemes, the PSA 2026 re-creates existing Regulator enforcement powers for the VFM regime in the form of compliance notices, third-party compliance notices and penalty notices. In addition, the PSA 2026 provides for, and the draft regulation 48 introduces, a new directions notice which permits TPR, where it determines that the trustees/managers have incorrectly assigned a rating, to substitute its own rating. This will then be the operative rating from which the VFM obligations of the trustees/managers will follow. For contract-based arrangements, FCA will use existing powers to take action when needed.

Mandatory communication to employers

413. Consistent with CP26/1, we propose that trustees and firms responsible for an amber or red rated arrangement be required to communicate the rating each year to any employer currently paying contributions. This communication must be within 1 calendar month of the firm receiving the IGC Chair's annual report for publication (for contract-based arrangements) or publication of the assessment (for trust-based arrangements), and typically by 30 November each year/VFM period.

414. The communication will state the arrangement's VFM rating and set out next steps that the trustees or firm intends to take to address the poor value. This includes progress against the previous year's planned improvements where applicable, including any outstanding actions or changes. The

communication will also contain any recommendations to the employer, if appropriate.

Closing to new business

415. Consistent with previous consultations, actions under the VFM Framework are intended to supplement the actions required under the Consumer Duty for FCA-authorised firms where they have identified poor value.

416. Firms and trustees may continue to receive contributions from employers currently using the arrangement and from savers currently invested in it. They may also continue to take on new employees within existing employers to avoid conflicts with Automatic-Enrolment requirements.

417. We continue to propose that trustees and IGCs can re-assess an amber rated arrangement outside of the annual cycle so that it can be reopened to new business as soon as possible, but improvements must be evidenced in Framework data comparisons.

Notification to relevant regulator

418. As in CP24/16 and CP26/1, we continue to propose that for each amber or red rated arrangement, firms and trustees will need to notify the relevant regulator of the rating. For FCA-regulated firms, this must be no later than 5 business days after receiving the IGC Chair's annual report, which must be provided by 31 October each year. We propose that trust-based arrangements must notify TPR within 5 business days of publishing the assessment report, which must be published by 31 October each year.

Transfer requirements for not-value rated arrangements

419. As set out in CP26/1, all red rated arrangements will be required to transfer members into a value rated arrangement, where this is in the members' best interests. This is stronger than the requirement in CP24/16 to consider a transfer, due to the expected introduction of contractual overrides which will enable bulk transfer for contract-based arrangements without the consent of the member (see below).

420. A transfer may not, however, always be in the best interests of all or some members, for example due to them having safeguarded benefits which cannot be replicated or special features suited to a specific demographic. We

expect these factors ordinarily to be taken into consideration in step 3 of the assessment process (rationalisation). However, in cases where an arrangement has been rated red after rationalisation, but trustees or IGCs still have good reason to believe that a transfer would not be in members' best interests, firms and trustees will be under a duty not to effect a transfer, but to seek to improve the arrangement's value and put in place mitigations to protect savers from foreseeable harm. In some cases, a transfer may be in the best interests of some but not all members. In those cases, firms or trustees may transfer some but not all members, for example where the members remaining have safeguarded benefits which cannot be replicated.

421. The justification for why firms or trustees believe a transfer would not be in members' best interests, and the details of their planned improvements, must be set out in the action plan submitted to regulators. This approach is consistent with both the Consumer Duty and in keeping with the general duties owed by trustees to the members of their trust.

422. Under the provisions in the Financial Services and Markets Act 2000, firms and trustees of amber rated arrangements may also transfer members to a better value arrangement, rather than identifying potential improvements, if this would be in the members' best interests. This should be set out in the improvement plan submitted to regulators.

Transfers for contract-based arrangements

423. The Financial Services and Markets Act 2000 contains provisions for contractual overrides/unilateral changes. These will enable firms to transfer members from red rated contract-based arrangements to contract or trust-based arrangements without their consent where the legislative and regulatory requirements, such as the best interest test, are met. Transfers can either be for every member within that arrangement, or a subset of members. This is to allow flexibility for instances where it is in the collective best interests of some members to be transferred to a different arrangement from the majority.

Transfers for trust-based arrangements

424. Existing legislative provisions allow trustees to bulk transfer members from trust-based arrangements without consent, subject to meeting certain conditions. Additionally, under section 17 of the Pension Schemes Act 2026, before an action plan can include a proposal to transfer, the trustees must determine that this would be reasonably expected to result in the members receiving better value for money. It is proposed that this assessment should

be based on the VFM assessments and data of the red rated arrangement and potential destination arrangement. TPR may intervene to direct a transfer under certain conditions.

Action and improvement plans

425. We are not proposing any changes from those consulted on in CCP26/01, aside from improvement and actions plans not being submitted in year 1 of the implementation of VFM Framework. We continue to propose that firms and trustees must submit either an action plan for red rated arrangements or an improvement plan for amber rated arrangements to the relevant regulator within one calendar month of receipt of the IGC Chair's annual report (contract-based) or assessment publication (trust-based), typically by 30 November each year.

426. For contract-based arrangements, improvement and action plans will need to be agreed with the IGC and then submitted to the FCA. Where the plan cannot be agreed within 1 month, an unagreed plan must be submitted. In these cases, an updated agreed plan must be provided to the FCA as soon as practicable after it has been agreed.

Improvement plans for amber rated arrangements

427. From VFM period 2029 onwards, trustees and firms must prepare and submit an improvement plan for all amber rated arrangements. It must either set out sufficient improvements to achieve a green/value rating or set out other actions such as transferring affected savers to a better value arrangement.

428. The improvement plan will need to explain the specific areas of improvement to be made and the intended outcome. This includes a timeline and when improvements are expected to be reflected in the arrangement's performance on Framework metrics.

429. If an amber rated arrangement continues to be assessed as not value for a second or third year, the improvement plan submitted for that year must provide an update on the actions underway and any emerging results. At the fourth-year assessment, if an arrangement continues to be assessed as not providing value, its IGC or trustees will be expected to rate it as red, unless the firm can demonstrate to the IGC, or the trustees decide that, an extension of an amber rating is in the best financial interest of savers. Due to phasing, timing for this will not begin until the second year of the Framework. The FCA's and TPR's supervisory approach will be informed by the improvement

plans submitted over these periods and progress made to implement planned improvements.

Year 1	Year 2	Year 3	Year 4
31/03 Data metrics disclosed or published (data metrics recorded 31/12 of previous year)	**31/03** Data metrics disclosed or published	**31/03** Data metrics disclosed or published	**31/03** Data metrics disclosed or published
Assessment conducted Rating outcome (31/10): AMBER	**Assessment conducted** Rating outcome (31/10): AMBER	**Assessment conducted** Rating outcome (31/10): AMBER	**Assessment conducted** Rating outcome (31/10): LIGHT GREEN or DARK GREEN
Arrangement not to be used by new employers	**30/11** Updated improvement plan submitted to regulator that confirms actions taken, emerging results and any additional actions to be taken	**30/11** Updated improvement plan submitted to regulator that confirms actions taken, emerging results and any additional actions to be taken	Arrangement now available for use by new employers **OR** Unable to demonstrate value, so now expected to rate as: RED
30/11 Improvement plan submitted to regulator	**31/12** Data metrics recorded	**31/12** Data metrics recorded	Firm/trustees to transfer affected savers if in best interests
31/12 Data metrics recorded			

Action plans for red rated arrangements

430. Trustees and firms must prepare and submit an action plan for all red rated arrangements. A red rating means that the IGC or trustees consider that the arrangement is unable to be improved sufficiently to deliver value within a reasonable period of time.

