



# **The Code of Conduct for Deposit Advertisements**

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## Code of Conduct for Deposit Advertisements

**This Advertising Code of Conduct prepared by the Association of Guernsey Banks is a non- statutory code.**

**Members are reminded that the Guernsey Financial Services Commission retains power to introduce a statutory version.**

**With this in mind, members should: -**

- **Abide by the spirit as well as the letter of the Code.**
- **For the avoidance of doubt, always quote the Annual Equivalent Rate (AER) in any form of communication.**
- **Ensure that any advertisements contain all material account terms and are not misleading.**
- **Ensure that every advertisement states that the deposit taking business is licensed under the Banking Supervision (Bailiwick of Guernsey) Law 1994.**

### **Introduction**

This new version of the code, dated November 2002, significantly revises and updates the previous requirements. The Code is published by The Association of Guernsey Banks (AGB), and has the support of the Guernsey Financial Services Commission (GFSC).

It sets out the provisions of the Code in *Italics* and, where necessary, each provision is followed by some background issues and the AGB interpretation of it. This guidance is not intended to be a detailed rulebook on how to comply with the Code; it merely sets out the AGB interpretation of it. Banks are, of course, free to reach their own conclusions on interpretation and, for that reason, this document is intended solely for the use of banks and their professional advisers; it is not intended that it be circulated more widely.

## General

1. *The terms of this Code apply to the advertising of all deposit accounts maintained within the Bailiwick of Guernsey. For the purposes of this Code the term "advertisement" includes press and broadcast advertisements, direct marketing, window displays, posters, brochures, leaflets, advertisements delivered by electronic means (e.g. the Internet) and automated teller machine displays. The Code does not apply to generic advertising or promotional material, which does not advertise a specific deposit account or accounts.*

The requirements of the Code are designed to apply as widely as possible, to everything that could be interpreted to be an advertisement designed to sell a specific service or product. However, the Code does not apply to simple promotions, designed simply to raise brand awareness (for example, promotional gifts etc).

2. *Advertisements must comply with the spirit and letter of this Code, the British Codes of Advertising and Sales Promotion (see appendix 1), the Radio Authority Advertising Code (appendix 2), the Independent Television Commission Code on Advertising Standards and Practice (appendix 3) and with all relevant legislation.*

This merely confirms that the Code must be read and applied alongside the other non-statutory Codes, and Regulations, which set down general advertising standards. Advertising must also comply with the spirit of the Code to ensure that the intentions behind the codes are compiled with.

3. *Advertisers of deposit accounts must take care to inform potential customers of the nature of any commitment into which they may enter as a result of responding to an advertisement.*

This is especially important where customers are being invited to deposit money off-the page. (The introduction of a 14 day cooling-off period into the UK Banking Code to allow customers purchasing savings accounts to change their minds without loss of interest or charges (except for fixed rate accounts) will supplement this provision for adherents to that Code.)

4. *The registered or business name (and, in the case of press advertisements, direct marketing, brochures and leaflets), the address of the deposit-taking institution must be clearly stated. Automated teller machine are exempt from this requirement.*

This allows those institutions, which do not use their registered name in advertising some flexibility.

5. *The explanatory phrases and statements that are required by this Code must be clearly audible or legible as appropriate.*

The Radio Authority and the Independent Television Commission issue guidelines regarding legibility and audibility. In addition, a recent judgement (Advertising Standards Authority) (ASA) Monthly Report No 86, July 1998, page 7) from the ASA upheld a complaint from a member of the public who complained that a smaller print note in an advertisement for a credit card, which explained the full terms and conditions, was barely legible. The ASA considered that the print was difficult to read because of its small size and, because it appeared outside the borders of the advert, readers were likely to overlook it and therefore the size of the print should be increased. These guidelines should be borne in mind and applied where necessary.

