Regulatory Impact Statement

KiwiSaver Periodic Reporting Requirements

Agency Disclosure Statement

1 This Regulatory Impact Statement has been prepared by Ministry of Economic Development.

2 It provides an analysis of options for the presentation of the periodic reports required by retail KiwiSaver providers. The aim of the analysis is to:

- Find an appropriate method of presenting information in a meaningful and understandable manner that is relevant to market participants, including investors, commentators, researchers and the regulator, and enables market participants to accurately compare information across funds; and
- Find an appropriate balance between the costs to providers of disclosure and the benefits to market participants.

3 In April 2010 Cabinet agreed that regulations should be made requiring KiwiSaver schemes to make periodic reports about fund performance available to investors [CAB Min (10) 14/6]. In November 2010 the Ministry released a discussion paper on the issues and options regarding disclosure. Following feedback from stakeholders, officials developed a set of proposals for the disclosure regime and consulted further with stakeholders. Based on the Cabinet decision in April and the feedback from stakeholders, the officials identified four topics to be included in the disclosure regime: performance and returns; fees and costs; asset allocation and portfolio holdings; and key personnel and conflicts of interest.

4 When undertaking the analysis the Ministry considered the options within each topic rather than looking at entire frameworks as a single option. The main reasons for this is that the different topics involved different considerations, many of which were quite technical, and that conclusions on individual topics do not actively impact on the decisions in others. For both these reasons we believed that there was a benefit in assessing the topics separately. This RIS does not set out a clear list of options but reflects the actual analysis undertaken by official and feedback received from stakeholders.

5 There are some limitations of the analysis undertaken:

- The analysis does not set out a status quo and compare this to the costs and benefits of the proposed regime. Cabinet has already agreed that retail KiwiSaver providers will be required to prepare periodic disclosure reports. Therefore, this analysis considers the best option for presenting those reports;
- It is difficult to quantify the expected costs to retail KiwiSaver providers. This is because providers have different systems and structures and the costs imposed will differ according to the systems already in place. A few KiwiSaver providers have provided officials with estimates of the costs and officials have relied on these estimates;

- Although stakeholders agree to the proposed presentation in principle, the Ministry will need to undertake further consultation with stakeholders on the detail of the proposed regime in order to ensure that the proposals are workable given the different retail KiwiSaver schemes;

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Status Quo and Problem Definition

6 There are currently 50 registered KiwiSaver schemes with approximately 1.86 million members. KiwiSaver schemes are each comprised of a number of KiwiSaver funds. Individual investors may invest in one or more funds within a scheme. The total amount invested in KiwiSaver schemes is approximately $9.18 billion. There is currently no obligation on KiwiSaver schemes to disclose information relating to the performance of KiwiSaver funds. Many KiwiSaver schemes do publish such information and guidance about disclosure methodology is available. However, reporting is inconsistent and variable. Recent publicity and controversy about relative performance and increased fees has resulted in the call, by commentators and industry, for robust, consistent and accurate reporting.

7 Investors benefit from having access to information when making informed investment decisions and monitoring the performance of their investments. Information asymmetries can lead to inefficient decision making which may result in sub-optimal outcomes for investors. Informed investment decisions have economic benefits as they increase competition and drive economic growth. Groups such as the Capital Markets Development Task Force and the Savings Working Group have argued that deepening of New Zealand's capital markets is important for New Zealand's long term economic growth. Effective competition within investment markets depends on investors' ability to access and compare products based on reliable information. Competition drives both better investment performance and innovation in new product development, as well as lowering fees.

8 On 21 April 2010, Cabinet agreed that KiwiSaver schemes should be required to publish periodic reports about fund performance. In November 2010 the Ministry released a discussion paper on the issues and options regarding disclosure. This RIS assesses different options for the inclusion of information in the periodic reports.

Objectives

9 The overarching objective of mandatory disclosure is to increase transparency. Increased transparency is important because it will lead to increased investor confidence, which should lead to greater investment and drive economic growth. Transparency increases competition by allowing market participants to better compare funds, which will lead to better decision making which will over time increase the efficiency of the market as well as better economic outcomes for consumers.

10 Given Cabinet's previous decisions this RIS considers how to implement mandatory disclosure.

Regulatory Impact Analysis

11 In determining what information should be included in any mandatory disclosure document, and how that information should be included, the Ministry was guided by the following objectives:

a. Transparency;

b. Information that is consistent and comparable;

c. Information that is accessible and understandable;

d. Useful information for commentators and the regulator;

e. Minimum compliance costs.