431. An action plan must therefore outline a high-level plan setting out how a firm/trustees intend to transfer members out of the red rated arrangement into an arrangement(s) that are providing value. If the trustees or IGC's determine a transfer is not in members' best interests, the action plan must explain why and set out how it intends to improve value for those members that remain in the arrangement.

Question 33: Do you agree with the proposed actions for not value arrangements? Why or why not?

Chapter 10: Disclosure Requirements

432. Disclosing the VFM metrics is necessary for comparing arrangements, while disclosing the assessment outcome is an important factor in the VFM Framework's functioning. Disclosure also provides transparency, promotes scrutiny and demonstrates how assessment outcomes were reached. This chapter sets out our updated proposals.

433. CP26/1 proposed how VFM data and assessment outcomes should be disclosed. This included the creation of a central VFM database into which all relevant VFM data would be entered, comparison data accessed, and data stored.

Summary of Responses to CP26/1

434. Some respondents emphasised the need for flexibility and multiple data submission options. Others expressed a preference for a machine-readable flat-file and Application Programming Interfaces (APIs). Concerns were also raised around webforms and APIs.

435. There was strong support for a central VFM database. However, some respondents expressed concern around the technical complexity and scale of the proposal. There were also calls for further details on the database functionality and questions about how the database would work in practice.

436. Most respondents preferred raw metric data to be published in October, rather than March. Some respondents expressed a preference for March; others preferred no publication of raw data.

437. Most respondents agreed that firm/IGC or trustees should also add a link to the final VFM assessment report on to the proposed central VFM database.

Pension Schemes Act 2026

438. Section 11(2)(c) of the Pension Schemes Act specifies that metric data may be published. Section 12(1)(d) specifies that regulations may require an appointed person to make available and operate an electronic database for this purpose. The Act contains provisions for trustees on the publication of data metrics, value assessments and outcomes. It includes a provision for the

creation and operation of a central VFM database. It also sets out the high-level principles for disclosure, including enabling secondary legislation, but does not include the detail.

Draft Regulations

439. Draft regulations 8 and 9 set out the detailed requirements for trustees on disclosing metrics, assessments and ratings outcomes, including how this information is shared with TPR and when it should be published. Draft regulation 6 provides for the establishment of a central electronic VFM database, operated by the Pensions Regulator, to support consistent submission and publication of data across schemes, enabling comparison of value for savers.

Updated Proposals

440. CP24/16 proposed that firms would be required to publish all appropriate VFM data in a method which allows value to be compared and assessed. Trustees and IGCs would also be required to publish an assessment rating and an assessment report.

441. CP26/1 proposed the creation of a central VFM database into which all relevant VFM data would be entered. We continue to propose that VFM data is entered into a central VFM database for calculation of averages and comparison and publication.

442. CP26/1 asked whether the data entered onto the VFM database should be made public in March or October. In light of received feedback, we now propose that the VFM database will be made public in November, shortly after the assessment reports.

443. However, as explained further below, we acknowledge the risk and challenges that come with this approach: the data will still have to be made available to all relevant schemes, trustees and firms shortly after March to allow for it to be used in the assessment process. Whilst it would therefore not be public, with use outside the assessment process not being permitted, it would still be widely known in the market. We are interested to understand whether in light of this, the later publication date proposed in this consultation is appropriate.

A central VFM database solution

444. In CP24/16, the FCA proposed that Framework data be published on a freely accessible website, in both a user-friendly manner and in a machine-readable ‘flat file’ format.

445. After considering further and taking on board feedback about the impracticality of important VFM data being housed on individual websites and the difficulties this could create in making comparisons, it was proposed in CP26/1 that all relevant VFM data would instead be supplied into a central VFM database for calculation of averages, comparison, and publication. Comparator data would be calculated and made available to those carrying out VFM assessments. The comparator data would be from the relevant commercial market comparator group set out in the assessment chapter. This approach will also allow for easier access to VFM data and enable wider comparisons. We are maintaining this proposal.

446. The central VFM database will be operated by TPR and will be accessible to the FCA and those undertaking the assessment. The development of the system is already underway, including build and user testing, and stakeholders can contact TPR or FCA for further information or demonstration opportunities.

447. Schemes, providers, IGCs and trustees will have access to this data to support assessment at an arrangement level. From 2028, the data will be available for export to allow more detailed offline analysis of performance. This approach reflects stakeholder feedback on anticipated assessment processes. It is expected that the database will provide a main cohort average for 30YTR and a refined average based on an arrangements decumulation aims (for the 0YTR cohort) for Step 1 of the assessment, alongside additional comparator data to support Step 3 (rationalisation).

448. It is proposed that when using the repository firms will be required to certify that they will abide by a confidentiality regime and competition law obligations.

449. Assessment conclusions will remain the responsibility of trustees and IGCs, applying the approach set out in the regulations, code and rules. Conclusions should be informed by data, benchmarks and guidance, but will not be determined automatically. The intention is for the digital solution to support, rather than replace, scheme governance and judgement.

Temporary non-disclosure of certain data points

450. In Chapter 8 (Assessment Process), we discuss that we are considering whether certain data points should be included in the assessment process, in light of potential competition-related concerns associated with providers and trustees having access to granular level pricing information. This concern applies in particular to the disclosure of employer cohort level data, as well as minimum and maximum charges.

451. These concerns must be balanced against the consumer value and competition benefits that more granular disclosures and assessment are intended to provide, and which have formed the basis of earlier consultations.

452. As outlined in Chapter 8 (Assessment Process), in the first year of the Framework, as part of its phased implementation, we propose simpler assessments based on limited sharing and use of the multi-employer cohorts, maximum and minimum charges data:

453. Providers will submit the data in the multi-employer cohorts tables to the database, but these data points will only be available to regulators – they will not be shared with other providers or made public.

454. Providers will submit arrangements' min, max and median net investment performance data to the database, however only the median data will be shared with other providers. The minimum and maximum data points will only be available to regulators – they will not be shared with other providers or made public.

455. However, the min, max and median data points will all be used to calculate aggregate average min, max and median value for use as comparators in the assessment process.

456. Requiring this data to be submitted for year 1 ensures that if we reintroduce comparisons of multi-employer cohorts in future years of the Framework, the data will be readily available.

What firms will be required to submit and publish

In Year One (2028)

457. All in-scope schemes and arrangements will be required to submit data to the central database by 31 March 2028, as outlined above. However, in response to feedback to the previous consultation, we have revised the data publication requirements for the first year of implementation (2028). In year one, we propose that only data related to Master Trusts (MTs), large Single-

Employer Trusts (SETs), and any arrangements that fall within scope of the comparator group will be published in November 2028. For all other in-scope arrangements (legacy, bespoke, and small SET arrangements), the data submitted to the database will not be published. See Chapter 2 (Scope) for more information.

458. All arrangements will still be required to submit the full set of data to the database, including employer cohort-level data and the minimum, median and maximum net investment performance metrics. However, data relating to employer cohorts for multi-employer arrangements will not be shared with other arrangements, used in assessments, or published in the first year, due to competition-related concerns, as outlined in Chapter 8 (Assessment Process).