### **Statement of Interest Rates**

6. *Where interest rates are advertised, these must be described as follows:*
- a. *W% gross*
  - b. *Z% Annual Equivalent Rate ("AER")*

*where:*

- a. *is the contractual rate of interest payable before the payment of income tax.*
- b. *is a notional rate which illustrates the contractual interest rate (excluding any bonus payable) as if paid and compounded on an annual basis. An explanatory phrase conveying this meaning must be used in conjunction with this expression. Any assumptions made in calculating the rate should be stated.*

*In the case of a table or list of rates, the words "gross" and "AER" as appropriate need not appear after each rate. However, it must be clear which term applies to which rate, for example by the use of column headings or footnotes*

The one big change is the removal of the term "compounded annual rate" and the inclusion of "annual equivalent rate". Guidance on the calculation of the AER is given in Appendix 4. The AER should be quoted, in respect of the gross rate only, in every advert where an interest rate is quoted. This will mean that, for the first time, all adverts will include one rate, which is capable of comparison across all adverts, regardless of product provider and how interest is calculated and paid.

The AER is a truly reflective rate, taking into account compounding where the product has interest compounded. So, for example, products which look like they pay the same rate of interest but where one compounds interest and the other does not will have different AERs.

It will take some time for institutions and customers to become comfortable with the AER, and it will be necessary to explain to customers what it means. It is suggested that wording along the following lines could be used (for example, in leaflets, small Print of adverts etc).

"AER stands for Annual Equivalent Rate and illustrates what the interest rate would be if interest was paid and compounded each year. [As every advert for a savings product which quotes an interest rate will contain an AER, you will be able to compare more easily what return you can expect from your savings over time]"

(The first sentence could be used alone to cut down length)

The final paragraph of this section puts beyond doubt the fact that any advertisement listing a series of rates, for example, when comparing competitors' products, need only ensure that the appropriate term is clear. This applies the provisions of general notifications of Rates (see paragraph 13) to advertisements.

Advertisements which do not quote a specific rate of interest, for example, which simply state that the rate will be x% below base rate, do not need to quote an AER. Specific guidance on the calculation of the AER is set out in appendix 4.

- 7. Advertisements, which quote a rate of interest, must quote the Annual Equivalent Rate and the contractual rate. No rate or return shall be given greater prominence than the AER. For illustrative purposes, advertisements may also include an AER including conditional bonuses. However, this rate must be given less prominence than the contractual rate and the true AER, and must be described as "AER including conditional bonuses". Where contractual rates are quoted on the basis of other than a 12-month period, this must be clearly stated and given at least equal prominence.***

Because the AER will be the one rate that customers will be able to use to compare all products, it must be given at least equal prominence as the contractual rate (i.e. the gross or tax free rate). However, if the AER is exactly the same as the contractual rate, there is no need to quote the same rate twice -it is enough to state, for example, "5% gross/AER". Conditional bonuses (paid, for example, if the customer makes only a certain number of withdrawals each year) can only be included in the AER if the AER without the bonuses is also quoted and given greater prominence.

- 8. Advertisements which quote a rate of interest must contain the following specific information -***

- a. *the frequency of payment of interest;*
- b. *either -*
  - *a statement that the contractual rate of interest is fixed for any specified term; or*
  - *a statement that the interest rate is subject to variation;*
- c. *the minimum amount which must be deposited to achieve the advertised rate of interest.*
- d. *the period of time, if any, during which no or a different rate of interest will be payable ( this paragraph does not relate to normally accepted cheque clearing periods).*
- e. *the minimum period of notice, if any, which must be given before repayment may be required of a deposit earning that rate of interest.*

This provision is self-explanatory. It merely provides that, if a rate of interest is quoted in an advert, the advert must also state how often interest will be paid (for example, monthly, annually or after five years); whether the interest is fixed or variable (if fixed, the term must be stated); and any minimum investment necessary. The Code does not require this information to be contained in any particular part of the advert. However, institutions should take care to ensure that any footnotes are clear and legible and meet the Advertising Standards Authority's legibility requirements.

