

**THE THIRD SCHEDULE
before referred to**

**CO-OPERATIVE DEPOSIT PROTECTION SCHEME
CODE OF PRACTICE**

PART B

ADVERTISING OF INTEREST BEARING DEPOSITS

GENERAL

26. The terms of this part of the Code apply to the advertising of all interest bearing deposits offered by Participating Societies within the United Kingdom. For the purpose of this Code the term “advertisement” includes press and broadcast advertisements, direct marketing, window displays, posters, brochures, leaflets and automated teller machine displays. Interest bearing deposits are defined as shares, loans, bonds, etc on which interest is paid to the depositor.

27. Advertisements must comply with the spirit and letter of this Code, the British Code of Advertising Practice, the Independent Broadcasting Authority Code and with any relevant legislation.

28. Advertisements must state that in the event of the offering society being unable to repay the deposit due to insolvency the CDPS will repay 90% of the capital with a maximum payment per investor of £18,000.00.

29. Advertisers of interest bearing deposits must take special care to ensure that members of the general public are fully aware of the nature of any commitment into which they may enter as a result of responding to an advertisement.

30. The registered or business name (and, in the case of press advertisements, direct marketing, brochures and leaflets, the address) of the Participating Society must be clearly stated.

INTEREST RATES

31. Rates of interest shall not be advertised unless they are described appropriately; the following terms should be used—

- (a) “Y% gross”;
- (b) “Z% compounded annual rate”

Where—

- (a) is the contractual rate of interest payable not taking account of income tax; an explanatory phrase conveying this meaning must be used to qualify the rate quoted.

The depositor must also be informed that although the interest is paid gross it is liable to tax.

- (b) is the rate equivalent to a “gross” rate annualised to take account of the compounding of interest paid other than once a year; an explanatory phrase conveying this meaning must be included if the “compounded annual rate” is quoted. “CAR”, following a percentage rate, is acceptable as the abbreviation of “compounded annual rate”. A “CAR” must not be quoted without the relevant “gross” rate. A “CAR” must not have greater prominence in size or type or otherwise than the other rate quoted. The rules for calculation of compound annual rates are set out in the Supplement to the Code.

Status: This is the original version (as it was originally made). This item of legislation is currently only available in its original format.

32. It follows from paragraph 31 that all advertisements in which a rate is quoted must include the contractual rate, i.e. the “gross” rate. No rate shall be given greater prominence in size or type or otherwise than the contractual rate provided interest is due at least annually. Where interest is paid less frequently (e.g. after 5 years) the “CAR” must be shown and the contractual rate shall be given no greater prominence than the “compounded annual rate”. Where rates are quoted on the basis of other than a 12 month period, this must clearly be stated.

33. Advertisements quoting a rate of interest must contain a specific statement indicating—

- (a) the term, if any, of the deposits;
- (b) the frequency of payment of interest; and either that
- (c) the rate quoted is fixed for any term specified; or
- (d) interest rates are subject to variation.

34. Advertisements quoting a rate of interest which are intended for media or direct mail with long copy dates must contain a suitable qualification, such as “rate correct at time of going to press”, and may state that time.

35. The explanatory phrases and statements required by this Code must be clearly audible or legible as appropriate.

NOTICE OF RATES

36. A general notice to shareholders and lenders of changes in rates (or a simple list of the range of deposits and their rates) displayed in offices on a rate board, primarily to fulfil contractual obligations, need only comply with paragraphs 31 and 32 of the Code. In the case of such notices or lists, the words “gross” and “CAR” 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.

TERMS AND CONDITIONS

37. A clear indication of the type of deposit must be given by satisfying the following—

- (a) Advertisements must contain a clear statement of the conditions for withdrawal, including the amount of any charges levied, the period of any notice required and the extent of any interest forfeited.
- (b) Where interest is forfeited on any withdrawal without notice, words such as “instant access” or “immediate withdrawals” must not be displayed together with the rate of interest without clear qualification.
- (c) For accounts which do not allow withdrawals, even after notice, without forfeiting interest, the text of the advertisement must include a statement indicating that, if a withdrawal is made, the stated interest rate will not be achieved.
- (d) Where a maximum or minimum amount must be deposited to achieve the stated interest rate, the text of the advertisement must include a clear statement to this effect.

38. Advertisements which invite deposits by immediate coupon response 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.

SUPPLEMENT TO THE CODE

RULES FOR CALCULATION OF COMPOUNDED ANNUAL RATES

GENERAL

1. These rules relate to the Code of Practice issued by the trustees of the CDPS for the advertising of interest bearing deposits.

2. Paragraphs 31(b) and 32 of the Code refer to the use of compounded annual rate (“CAR”) as the rate equivalent to a “gross” rate, annualised to take account of the compounding of interest paid other than once a year.

USE OF FORMULA

3. The compounded annual rate is given by the following formula—

$$\frac{r}{[(1 + \frac{r}{m \times 100})^m - 1]} \times 100$$

where

r is the nominal annual rate and m is the number of times interest is paid in a year.

ASSUMPTIONS FOR CALCULATIONS

4. For the purpose of calculation of the compounded annual rate—

- (a) it shall be assumed that there are no other associated costs or benefits arising during the period in which the account is held;
- (b) compounded annual rates shall be quoted to two decimal places, except in cases where the final digit or digits is/are zero(s), in which case it/they may be omitted. The decimals shall be rounded up or down to the nearest 0.01% viz. 12.154% should be rounded down to 12.15%, 12.147% should be rounded up to 12.15%, 12.155% should be rounded up to 12.16%. For the purpose of rounding to two decimal places, the third digit after the decimal only should be taken into consideration and subsequent digits ignored. Where the third and fourth decimal places are 50, the figure should be rounded up. For example, 12.5650% becomes 12.57% but 12.5649% must not be rounded to 12.565% and then 12.57%.