459. Similarly, minimum, median and maximum costs net investment performance data must be disclosed to regulators via the database. However, for at least the first year, only the median net investment performance metric will be shared with arrangements and published. The minimum and maximum net investment performance figures will not be shared or published. Assessments will be conducted on the basis of median net investment performance, and against comparator group aggregate averages of the minimum and maximum values, as outlined in Chapter 8 (Assessment Process).

Potential Future Iterations

460. As in CP24/16 and CP26/1, we continue to propose that firms and trustees be required to enable the Framework data for each of their in-scope arrangements to be published annually, setting out the metrics detailed in this consultation. We continue to propose this data should be disclosed to and published via the proposed central VFM database.

461. As outlined, ahead of the second year of the Framework, we may review the approach to the use and publication of the data described above, including the treatment of employer cohort-level data and minimum and maximum net investment performance metrics, with the aim of supporting more granularity, context and nuance in the assessment process where possible.

462. We therefore continue to invite feedback on both the proposals in CP26/1 and the simplified approach for the first year set out in this consultation.

Features Table

463. As in CP24/16 and CP26/1, we propose that firms be required to provide to the centralised VFM data repository features information for each in-scope arrangement. This would give key facts about the provider, arrangement and savers, together with any additional benefits or legacy features that have an impact on value.

464. As outlined in Chapter 8 on the assessment process, we now propose to include an arrangements' decumulation aims in the VFM assessment. To reflect this, the features table has been updated to include decumulation.

465. We now propose that the features will include as a minimum:

Provider details	
Name of provider	
FCA Firm Reference Number (FRN) or Scheme Reference Number (PSR)	
Total number of active savers	
Total number of deferred savers	
Total assets in accumulation	
In-scope arrangement summary	
Identification of in-scope arrangement	
Arrangement start date	
Contract or Trust based	Contract / Trust
Firm designed (bespoke)	Yes / No
AE or legacy	
Open for use by all types of new employers	
Total number of active savers	
Total number of deferred savers	
Total relevant assets in accumulation	
Decumulation Strategy	Drawdown/flexible/universal/flex-and-fix decumulation/ Annuities/ Cash/ Other

Vertically integrated / estimated investment charges	Yes/No
Any employer subsidies	Yes/No
The following relate to the demographics of the in-scope arrangement	
Number of employers	
Average number of savers per employer (active and deferred)	
Average contribution of savers (active only)	
Average pot size of savers (active and deferred)	
Average turnover rate of savers (active and deferred)	
Description of any features not reflected in disclosed metrics that should be considered in assessing value	
Features may include guarantees associated with some legacy arrangements such as life insurance lump sums, guaranteed annuity rates and dependent pensions upon death. Descriptions should draw reference to the proportion to the members that currently hold the benefit or feature. *For multi-employer arrangements with a single charge, the characteristics of employers using the arrangement should be disclosed, for example if skewed towards large or small employers.*	

Contract-based arrangements: IGC Chair's annual report

466. Currently, the IGC Chair's report must include an explanation of how the IGC assessed the VFM of the schemes it oversaw. As in CP24/16 and CP26/1, we continue to propose expanding on these existing requirements to produce an annual report with the IGC's assessment of the VFM delivered by a firm's in-scope arrangements and also:

- A cross-arrangement review of the key themes, and
- While not mandatory, how ESG considerations have been taken into account across firm-designed in-scope arrangements.

When firms/trustees will be required to disclose and publish – annual cycle

467. As in CP24/16 and CP26/1, we continue to propose:

- A reporting cycle based on the calendar year, with a reporting end date of 31 December.
- Each metric calculated to be a snapshot as of 31 December (performance, asset allocation and cost metrics) cumulative data for the preceding

calendar year (most quality of service data) or reflect other current data (other quality of service data). Further details around how data points will be collected and measured are outlined in Chapter 6 on Costs and Charges and Chapter 5 on Asset Allocation Disclosures.
- Trustees and firms will be required to disclose to the central VFM database, by 31 March, their collated Framework data up to 31 December of the previous year.
- IGCs and trustees will be required to produce and publish their annual report no later than 5 business days after 31 October and notify regulators. They should upload the report to the database along with the RAGG rating and contextualisation.

468. We now also propose that an optional template will be available to populate ahead of the database opening to help schemes prepare their data. We expect this to be available around mid- to late-2027. Schemes can use it to gather data, get internal sign-off, and upload it when the database opens in January 2028. Schemes can also submit directly via the webform or API if they prefer. Data transfer options will be reviewed in future years.

469. CP24/16 proposed that for the first year following implementation, transitional provisions could be introduced, recognising that it may not be possible to publish a full set of service quality data. In CP26/1 we did not propose to make any changes to this.

470. However, as explained in Chapter 7 on Quality of Services, we now propose shortening the data collection period for the first year of the Framework, so that Quality of Service data will be collected for 1 June to 31 December 2027, rather than for the full calendar year.

Question 34: Do you anticipate that a shorter initial data collection period would create any practical or analytical challenges, and if so, how might these be mitigated?

How firms/trustees will be required to disclose and publish

471. The way in which VFM data and assessment outcomes are published is a vital part of the VFM Framework, allowing for transparency and comparability. Our current proposals are set out below.

472. Schemes will submit their data via the TPR VFM service, accessed through the Exchange portal used for existing regulatory reporting. Schemes

may also be redirected to the service via MyFCA and will be required to register where they have not previously done so.

473. Data may be submitted by direct entry, by uploading a template, or via an API within the submission window of January to March. Validation checks will be applied at the point of submission, including checks on format, completeness, range and consistency. However, the accuracy of the data remains the responsibility of trustees and firms.

474. Once all required data has been provided, an individual authorised to do so by the scheme/firm will be required to complete a declaration confirming, to the best of their knowledge, that the data is accurate and that they are authorised to approve the submission.

475. It is anticipated that, prior to 31 March, submissions may be amended by revoking the declaration and resubmitting the data. All submissions must be re-declared by the deadline. Where VFM data is held by third parties, schemes should ensure it is collated in advance of submission. TPR is also exploring the use of APIs to facilitate data submission through an API manager, with appropriate authorisation controls, including for third parties.

Assessment reports: contract-based arrangements

476. As in CP24/16 and CP26/1, the FCA continues to propose that IGCs be required to include their annual VFM assessment outcome in the IGC Chair's annual report. Firms will need to make the 5 (rather than the current 3) most recent reports available. They should do this in the way they best assess to bring them to the attention of relevant pension savers and their employers. Firms will be required to retain reports for a minimum of 6 years. IGCs will also need to retain copies of any evidence used in their assessments for a minimum of 6 years. This is consistent with the existing retention requirement.

477. The IGC Chair's report must currently include an explanation of how the IGC assessed the value for money of the schemes it oversaw.

478. As set out in CP24/16 and CP26/1, the FCA continues to propose that IGC annual reports will need to include the following information on individual arrangements:

- VFM data. For each in-scope arrangement, its RAGG rating and investment returns net of all costs and charges over the 5-year reporting period for the 30 YTR and at retirement (0 YTR), where it is possible to provide this information. IGCs can include this information in a tabulated annex to the main report.

- Rationalisation details. A narrative explanation for a RAGG rating that depends on rationalisation in comparisons.
- Actions to address poor value. For all amber or red rated arrangements, actions to improve value and, for red-rated arrangements, planned transfers to better value arrangements where possible. Where transfers are not possible, the report should explain why and set out other actions. In some amber cases, improvements may have already been made but are not yet evidenced in Framework metrics; this should be explained.