9. *Advertisements quoting a return, which includes the original investment, must explain this fact in the main part of the advertisement.*

It is acceptable for adverts to state, for example, "110% return". However, if this is done, the main part of the advert, and not the small print, should explain clearly that this means that the customer gets their original investment back with a 10% return. It does not mean a return of the investment and a further 110%! This has caused confusion in the past, especially with claims such as "150% return after 5 years". Adverts should explain clearly exactly what the claims mean in the main part of the advert.

It is also worth bearing in mind the Personal Investment Authority's (PIA) views on the use of the word "return" (PIA Regulatory Update No 54). PIA has stated that, as the "return" on an investment is the gain or profit from holding that investment, firms should not use the word to include the original capital invested except where not misleading. For example, the return on an original investment of, say, £1,000 which has grown to £1,300 should be described as having a return of 30% and not 130%; however, in the context of "after 5 years this plan returns to you a sum representing 130% of your original investment", use of "return" is acceptable. In the interests of clarity and a desire not to mislead, these views should be borne in mind when advertising

On balance it would be preferable to avoid this terminology.

#### Interest bearing deposit accounts

- f. Accounts which advertise an introductory bonus rate of interest, payable for a specific period of time, must ensure that the duration of the bonus is clearly stated in the main part of the advertisement
- g. The terms, which apply to the payment of any other bonus, must be clearly stated.

This provision ensures that bonuses are explained clearly. The duration of that bonus rate must be clearly stated in the main part of the advert, and not in the footnotes. Similarly, the terms which apply to the payment of a bonus (for example, bonus of 2% paid if no withdrawals are made during the year) must be stated clearly, although it is not necessary to cover them in the main part of the advert, provided they are clear.

If an introductory bonus rate is payable until a fixed cut-off (for example, "payable until 1 July 2003") and the product is launched on 1 February 2001, for example, the AER will change over the period. The AER at the time of the product launch will be higher than that towards the end of the bonus period. There is obviously scope for AERs to be misleading if they are not recalculated on a regular basis. It will not, therefore, be enough for adverts simply to state in the small print the date of calculation of the AER. Instead, AERs on such accounts should be recalculated on a monthly basis. This will mean that posters and leaflets, as well as newspaper advertisements etc, will need to be changed monthly, if such accounts are being advertised. Otherwise, there is too much scope for potential consumer confusion. This applies to all UK advertisements with effect from 1 February 2002.

#### **10. Advertisements quoting a rate of interest or return which are intended for media or direct mail must contain a suitable qualification, such as "rates correct at date of going to press", and must state that date.**

This is a protection for institutions, recognising that some adverts have quite long copy dates and that there is the chance that rates could change in the meantime. The requirement to state the date is new. If using competitor's interest rates in an advert for comparative purposes, it would be acceptable to state something along the lines of "all financial information is checked for accuracy on a weekly basis".

## Notices of Rates

*11. A general notice to customers of rates need only comply with paragraphs 7 and 8 of the Code. In the case of such notices or lists, the words "gross " and "AER" as appropriate need not appear after each rate. However, it must be clear from the whole of the notice or list which term applies to which rate, for example, by the use of column headings or footnotes*

This means that general notices of rates, which generally are not inherently designed to sell products but to inform customers of rates, need only comply with paragraphs 7 and 8 of the Code.

However the UK Banking Code requires that, adverts informing customers about changes in rates will need to specify old and new rates. However, the AER need only be quoted for the new contractual rates, in order to make the notices easier for Customers to read and understand.

## Withdrawal Restrictions

*12. A clear indication of the type of deposit must be given by stating the following -*

*a. Advertisements must contain a clear statement of the terms (if any) for any withdrawal or transfer, including -*

- the period of any notice required*
- the amount of any charges which may be payable (excluding normal bank charges which are included in general or specific product terms and conditions)*
- any limitation which the account imposes on the amount which may be withdrawn or transferred in a single transaction*
- a statement that standard terms & conditions apply if relevant.*

This means that every advert must contain details about any notice period required before a withdrawal can be made, any charges that might be payable (for example, if a charge is made for making a withdrawal over the counter), and any maximum or minimum withdrawal/transfer applied to that particular deposit, for example, a minimum withdrawal of £100 or a maximum of £5,000. This relates, however, to specific limitations on the particular product (i.e. "which the account imposes"), and not to general security floor limits applicable to all products in a range. This information must be clear, but does not necessarily have to be in the main part of the advert.

- b. *Where payments are made other than by cash (for example, by cheque or bank giro credit to another account), advertisers should make this clear and indicate how many working days payment will normally take.*

This is self-explanatory. Again, although the information must be clear, it does not have to be included in the main part of the advert.

- c. *For accounts which do not allow withdrawals before the end of the term of the account, even after notice, without forfeiting interest or bonuses or making any similar charge, the text of the main part of the advertisement must include a statement indicating that, if a withdrawal is made, the stated interest rate or return will not be achieved.*

If, to make a withdrawal from the account, any form of charge, however calculated or specified (whether a set fee, a loss of interest or a loss of a conditional bonus payment), is made, that must be spelt out clearly in the main part of the advert as it will mean that the stated return or interest rate will not be achieved.

#### **'Instant Access'**

- d. *An account may not be described as having instant access or "immediate withdrawal" or any similar statement where withdrawal must be other than by cash.*
- e. *Any conditions attached to "instant" or "immediate" (or any other similar statement) withdrawal, for example if-*
- *the number of withdrawals that may be made without transactional charges, loss of interest, loss of bonus or any similar charge being made, is limited*
  - *the amount of cash that can be withdrawn in a transaction is limited by the account should be clearly stated in the main part of the advertisement.*

These provisions have been added to the Code as a result of the Advertising Standards Authority's decision regarding the use of the words "instant access". In future, "instant access" and any similar wording should be used only where it is possible to make cash withdrawals (without charge), whether in a branch or via an Automated Teller Machine (ATM). Accounts which do not offer this facility should not be described as "instant access". Accounts which themselves do not have the facility to withdraw cash, but which allow immediate real-time transfers to a side account from which cash may be withdrawn are also acceptable.

Although the ASA stated that accounts could continue to be called instant access but not described as having instant access, the AGB have recommended that accounts with "instant access" in their titles which do not actually offer instant access (under this new definition) should have their names changed as soon as is practicable, to avoid further confusion.

Under the provision, it is possible to describe an account as having "instant access", even where the number of withdrawals that may be made is limited for good reason. For example, it would be within the spirit of the provisions to limit the number of withdrawals on a savings account to ensure that it was not used as a money transmission account, but it would not be appropriate to limit withdrawals too tightly. The ASA has indicated that each case would be look at on its own merits. Any restrictions and charges (howsoever calculated and described) must be stated in the main part of the advert and not in the footnotes.

If the terms of the product limit the amount of cash that can be withdrawn in a single transaction, that must be clearly stated in the main part of the advert, together with the amount. Again, as with paragraph 14(a), this refers to a particular limitation on the product itself, and not a general floor limit imposed by the institution across the board, for example, for security or other practical reasons.

### **Direct Response**

#### ***13. Advertisements which invite deposits by immediate response (e.g. by coupon) must :-***

- a) include the full terms and conditions or state that they are available on request.***
- b) clearly state in the part of the advertisement to be retained by the consumer a full postal address at which the advertiser can be contacted during normal business hours and the description and details of the advertised product including the information required by this Code.***
- c) request that verification of identity documentation (as required to verify each party to an account as laid out in the Guidance Notes issued by the Guernsey Financial Services Commission) is provided when submitting the coupon.***

These provisions are self-explanatory.