479. As stated above in the assessment process chapter, it is proposed that IGCs must also explain in the IGC report how FLMs have been used to reach preliminary outcomes for each cohort, and the reasons and appropriateness for this – including with reference to their BLMs.

Assessment reports: trust-based arrangements

480. For trust-based arrangements, TPR intends for the VFM assessment report to be a standalone document, not part of the Chair's statement. The DWP are also considering amendments to the existing legislation for Chair's statements to ensure that there is no duplication or overlap with the VFM Framework requirements.

481. We would expect the content of the assessment reports for trust-based arrangements to be set out as above for contract-based arrangements. There will not be a template for reports.

Timing of data publication

482. In CP26/1 we proposed that the central VFM database would make all VFM data, including comparator averages, available to those undertaking value for money assessments in April, after the data checking/cleansing period.

483. CP26/1 proposed that the VFM data for arrangements be made publicly available in the interests of transparency. We asked respondents when in the annual cycle this should happen:

- Most respondents to CP24/16 and CP26/1 argued that making the data available in April could risk it being taken out of context and potentially lead to poor decisions by savers or employers. It was argued that the data should only be made publicly available when assessment reports are published in October.

- Alternatively, some respondents said that data should be made available as soon as practicable in the interests of transparency. By restricting access to a smaller number of people (those who require access to carry out relevant functions), there is also a risk that elements of the data entering the public domain via data leaks, without the full dataset available to corroborate or refute the conclusions drawn.

484. In light of industry feedback to CP26/1, we are now consulting on the database being made public in November, shortly after the assessment reports.

485. The rationale for publishing the data in November is that this ensures the data is accompanied by appropriate narrative, contextualisation and explanation, reducing the risk of misinterpretation or undue focus on individual metrics. In particular, this approach mitigates the risk that Step 1 (investment performance) and Step 2 (quality of service) data are viewed in isolation, which could undermine the policy intention of a holistic assessment of value. It also allows additional time for data quality assurance and validation prior to publication, improving confidence in the dataset.

486. However, this approach also has risks that we would need to mitigate in order to proceed with delaying publication data until November. There would be a period between the submission and publication of VFM metric data during which a large number of individuals within firms, IGCs and trustees would have access to all of the data submitted across all in-scope arrangements. This includes information on investment performance, costs and charges, and service quality, for all in scope arrangements, regardless of who operates them. Whilst the data wouldn’t be public at this point there would be broad awareness in the market.

487. Release of such information would breach providers’ regulatory obligations. Nonetheless, there is the potential for selective disclosure or full disclosure, or misuse of data for commercial advantage. For example, employee benefits consultants may find it challenging not to incorporate what they know into their actions before formal release. It is possible under rare situations that release might constitute market abuse.

Question 35: Do you agree to proceed with data publication in November given the risks identified? How likely are these risks to emerge and what steps could we take to address them effectively?

488. In CP26/1, we asked if schemes should add a link to the final assessment report on to the proposed VFM database. Industry was broadly supportive of the proposal on the grounds that it improves transparency, provides useful context to data, and makes information easier to access in one place.

489. We propose that Trustees and IGCs/firms publish the final assessment reports via the central VFM database. Consideration is being given to whether there should also be a requirement to publish the assessment report on the scheme's website via a link to the database. This will ensure that all relevant information can be found in one place.

Chapter 11: Amendments to current FCA Handbook requirements

490. This chapter applies to FCA-regulated firms only. It explains how the proposed VFM Framework would interact with existing FCA Handbook requirements, including the current COBS 19.5 value assessment requirements and the IGC/GAA remit in relation to SIPPs.

491. We would like to thank respondents for their feedback to previous consultations on the interaction with Handbook requirements. We recognise that this consultation is taking place over the summer so are particularly grateful for your help in ensuring the revised handbook rules and guidance are appropriate.

492. In CP26/1, we proposed excluding arrangements within scope of the proposed VFM Framework from the current COBS 19.5 value assessment requirements and from related reporting in the IGC Chair's annual report. We also proposed excluding accidental workplace SIPPs, i.e. those where relevant employees have made active choices, from these requirements. We proposed further revisions to the FCA rules to clarify which SIPPs would qualify for that exclusion.

Summary of feedback

493. Respondents were broadly supportive of the FCA Handbook proposals. Most agreed with the proposed approach.

494. Some respondents suggested that introducing the proposed VFM Framework could provide an opportunity to review existing FCA requirements. We agree that there may be merit in such a review, but consider that this should take place after the VFM framework has been introduced.

495. One respondent suggested that the proposed definition of accidental workplace SIPP may be too narrow, as it requires there to be no employer involvement. The respondent referred to arrangements where an employer offers access to a SIPP as an alternative to an automatic enrolment arrangement.

496. In our view, this form of employer involvement may amount to endorsement and may not involve the level of independent employee decision-making that the proposal is intended to capture. We do not,

therefore, intend to amend our proposed approach at this stage, but would welcome further views on this point.

Our response and proposals

497. We are not currently proposing substantive changes to the approach consulted on in CP26/1. We will, however, keep under review the scope to reduce duplication between COBS 19.8 and the proposed VFM disclosure requirements for costs and charges.

Exclusion from existing COBS 19.5 value assessment requirements

498. COBS 19.5 currently requires IGCs to assess whether a firm provides value for money for relevant policyholders. This assessment must be included in the IGC Chair’s annual report.

499. As set out previously, we consider that the proposed VFM Framework will provide a more detailed and prescriptive set of requirements in this area.

500. We therefore propose that arrangements subject to the proposed rules would be excluded from the general requirement to carry out value assessments under COBS 19.5.5R(2).

501. For clarity, IGCs would continue to be expected to carry out assessments for workplace pension arrangements that are outside the scope of the proposed VFM Framework, such as additional arrangements with fewer than 1,000 members.

502. Other, broader elements of COBS 19.5 would continue to apply to in-scope arrangements. This includes the requirement to assess a firm’s investment strategy, which we consider is consistent with the proposed forward-looking metric provisions under the VFM Framework.

Phasing proposals and COBS 19.5

503. Since the previous consultation, we have proposed a phased implementation of the VFM Framework (see chapter 2). This has led us to reconsider how the proposed exclusion to COBS 19.5 should apply during the initial implementation period.

504. Under the proposals, contract-based arrangements that are not firm-designed multi-employer arrangements, but within scope of the VFM Framework would be required to provide VFM metric data but would not be required to complete a VFM assessment in the first year of implementation.

505. In CP26/1 we proposed excluding all in-scope arrangements from the existing value assessment requirements in COBS 19.5.5R(2). However, under the proposed phasing approach, some arrangements would also not be required to complete a VFM Framework assessment in the first year. This would create a temporary gap in the assessment requirements, which is not our intention.

506. We therefore propose that during the first year of VFM under the phasing approach, those arrangements not required to complete a VFM Framework assessment will continue to be assessed in accordance with COBS 19.5.5R(2).

507. Where an in-scope arrangement is not required to produce a VFM assessment because it is transferring all members it would remain outside the current COBS 19.5.5R(2) requirement. This is because that exemption arises from the transfer provisions, rather than from the phasing approach alone.

Amendment to the accidental workplace SIPP proposals

508. In some circumstances, individual SIPPs may be treated as workplace pension arrangements where this is not appropriate. We describe these as accidental workplace SIPPs. These are arrangements where at least two relevant employees or former employees have made an active choice to set up or join a SIPP without employer involvement and have selected some or all of their investments within the arrangement.