## **Guarantees / Guaranteed Return / Guaranteed Return of Capital**

14. a) *The word “Guarantee or Guaranteed” should not be used in any way that could cause confusion about consumers’ legal rights. Substantial limitations should be spelled out in the advertisement. Before commitment, consumers should be able to obtain the full details of the guarantee from the advertisers. Advertisers should inform customers about the nature and extent provided by the guarantee.*
- b) *Advertisements and marketing material for products linked to the performance of an Index require special care and should define precisely the terms and conditions of any guarantee for the return of the initial deposit or minimum performance.*

The advertising and marketing material for these products often contain references to “guaranteed returns” and may claim that the product is “risk free” or that there is “no risk to your capital” when referring to the initial deposit or investment.

Promotional material should define precisely what is being guaranteed and contain a statement acknowledging that the deposit is guaranteed by the deposit taker, not by any third party. Prospective customers should also be made aware that there is also a risk to their deposits of the bank (or its parent) failing. Considerable effort should be taken to ensure that marketing and advertising material contains as little as possible scope for misconstruing or misinterpreting claims for prospective returns and guarantees of capital.

## Depositor Protection

- 15 *Advertisements shall state if a Depositor's Protection or an alternative scheme to protect the investor is in place. Consumers should be advised where they can obtain details of the scheme (s).*

This code is self-explanatory. A Deposit Protection Scheme for depositors with Guernsey Banks is currently being devised but is not yet effective. Upon introduction, advertisements should state that deposits are covered under the Guernsey Scheme and in addition, when advertising in the United Kingdom they should make it clear that the UK Financial Services Compensation Scheme is not effective in Guernsey.

The following is the suggested wording to use in advertisements after the introduction of the Guernsey Depositors Protection Scheme. "Deposits made with offices of XYZ Bank in Guernsey are covered under the Guernsey Depositors Protection Scheme, details of which are available from this office on request. (The following should be added to the proceeding paragraph when banks advertise in the United Kingdom) Deposits however, are not covered by the Financial Services Compensation Scheme under the Financial Services and Markets Act 2000".

## Currency

- 16 *Currency – Every advertisement shall state the currency in which the deposits are to be made.*

This code is self-explanatory.

## Appendix 1

### **The British Codes of Advertising and Sales Promotion.**

Details of the full codes can be found under [www.asa.org.uk/the\\_codes/index.asp](http://www.asa.org.uk/the_codes/index.asp)

The Relevant paragraphs appropriate to the finance industry are reproduced below for information purposes.

#### **Section 1.1 The Codes Apply to:**

- ◇ *Advertisements in newspapers, magazines, brochures, leaflets, circulars, mailings, fax transmissions, catalogues, follow – up literature and other electronic and printed material.*
- ◇ *Posters and other promotional media in public places*
- ◇ *Cinema and video commercials*
- ◇ *Advertisements in non-broadcast electronic media*
- ◇ *Viewdata services*
- ◇ *Marketing databases containing consumers' personal information*
- ◇ *sales promotions*
- ◇ *advertising promotions*

#### **Section 1.2 The Codes do not Apply to:**

- ◇ *broadcast commercials, which are the responsibility of the Independent Television Commission or the Radio Authority (see appendix 2 & 3)*

#### **Section 1.3 The following definitions apply to the codes**

*The United Kingdom rules cover the Isle of Man and the Channel Islands (except for the purpose of the cigarette code)*

## **Financial Services & Products**

### **Section:**

- 55.1 *The rules that follow provide only general guidance. Advertisers, their agencies and the media must also comply with the numerous statutes that govern financial services and products including issuing advertisements, investment opportunities, credit facilities and the provision of financial information.*
- 55.2 *Offers of financial services and products should be set out in a way that allows them to be understood easily by the audience being addressed. Advertisers should ensure that they do not take advantage of people's inexperience or gullibility.*
- 55.3 *Advertisements should indicate the nature of the contract being offered, any limitations, expenses, penalties and charges and the terms of withdrawal. Alternatively, where an advertisement is short or general in content, free explanatory material giving full details of the offer should be readily available before a binding contract is entered into.*
- 55.4 *The basis used to calculate any rates of interest, forecasts or projections should be apparent immediately.*
- 55.5 *Advertisers should make clear that the value of investments is variable and, unless guaranteed, can go down as well as up. If the value of the investment is guaranteed details should be included in the advertisement.*
- 55.6 *Advertisements should specify that past performance or experience does not necessarily give a guide for the future. Any examples used should not be unrepresentative.*