509. CP24/16 proposed excluding these SIPPs from the COBS 19.5 requirements because we do not consider that they require IGC or GAA oversight.

510. In CP26/1, we signalled our intention to proceed with this approach and revised the proposed wording of the FCA rules which we now propose again.

Annex A: List of all consultation questions

We ask that you provide your reasoning for your answer to the consultation questions:

Chapter 2: Scope and Thresholds

Question 1: Do you have any comments on our proposals for phasing?

Question 2: Do you have any comments on our proposal to limit the first data collection period to 6-months?

Question 3: Do you have any concerns about our proposed exemptions and inclusions?

Question 4: Do you agree with the proposed exemptions (full and partial) for contract-based arrangements where there is a transfer or a plan to transfer? Why or why not?

Question 5: Do you have any further comments on our proposed scope?

Chapter 3: Investment performance – Backward-looking metrics (BLMs)

Question 6: Do you agree with the proposed updated methodology? Do you envisage any issues with calculating investment performance metrics on a basis that tracks members experience over time, while excluding contributions? Please specify where problems might arise, if any.

Question 7: Do you agree with the removal of standalone BLM disclosures at 5YTR? Are there any issues associated with its removal?

Question 8: Are you comfortable with ASD as a risk metric for all arrangements, or should some arrangements calculate their volatility metrics differently. Please specify under what circumstances and what modified calculations you would recommend.

Question 9: Are there any circumstances in which a scheme would not have access to the historical cost information required to apply the same chain-linking methodology to costs as done to gross performance figures, noting the more limited scope under which chain-linking is applicable?

Question 10: Would there be a material reduction in burden if net performance were to be calculated first, and then chain-linking applied to it, rather than chain-linking costs in order to derive accurate net performance metrics?

Question 11: Would trustees or firms have the necessary data to retrospectively determine if an arrangement would have been classed as quasi-default up to 10 years prior, so as to apply chain-linking where necessary?

Chapter 4: Investment performance – Forward-looking metrics (FLMs)

Question 12: Do you agree with the proposed requirements for FLM disclosures and safeguards? Why or why not?

Chapter 5: Asset Allocation Disclosure

Question 13: Do you agree with our revised proposals in relation to Asset Allocation? Please provide details of any concerns you have relating to our proposals.

Question 14: Do you have any comments on the definitions used above? In particular, do you have any comments on the definition of 'UK-based entity'? Is there an alternative definition you would suggest?

Question 15: Do you agree with our proposed definitions? In particular, do you agree with our definitions of UK assets? Are there any areas where definitions need to be tightened to ensure consistency of measurement?

Chapter 6: Costs and Charges

Question 16: Based on the new proposed calculation methodology, we would be interested in views on whether, to help mitigate the risk that there are few – or no – members within the retirement cohorts it would be more practical to calculate the median based on the number of employers, rather than members.

Question 17: We would be interested in views on whether all multi-employer arrangements should disclose maximum, minimum and median cost metrics, in order to highlight variations in the treatment of small or large pots.

Question 18: We would be interested in views on whether member-level calculations (Option A) or the model pot size approach (Option B) would be more effective.

Question 19: Do you agree with our suggestion that the variable effects of complex charging structures on pots of different sizes should be disclosed separately from the effects of commercial variations of fee terms? Do you agree with our proposal for achieving this?

Question 20: How should the separate pot size effect disclosures be used in the assessment of value? Should they be based on peer-to-peer comparisons (consistent with the rest of the VFM Framework) or should trustees / IGCs carry out value assessment internal to the arrangement, to determine whether the small pot members are excessively disadvantaged compared to their fellow members with larger pots?

Chapter 7: Quality of Services

Question 21: Would it be helpful if we defined STP as a fully automated process for the purposes of VFM and asked schemes to confirm:

- What percentage of payments fall within this definition?
- The mean and range of all contributions falling outside this definition?

Question 22: Do you agree that the metrics for trust-based and contract-based complaints processes are now comparable? Are there any further steps that we should take?

Question 23: Are partly upheld Financial Ombudsman decisions recorded as a separate category by firms or included within the upheld figures?

Chapter 8: Assessment Process

Question 24: Do you agree with the proposed approach to consider decumulation aims separately for the 0 YTR cohort? Why or why not?

Question 25: Would decumulation aims be more appropriately considered in step 3 rationalisation?

Question 26: Do you agree with the decumulation aim sub-categories? Why or why not? Are they sufficiently clear, or do they need to be defined?

Question 27: The proposed shift in approach for the first year of the Framework moves away from a more granular assessment of value that we have consulted on previously. We welcome feedback on where stakeholders consider there to be concerns in relation to the data sets, the proposals set out in CP26/1 for the publication and use of multi-employer cohorts, and the proposed changes.

Question 28: Does the second factor for consideration proposed for weighting BLMs and FLMs risk excessive use of FLMs? If so, should we restrict this factor more explicitly? For example, to significant investments in assets affected by 'J-curves'?

Question 29: Do you agree with the simplified approached proposed for multi-employer arrangements for year 1? Why or why not?

Question 30: Do you agree with the simplified approach proposed for single employer arrangements for year 1? Why or why not?

Question 31: Would the simplified approach be appropriate if it was applied from year 2/on an ongoing basis, for all in-scope arrangements completing assessments, with consequences attached? In particular, we are interested in feedback in how it may impact the assessment outcomes of SETs, bespoke and legacy arrangements.

Question 32: Do you agree with the proposal for multi-employer arrangement consideration of minimum, median and maximum? Why or why not?

Chapter 9: Actions for arrangements offering poor value

Question 33: Do you agree with the proposed actions for not value arrangements? Why or why not?

Chapter 10: Disclosure Requirements

Question 34: Do you anticipate that a shorter initial data collection period would create any practical or analytical challenges, and if so, how might these be mitigated?

Question 35: Do you agree to proceed with data publication in November given the risks identified? How likely are these risks to emerge and what steps could we take to address them effectively?

Annex B: List of non-confidential respondents

The FCA are obliged to include a list of the names of respondents to Consultation Paper 26/1 who have not requested that their names remain confidential. That list is as follows:

D&L Scott

Robin Ford Consulting

Pensions Institute

Enhance Support Solutions Ltd

The Society of Pension Professionals (SPP)

XPS Group

Standard Life Master Trust

ZEDRA Governance Advisory Arrangement

Guiide

UK Private Capital
(BVCA)

Schroders

Pension Bee

Association of Member Directed Pension Schemes (AMPS)

People's Partnership

The Investing and Saving Alliance (TISA)

My Pension Expert

TPT Retirement Solutions

Sackers

Cushon (NatWest)

Quantum Advisory

St. James's Place

Aon Solutions UK Limited

PMI

Willis Towers Watson

Slaughter and May

SuperRatings

Financial Services Consumer Panel

Aegon UK

Money & Pensions Service (MaPS)

Blankstate

Arc Pensions Law

M&G

Independent Governance Group

Capita Pension Solutions Limited

Utmost Life and Pensions

IGC of Phoenix Life (including ‘Standard Life’ brand), ReAssure and Phoenix Life of Canada (UK).

Railpen

ILAG

Hymans Robertson LLP

Association of British Insurers (ABI)

Barnett Waddingham

Royal London

Royal London IGC

Hargreaves Landsdown

Leonardo Pension Schemes (Trustee) Ltd.

AJ Bell

Vidett

Superannuation Arrangements of the University of London (SAUL)

Investment Association (IA)

Pensions UK

Universities Superannuation Scheme (USS)

Which?

Association of Pension Lawyers

Smart Pension

Legal & General WorkSave Mastertrust & IGC

Legal & General

Fidelity International

Association of Real Estate Funds (AREF)

Nest

Pensions Policy Institute

Gallagher

Isio

CFA Society of the United Kingdom

SEI

Association of Consulting Actuaries (ACA)

Mercer Limited (Mercer Master Trust and now:pensions)

Pi Partnership

Pensions Administration Standards Association (PASA)

Gowling WLG

Penfold Savings Limited

Scottish Widows

Lumera

Morningstar

Defined Contribution Investment Forum

LCP

The Investor Relations Society

AllianceBernstein

True Potential Investments (TPI) IGC

New Capital Consensus

BlackRock

Financial Inclusion and Markets Centre (FIMC)

Institute and Faculty of Actuaries (IFoA)

Annex C: Illustrative template of data points

Features Table

Provider details	
Name of provider	
FCA Firm Reference Number (FRN) or Scheme Reference Number (PSR)	
Total number of active savers	
Total number of deferred savers	
Total assets in accumulation	
In-scope arrangement summary	
Identification of in-scope arrangement	
Arrangement start date	
Contract or Trust based	Contract / Trust
Firm designed (bespoke)	Yes / No
AE or legacy	
Open for use by all types of new employers	
Total number of active savers	
Total number of deferred savers	
Total relevant assets in accumulation	

Decumulation Strategy	Drawdown/flexible/universal/flex-and-fix decumulation/ Annuities/ Cash/ Other
Vertically integrated / estimated investment charges	Yes/No
Any employer subsidies	Yes/No
The following relate to the demographics of the in-scope arrangement	
Number of employers	
Average number of savers per employer (active and deferred)	
Average contribution of savers (active only)	
Average pot size of savers (active and deferred)	
Average turnover rate of savers (active and deferred)	
Description of any features not reflected in disclosed metrics that should be considered in assessing value	
Features may include guarantees associated with some legacy arrangements such as life insurance lump sums, guaranteed annuity rates and dependent pensions upon death. Descriptions should draw reference to the proportion to the members that currently hold the benefit or feature. *For multi-employer arrangements with a single charge, the characteristics of employers using the arrangement should be disclosed, for example if skewed towards large or small employers.*	

VFM Framework data

Investment Performance:

Performance metrics – 30 YTR	1y	3y	5y	10y (if reasonably practicable to obtain)
Performance metrics				
Gross investment performance				
Investment performance net of investment charges				
Investment performance net of all costs and charges [for multi-employer arrangements with variable charges: max, min and median]				
Risk metrics				
Annualised standard deviation				

Performance metrics – at retirement	1y	3y	5y	10y (if reasonably practicable to obtain)
Performance metrics				
Gross investment performance				
Investment performance net of investment charges		[redacted]		
Investment performance net of all costs and charges [for multi-employer arrangements with variable charges: max, min and median]				
Risk metrics				
Annualised standard deviation				

Optional disclosures

Optional non-chain-linked: Performances - 30 YTR	**1 year**	**3 years**	**5 years**	**10 years**

Gross investment performance: Arrangement 1 *Date - date*				
Gross investment performance: Arrangement 2 *Date - date*				
Gross investment performance: *insert additional rows for additional arrangements as needed*				

Optional non-chain-linked: Performance metrics - AT RETIREMENT	**1 year**	**3 years**	**5 years**	**10 years**
Gross investment performance: Arrangement 1 *Date - date*				
Gross investment performance: Arrangement 2 *Date - date*				
Gross investment performance: *insert additional rows for additional arrangements as needed*				

Forward-looking metrics:

YTR cohort	Expected annualised net returns over 10 years	Expected ASD over 10 years
30 YTR		
At retirement		

Proposed assumption disclosures

Asset class for 30 YTR	Sub-asset class splits	Projected return assumption (% to 2 decimal place)	Projected risk assumption – expected volatility (% to 2 decimal place)
Listed equities	Developed markets		
	Emerging markets		
	Other markets		
Bonds	Fixed interest Government		
	Index-linked Government		
	Investment-Grade corporate		
	Non-investment-grade corporate		
	Securitised		
	Other bonds		

Private equity	Venture capital		
	Growth equity		
	Buyout / Leveraged		
	Other private equity		
Private debt / credit			
Infrastructure	Debt		
	Equity		
Property / Real Estate	Debt		
	Equity		
Cash			
Other [to disclose what falls into this category]			

Asset class for at retirement	**Sub-asset class splits**	**Projected return assumption (% to 2 decimal place)**	**Projected risk assumption – expected volatility (% to 2 decimal place)**
Listed equities	Developed markets		
	Emerging markets		
	Other markets		
Bonds	Fixed interest Government		
	Index-linked Government		

	Investment-Grade corporate		
	Non-investment-grade corporate		
	Securitised		
	Other bonds		
Private equity	Venture capital		
	Growth equity		
	Buyout / Leveraged		
	Other private equity		
Private debt / credit			
Infrastructure	Debt		
	Equity		
Property / Real Estate	Debt		
	Equity		
Cash			
Other [to disclose what falls into this category]			

Asset Allocation:

30 YTR cohort		Listed	Unlisted	Total (%)	Optional Hedged

		Total %	UK %	Non-UK %	Unknown %	Total %	UK %	Non-UK %	Unknown %		
Listed Equities	Developed Markets										
	Emerging Markets										
	Other Markets										
Bonds	Fixed interest government bonds										
	Index-linked government bonds										
	Investment-grade corporate bonds										
	Non-investment grade corporate bonds										
	Securitised bonds										
	Other bonds										
Private Equity	Venture capital										
	Growth equity										

	Buyout/Leveraged										
	Other types of private equity										
Private debt/ credit											
Infrastructure – equity funded											
Infrastructure – debt funded											
Property/ Real Estate - equity funded											
Property/ Real Estate - debt funded											
Cash											
Other (specify)											
Total											

At retireme		Listed				Unlisted				Total (%)	Optional

nt cohort											Hedged
		Total %	UK %	Non-UK %	Unknown %	Total %	UK %	Non-UK %	Unknown %		
Listed Equities	Developed Markets										
	Emerging Markets										
	Other Markets										
Bonds	Fixed interest government bonds										
	Index-linked government bonds										
	Investment-grade corporate bonds										
	Non-investment grade corporate bonds										
	Securitised bonds										
	Other bonds										
Private Equity	Venture capital										

	Growth equity										
	Buyout/Leveraged										
	Other types of private equity										
Private debt/ credit											
Infrastructure – equity funded											
Infrastructure – debt funded											
Property/ Real Estate - equity funded											
Property/ Real Estate - debt funded											
Cash											
Other (specify)											
Total											

Asset class (Total in accumulation percentage allocation)		Listed				Unlisted				Total (%)	Optional Hedged
		Total %	UK %	Non-UK %	Unknown %	Total %	UK %	Non-UK %	Unknown %		
Listed Equities	Developed Markets										
	Emerging Markets										
	Other Markets										
Bonds	Fixed interest government bonds										
	Index-linked government bonds										
	Investment-grade corporate bonds										
	Non-investment grade corporate bonds										
	Securitised bonds										