## Appendix 2

### **The Radio Authority Advertising Code.**

Details of the full codes can be found under [www.radioauthority.org.uk](http://www.radioauthority.org.uk)

The Relevant paragraphs appropriate to the finance industry are reproduced below for information purposes. (It must be noted that this code has yet to be updated to reflect the requirements of the [Financial Services and Markets Act 2000](#))

#### **1 Financial Products and Services**

*These Rules regulate financial advertising and not the products and services themselves, which are regulated by the financial services regulators, including the Financial Services Authority. Central copy clearance is required. Financial advertisements must comply with all relevant legislation, in particular the Financial Services Act 1986. Advertisements for investment, complex finance and consumer credit should be submitted for central copy clearance.*

*In this Rule, 'investment', 'investment business', 'investment advertisement' and 'authorised person' have the same meanings as in the Financial Services Act 1986.*

*The Government has announced its intention to overhaul the regulatory system for financial services. A draft Financial Services and Markets Bill has been published for consultation which includes sections relating to the promotion of financial services and products. When this new legislation is implemented, licensees and advertisers will need to ensure that they comply with its requirements. At that time, the Radio Authority will review whether this Rule should be amended.*

##### **1.1 Legal Responsibility**

*It is the responsibility of the advertiser to ensure that advertisements comply with all the relevant legal and regulatory requirements.*

##### **1.2 Misleadingness**

*Advertisements must present the financial offer or service in terms which do not mislead whether by exaggeration, omission or otherwise.*

##### **1.3 Investment Advertisements**

*The following may be broadcast:*

*i investment advertisements issued by an authorised person, or those whose contents have been approved by an authorised person or a passported institution;*

*ii advertisements issued in respect of the investment business of an authorised person, which are not themselves advertisements for investments;*

*iii investment advertisements which by virtue of the Financial Services Act 1986 do not require to be issued or approved by an authorised person.*



*Licensees may need to seek legal advice if an advertiser claims an advertisement should be considered:*

- i not to be an investment advertisement; or*
- ii an investment advertisement which does not require to be issued or approved by an authorised person.*

*'Passported institution' means any of the following persons who are carrying out home regulated investment business in the UK:*

- a) A European investment firm within the meaning of the ISD Regulations;*
- b) A European institution within the meaning of the BCD Regulations.*

#### **1.4 Approval of Investment Advertisements**

*Before accepting investment advertisements to which Section 57 of the Financial Services Act 1986 applies, licensees must be satisfied that:*

*i the compliance officer (or equivalent) of the advertiser, or authorised person issuing or approving the proposed advertisement, has confirmed that the final recorded version of the advertisement is in accordance with the Rules of the Financial Services Authority (FSA) or the relevant recognised Self Regulating Organisation (SRO) or Recognised Professional Body (RPB);*

*ii an investment advertisement or other advertisement in respect of investment business proposed by an appointed representative has been approved by the authorised person to whom that person is responsible. Licensees may need to consult the relevant SRO or RPB or refer to the FSA concerning the compliance of any advertisement with Financial Services Act 1986 requirements.*

#### **1.5 Advertisements for Deposit and Savings Facilities**

*(This Rule does not authorise the issue of any investment advertisement.)*

*The following deposit and savings facilities may be advertised:*

- a) local government savings and deposit facilities in the United Kingdom, the Isle of Man and the Channel Islands;*
- b) such facilities provided in accordance with the Building Societies Act 1986 by building societies authorised under that Act;*
- c) such facilities provided by the National Savings Bank, and authorised institutions within the meaning of the Banking Act 1987, including High Street Banks and other institutions;*
- d) building society and authorised institutions 'appropriate personal pension schemes' as established in accordance with the Social Security Act 1986;*
- e) such facilities provided by registered Credit Unions regulated by the Credit Unions Act 1979;*
- f) such facilities, guaranteed by the national government of an EC country, in currencies other than sterling, provided that a warning statement is included as to the effects of exchange rate fluctuations on the value of savings. Acceptance of advertisements in connection with deposit facilities is subject to any regulations made under Section 32 of the Banking Act 1987.*

## **1.6 Interest on Savings**

*References to interest payable on savings are acceptable, subject to the following:*

- a) they must be stated clearly and be factually correct at the time of broadcast;*
- b) all advertisements quoting a rate must use the Annual Equivalent Rate (AER) as set out in the British Bankers' Association Code of Advertising of Interest Bearing Accounts;*
- c) where conditions apply to calculations of interest, which might affect the sum received, the advertisement must refer to the fact that conditions apply and how they can be accessed;*
- d) it must be made clear whether the interest is gross or net of tax;*
- e) interest rates relating to variables (eg. a bank's base rate) must be so described.*

*Attention is drawn to the code on the conduct of the advertising of interest-bearing accounts adopted and implemented by the British Bankers' Association and the Building Societies Association.*

## Appendix 3

### **The Independent Television Commission Code on Advertising Standards and Practice.**

Details of the full code can be found under [www.itc.org.uk](http://www.itc.org.uk)

The Relevant paragraphs appropriate to the finance industry are reproduced below for information purposes. (It must be noted that this code has been updated to reflect the requirements of the Financial Services and Markets Act 2000)

#### **Section 9.7 Deposit and Savings Facilities**

- (a) References to interest on savings must be accurate at the time of transmission and the advertising must be modified immediately if the rate changes.
- (b) Calculations of interest must not be based on significant unstated factors
- (c) Advertisements must make clear whether interest is gross or net of tax
- (d) Where the interest rate is variable, this must be stated
- (e) Where the investment returns of savings products are compared (e.g. a unit trust is compared with a bank deposit) any significant differences between the products must be explained
- (f) Advertisements subject to Section 9 must comply with the *Code of Conduct on the Advertising of Interest Bearing Accounts* which is published jointly by the Building Societies Association and the British Bankers' Association

**Note to 9.7(b):**

***It may be necessary to refer to factors such as a minimum deposit, minimum deposit period or minimum period of notice for withdrawal.***



## Appendix 4

### Guidelines to AER calculations

In order to ensure consistency of calculation and fair comparison of products, the AER should be derived on the following basis:

***A1 The only changes to the amount deposited to be taken into account are those that are required by the terms of the account.***

So, for example, on an account from which withdrawals may be made, the AER calculation is based on an initial deposit with no subsequent movements. On the other hand, on a monthly savings account, each monthly deposit is taken into the calculation. If certain deposits are required to qualify for a conditional bonus, then the AER including conditional bonus must be calculated assuming that the necessary deposits have been made.

***A2 The only changes to rates that are taken into account are those that are stated at the outset.***

No allowance is made for change that may occur because market rates generally move up or down. So, for example, if an account has a rate which will increase the longer a deposit is held, the higher rate will be used after the requisite time. Where an initial higher rate is guaranteed for a number of months (an “unconditional bonus”), the rate after that period will reduce to the “normal” rate applicable at the time of the advertisement. If a monthly savings account has a tiered interest rate, then the appropriate rate will be used as the balance builds up.

***A3 If an account has a fixed or minimum term, the calculation is to be made for that period.***

If the term is indefinite, the calculation is to be done on the first year, or until the first interest payment if that is after one year. If a conditional bonus requires that you leave the deposit in the account for a certain time, then the AER including conditional bonus will be calculated over that period.