	Other bonds										
Private Equity	Venture capital										
	Growth equity										
	Buyout/Leveraged										
	Other types of private equity										
Private debt/ credit											
Infrastructure – equity funded											
Infrastructure – debt funded											
Property/ Real Estate - equity funded											
Property/ Real Estate - debt funded											
Cash											
Other (specify)											

Total											

Cost and charges:

Cost Metric 30 YTR	Year 1	Variation from previous year (%) [from year 2]	Year 3	Year 5	Year 10
Service costs & charges					
Investment costs & charges					
Total costs & charges					

Cost Metric Retirement	Year 1	Variation from previous year (%) [from year 2]	Year 3	Year 5	Year 10
Service costs & charges					
Investment costs & charges					
Total costs & charges					

Multi-employer in-scope tables

30 years to retirement

Employer size by invested assets bands	< £100k	£100k-£1m	£1m-£5m	£5m-£25m	£25m-£50m	£50m-£100m	£100m-£250m	>£250m
Min, max and median of charges (e.g. 0.22%-0.41%, 0.31%)								
Average contribution per saver (active and deferred) £								
Distribution of employers across the in-scope arrangement (%)								

30 years to retirement									
Employer size by number of members	Under 100	100-499	500-999	1,000-4,999	5,000-9,999	10,000-24,999	25,000-49,999	50,000-99,999	>100,000
Min, max and median of charges (e.g. 0.22%-0.41%, 0.31%)									
Average contribution per saver (active and deferred) £									
Distribution of employers across									

the in-scope arrangement (%)									

Quality of Service

Common data			
How frequently is common data reviewed?	More than annually	Annually	Less than annually
How frequently is action taken to correct common data?	More than annually	Annually	Less than annually
When was the common data last reviewed?			
At the last review date, what was the percentage (%) of savers with complete and accurate common data?			
At the last review date, what was the number (#) of savers with incomplete / inaccurate common data?			

Scheme-specific data			
How frequently is the scheme-specific data reviewed?	More than annually	Annually	Less than annually
How frequently is action taken to correct scheme-specific data?	More than annually	Annually	Less than annually
When was the scheme-specific data last reviewed?			
At the last review date, what was the percentage (%) of savers with complete and			

accurate scheme-specific data?	
At the last review date, what was the number (#) of savers with incomplete / inaccurate scheme-specific data?	

- The mean end-to-end time period to complete each core financial transaction in the previous calendar year
- The percentage of transactions that fell within each of the ranges of end-to-end time taken as set out in the table below:

Time taken (days)	Payments in and investment of contributions	Transfer between schemes	Transfer and switches between investments	Payments out to beneficiaries on death	Payments out as a PCLS	Payments out as taxable retirement income	
						Regular payments	Ad hoc payments
1-3							
4-6							
7-10							
11-20							
21-30							
31 - 50							
>50							

What percentage of members raised at least one complaint in the previous calendar year?	
What percentage of complaints raised in the previous calendar year were upheld by the scheme?	
What was the mean end-to-end time taken to close a complaint during the previous calendar	

year? (This includes complaints that commenced in previous years)	
What was the range of end-to-end time taken to close those complaints (expressed as a percentage) as set out in the table below:	

Time taken		**Trust based schemes (for context only)**	
	End to end time taken to close a complaint	End to end time taken for IDRP stage one	End to end time taken for IDRP stage two
Under 1 week			
1-2 weeks			
2-4 weeks			
4-8 weeks			
Over 8 weeks			

Of the complaints determined by the Pensions Ombudsman in the previous calendar year, what percentage were upheld and what percentage were partly upheld?	
Of the complaints determined by the Financial Ombudsman in the previous calendar year, what percentage were upheld and what percentage were partly upheld?	

'Percentage of savers who have nominated a beneficiary'	

Annex D: Terminology and abbreviations in this document

Terminology in this Consultation Paper

FCA-authorised firms operating workplace pensions typically offer Group Personal Pensions (GPPs) or Group Self Invested Personal Pensions (Group SIPPs). GPPs and Group SIPPs are contract-based personal pensions, regulated by the FCA, grouped together as workplace pensions. Employers can use these structures to provide pensions for their employees including for automatic enrolment (AE).

FCA-authorised firms can also set up and sponsor a Master Trust. Master Trust arrangements are regulated by TPR and therefore fall under draft regulations . Government has now published the Pension Schemes Act 2026 which contains measures to apply the Framework to trust-based schemes, including Master Trusts.

In this consultation paper, when we refer to ‘providers’ we mean commercial providers of workplace pensions, both firms that the FCA regulate, and commercial Master Trusts regulated by TPR. To qualify for tax benefits, pension schemes need to be registered with HM Revenue & Customs (HMRC). Firms may choose to register schemes in different ways: some register a scheme for a particular GPP or Group SIPP. Others register an overarching HMRC scheme and then create GPP or Group SIPP structures within that. Each of those GPPs or Group SIPPs may be used by potentially very many employers.

The term **scheme** is frequently used by industry to describe a scheme registered with HMRC, which may be a GPP or Group SIPP, but can also be used to refer to an employer’s pension arrangement for its employees. For this consultation, when we refer to ‘scheme’ we mean a pension scheme registered with HMRC, unless we otherwise make clear.

We also use the term arrangement. Although it can refer to an individual employer’s pension arrangement, here we use it to describe an investment arrangement within a scheme which is used for the investment of pension contributions. Investment arrangements are provided by firms, who are primarily responsible for product governance and other oversight of what is offered. Firms will generally design a default arrangement, choosing the mix of investments that underpin the arrangement. However, employers sometimes seek the advice of employee benefit consultants (EBCs) or other advisers in tailoring an arrangement for them. The term default arrangement is defined in legislation/FCA Handbook and broadly relates to arrangements used for the purposes of meeting automatic enrolment obligations where savers have not expressed a choice as to where their contributions are allocated.

The majority of our proposed requirements apply at arrangement level. A default arrangement can be 'lifestyled' with an investment mix that depends on a saver's age to retirement, or can be provided as a series of target date funds for cohorts of savers of the same age to retirement, with the investment mix of the fund changing.

Abbreviations in this Consultation Paper

AE ....Automatic Enrolment

AVC/AVCs……………………………………………Additional Voluntary Contribution(s)

ASD...Annualised Standard Deviation

BLM...Backward-Looking Metrics

CBA.. Cost Benefit Analysis

CDC ....Collective Defined Contribution

CMA/CMAs……………………………………………Capital Market Assumption(s)

COBS ....Conduct of Business sourcebook

DB……………………………………………………………..Defined Benefit

DC .... Defined Contribution

DWP.. Department for Work and Pensions

EBC..Employee Benefit Consultants

ESG...Environmental, Social and Governance

EPP .... Executive Pension Plan

FCA .... Financial Conduct Authority

FLM .... Forward-Looking Metrics

FOS……………………………………………………Financial Ombudsman Service

FRN... Firm Reference Number

FSMA .... Financial Services and Markets Act 2000

GAA...Governance Advisory Arrangements

GPP...Group Personal Pension

IDRP………………………………………….Internal Dispute Resolution Procedure

IGC... Independent Governance Committees

LTCMA .... Long-Term Capital Market Assumptions

MDD .... Maximum Drawdown

MT/MTs…………………………………………………………..Master Trust(s)

PCLS... Pension Commencement Lump Sum

PV ....Present Value

RAG ....Red Amber Green Rating

RAGG.. Red Amber Light Green Dark Green Rating

SAA...Strategic Asset Allocation

SET/SETs…………………………………………………Single-Employer Trust(s)