***A4 All interest paid is treated as if it is invested and earns a rate of interest equal to that being earned on the deposit.***

This may, in fact, happen if the interest is added to principal. However, even on an account making monthly interest payments, this assumption is made to illustrate the value of receiving these payments during the year. If a deposit has a very short term (for example, a six-month bond), for AER purposes it is assumed, again for illustrative and comparative purposes, that the principal and interest can be invested at the end of the period at the same rate for the rest of the year.

***A5 AERs are to be rounded and displayed to two decimal places.***



***A6 Where the AER varies according to the date of the deposit (for example, where an unconditional bonus is offered until a fixed calendar date):***

all advertising should include a statement that the AER assumes that investment was made on a specified date;

the date specified should be

- relevant to the date the advertisement or literature will appear or be available; and
- not more than 1 month away from that date



## Appendix 5

Formula for the calculation of AER

## Appendix

### Calculation of the Annual Equivalent Rate (AER)

- a) The most general case of the calculation is the rate of interest which, if applied each year to the deposits made by the customer, would result in the same end-value as the contractual interest rates and interest bonuses (if any), ie the solution to the following equation:

$$\sum_{n=1}^m D_n \left(1 + \frac{a}{100}\right)^{1+m-n} = \sum_{n=1}^m D_n \left(\prod_{j=n}^m \left(1 + \frac{i_j}{100}\right)\right) (= T)$$

where:

<b>a</b>	is the Annual Equivalent Rate
$D_n$	is the deposit to be made at the start of year $n$
$i_j$	is the interest rate (including bonuses, if any) payable at the end of year $j$
$m$	is the number of years for which the product has to be held
$T$	is the amount the depositor will receive at the end of year $m$ .

If deposits are made at more frequent intervals than whole years, the calculation can be made using monthly interest and the result expressed as an annual rate using the formula given at (d) below.

The equation, in its general form, is soluble only by iterative computation. For specific cases, general solutions are available and these can be used.

- b) If only one deposit is made at the start of the period, then the AER is

$$a = \left( \left( \sqrt[m]{\prod_{n=1}^m \left(1 + \frac{i_n}{100}\right)} \right) - 1 \right) \times 100$$

- c) If the interest rate is quoted as the total payable over the period (longer than one year) on the initial deposit, then the AER is

$$a = \left( \left( \sqrt[m]{1 + \frac{r}{100}} \right) - 1 \right) \times 100$$

where:  $r$  is the total interest rate payable over  $m$  years.

d) Where interest is payable more frequently than annually, then the AER is

$$\mathbf{a} = \left( \left( 1 + \frac{i}{n \times 100} \right)^n - 1 \right) \times 100$$

where:  $n$  is the number of times per year that interest is to be paid  
 $i$  is the annual rate to be paid  $n$  times per year.

*This last formula corresponds to the existing CAR calculation.*

## Notes

The general formula set out at (a) is complicated because it attempts to cater for any sort of deposit. The following notes aim to clarify its assumptions and application:

- ◆ It envisages a depositor making a series of payments (some of which may be zero) into the account at annual intervals and the product provider paying or crediting interest annually which may be at a different rate (possibly zero) each year.
- ◆ Deposits are assumed to be made at the beginning of a year and interest paid at the end of the year.
- ◆ If deposits or interest payments are not made on anniversaries of the start date, the formula can be operated using shorter periods and fractions of the annual rate(s), and the answer compounded up to an annual rate using the formula at (d).
- ◆ The interest payable in each year is the amount actually payable or to be added to principal, not an accrual, so that, if paying 7% a year (simple) after 2 years, the interest is 0% in year 1 and 14% in year 2.
- ◆ The formula treats all interest as compounded because interest paid (say) annually is worth more to the depositor than interest paid only after two years. Interest paid is compounded at the contract rate to avoid the introduction of an arbitrary reinvestment rate.