SIPP .... Self-Invested Personal Pensions

SLA ....Service Level Agreement

SSAS...Small Self-Administered Schemes

TDF .... Target Date Funds

TPR .... The Pensions Regulator

VFM...Value for Money

QoS…………………………………………………………………Quality of Service

YTR .... Years to Retirement

Annex E: FCA Compatibility Statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).
2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules (a) is compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA, and (c) complies with its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA. The FCA is also required by s 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.
3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the FCA's competition duty. The competition duty requires the FCA, so far as is compatible with acting in a way which advances the consumer protection objective or the integrity objective, to discharge its general functions (which include rulemaking) in a way which promotes effective competition in the interests of consumers (section 1B(4)).
4. In preparing this consultation and associated documents we have had regard to the recommendations made by the Treasury under s 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.
5. This letter from the Treasury is known as the 'remit letter'. The FCA must have regard to the recommendations in it when discharging general functions including giving general guidance and making rules.
6. This Annex includes our assessment of the equality and diversity implications of these proposals.
7. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when

determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

8. We consider these proposals are compatible with the FCA's strategic objective of ensuring that relevant markets function well, for the reasons set out below. For the purposes of the FCA's strategic objective, "relevant markets" are defined by s 1F FSMA and include the markets for regulated financial services.

Measuring success

9. The Framework is intended to help drive an improvement in the value for money of DC workplace default arrangements. Over time we expect to see less of a gap between poorly performing arrangements and those offering value, as poor value arrangements will be required to either improve or exit the market. As well as directly impacting on arrangements assessed as being poor value we expect competitive pressures will lead to firms making further improvements to arrangements which already offer value.

10. Disclosure of a consistent set of metrics under the Framework will provide a detailed and comparable view of performance. The initial data publications will provide a baseline of information on the market, allowing tracking of performance against metrics over time.

Consumer protection objective

11. The consumer protection objective is securing an appropriate degree of protection for consumers and the FCA is advancing this objective. We have had regard in this consultation to the matters listed in s 1C(2)(a) to (h) FSMA on consumer protection. We consider our proposals are advancing our consumer protection objective.

12. The changes proposed intend to advance our consumer protection objective by ensuring that poor value in workplace pensions is identified and addressed. The focus of our proposals is on default (and quasi-default) arrangements where anecdotal evidence suggests savers are typically not engaged with their pension. Firms will be required to take action where poor value is identified without depending on individual savers to take, or approve, action themselves. The Framework is intended to increase value for money for individual savers, ultimately increasing the size of their pension savings at retirement.

Competition objective

13. The FCA's competition objective is promoting effective competition in the interests of consumers in regulated markets and the FCA is advancing this objective. We have had regard in this consultation to the 5 matters listed in s 1E(2)(a) to (e) FSMA

on promoting competition and consider our proposals advance our competition objective and are compatible with our competition duty under s 1(B)(4).

14. The changes proposed intend to advance our competition objective by improving how competition works in this market in the interests of consumers. The Framework will require a wide-ranging assessment of value and a focus on longer-term saver outcomes when the market currently may be overly focused on cost.

15. The Framework is designed to allow direct comparison between the performance of workplace DC pensions schemes through data collection, evaluation and publication. We anticipate that public transparency of performance on metrics that matter to long-term saver outcomes will encourage firms generally to improve their propositions. Employers and their advisers will be better able to compare pension providers on consistent data and more comparable published VFM assessments. We expect an increase in competitive pressure based on value to savers, with an overall rise in VFM across the market, and with poorer value arrangements consolidating or leaving the market.

Secondary international competitiveness and growth objective

16. We also consider that these proposals advance, as a secondary objective, the growth and competitiveness objective. As noted above, the Framework is designed to shift the focus of decision-making from cost to value, encouraging firms to continually assess the value they offer to savers and to take action where necessary. This opens up the potential for some arrangements to make increased allocations to alternative assets – such as infrastructure and venture capital – which may offer greater long-term returns but can cost more to manage. Where this investment is directed towards UK-focused assets, it has the potential to support UK growth and competitiveness.

17. Greater transparency over asset allocation will make it possible for employers and savers to compare arrangements and understand the potential differences in asset allocations within schemes that demonstrate improved investment performance. This, in turn, helps employers and savers to build greater trust in the pension market while fostering competition among market participants.

The FCA's regulatory principles

18. In preparing the proposals set out in this Consultation Paper, the FCA has had regard to the regulatory principles set out in s 3B FSMA.

The need to use our resources in the most efficient and economic way

19. The proposals set out in this consultation are consistent with an efficient and economic use of our resource. We have built on existing work where possible and have engaged extensively with stakeholders in developing our proposals to incorporate expertise and feedback throughout the process.

The principle that a burden or restriction should be proportionate to the benefits

20. As outlined in the FCA's cost benefit analysis (CBA) annexed to this consultation paper, we are satisfied that the likely benefits of these proposals outweigh and justify the likely costs. Firm surveys informed our earlier CBAs in CP24/16 and CP26/1, which have now been updated by an additional firm survey prior to this latest consultation The overall aims and market context of our proposals remain unchanged but our latest analysis reflects adjustments based on revised proposals for the detail of the Framework.

The need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target) and section 5 of the Environment Act 2021 (environmental targets)

21. The FCA has considered the environmental, social and governance (ESG) implications of the proposals and its duty under sections 1B(5) and 3B(1)(c) FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008 and environmental targets under section 5 of the Environment Act 2021. The FCA does not consider the proposals are relevant to contributing to those targets. The FCA will keep this under review during the consultation period and when considering any final rules.

The general principle that consumers should take responsibility for their decisions

22. The proposals do not depart from the general principle that consumers should take responsibilities for their decisions. The Framework is not actively targeted at consumer decision-making, as it is aimed at default and quasi-default arrangements which savers are put in automatically. However, published assessment reports will provide consumers with access to the information about their workplace pension scheme.

The responsibilities of senior management

23. It will be the responsibility of relevant Senior Managers to ensure that their firms comply with the rule changes that we are proposing, if made. Senior Managers must have regard to their responsibilities under the Senior Managers and Certification Regime.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

24. We do not consider that our proposals are inconsistent with this principle.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

25. We have had regard to this principle and do not believe that our proposals undermine it.

The principle that we should exercise of our functions as transparently as possible

26. We have engaged regularly and worked closely with other partners on the work, including the Department of Work and Pensions (DWP) and the Pensions Regulator (TPR). We have also engaged with industry through a series of working groups whilst shaping our proposals and will continue to do so as part of this ongoing consultation process before making final rules.

27. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s 1B(5)(b) FSMA). We do not consider this relevant to our proposals.

Expected effect on mutual societies

28. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies. The specific functioning of mutuals has been considered in the design of the Framework.

Equality and diversity

29. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.

30. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered.

31. Overall, we do not consider that our proposals adversely impact any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other antidiscrimination legislation applies).

32. We welcome your comments if you have any concerns. We will keep these considerations under review throughout the consultation period and in developing our final rules.

Legislative and Regulatory Reform Act 2006 (LRRA)

33. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance. We consider that the proposals are proportionate and promote our operational objectives of consumer protection and effective competition, as well as our strategic objective to ensure that markets function well. We consider that the proposals will result in an appropriate level of consumer protection without creating undue burdens on the industry or adversely affecting competition.

34. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider the proposals are proportionate to the potential harm to consumer or risks to our statutory objectives identified.