12 The initial scoping exercise undertaken by MED at the start of the policy development process identified a wide range of information which, if properly disclosed, would increase transparency and would likely lead to greater efficiency in the KiwiSaver market. The possible areas where disclosure could be improved can be grouped into four major topics:

a. Performance and returns;

b. Fees and costs;

c. Asset allocation and portfolio holdings; and

d. Key personnel and conflicts of interest.

13 These topics formed the structure of the discussion document. For each topic the discussion document discussed the issue, various options and a possible approach. Following stakeholder input a refined option was developed (that differed from the preferences outlined in the discussion document). Further feedback was sought on the refined option and, again changes have been made between that option and the preferred option outlined in this RIS. This RIS states the purpose of disclosing each topic; the proposed framework for disclosing information within that topic; and an explanation of why that framework is preferred.

14 The most important reason for disclosure is comparability. Market participants benefit from information that is comparable because it enables them to make accurate and informed decisions. If the information is not comparable it hinders the ability for market participants to make informed decisions and is less usable. In order to make information comparable and accessible the information must be consistent. This requires that regulations prescribe the content of the reports so that all the funds present the information in a uniform manner.

15 When determining the prescriptive requirements the Ministry was very aware of the workability of the requirements for schemes with a range of different fund structures and management approaches. The Ministry has consulted closely with a range of providers of KiwiSaver schemes to ensure that the proposed framework is workable and the cost of the proposals is considerably less than the benefits it will deliver.

Performance and returns

16 Information about fund returns (net of fees and tax) is a key piece of information investors need. Investors who are well informed and can make accurate comparisons of different funds are able to identify efficient investment options that are consistent with their investment goals. Disclosing fund returns also incentivises providers to manage their costs in order to compete with other providers.

17 There are substantial issues related to determining the appropriate methodology for comparing returns. Providers, industry bodies and commentators have different opinions as to the correct methodology. However, consistency in disclosure is important to enable accurate comparison. Providers agree that disclosure of returns needs to improve and that consistency and comparability is desirable. Providers, not just investors, benefit from consistency and comparability. Uncertainty about relative performance hinders investor confidence and investors' willingness to invest. This undermines providers and the development of the financial market.

Proposed presentation

18 Schemes will be required to disclose the fund's returns quarterly, on a rolling annual basis,[1] and on an annual basis, based on the standard tax year. A standardised methodology for calculating, and a template for presenting returns, is proposed.

[1] This means that the quarterly disclosure statement will include and annual return, updated quarterly.

19 To aid investor understanding and enable comparability, the headline information disclosed will be a dollar figure example based on a hypothetical individual investor. This will supplement the information described below which is based on the returns for the whole fund. The hypothetical investor will have a set amount invested of $10,000 and a Prescribed Investor Rate (PIR) of 28%.

20 Schemes will also be required to present:

a. Returns gross of fees and tax, as a percentage of the net asset value (NAV);

b. The net total of fees as a percentage of the NAV; and

c. The net total of tax as a percentage of the NAV.

Analysis of options

21 The return information should be useful for researchers, commentators and investors. Investor directed information is not currently consistently available or easily accessible. Therefore, wider availability will drive transparency which will assist in making comparisons and assist investor understanding and confidence in financial decision making.

Return as a percentage of NAV or dollar figure?

22 Presenting the both returns and the size of the fund as dollar figures instead of merely percentages may be useful as the size of a fund is likely to influence the costs, risks and investment strategy of that fund. However, a dollar figure alone does not provide a figure that can be compared between funds. A percentage of the NAV is useful in this respect. Further, funds will need to disclose the total NAV, therefore, researchers and commentators can calculate the actual dollar returns themselves.

Gross or net of fees?

23 Showing returns gross of fees is useful for researchers and commentators because it shows the actual performance of the fund. However, returns figures gross of fees do not show the impact of fees on the return. Presenting the total fees is more relevant to investors in this regard. Comparing the returns figure gross of fees with the total fees allows a better comparison of the impact of fees. Disclosing the total fees compared to the gross of fee figure, rather than the total return net of fees, will avoid confusing investors as a result of presenting too many total figures. Commentators, researchers and investors will be able to calculate the total net of fee figure themselves.

24 Since the fund managers are able to control some types of fees, such as the investment management fee, it is important to disclose the fees in this way to show the costs that investors are incurring due to the fund manager's decisions and investment strategy.

Gross or net of tax?

25 Presenting returns gross of tax is the standard approach for presenting investment returns, as for example the returns quoted for term deposits and the returns on investment property. Hence, presenting the return this way enables comparisons across different investment types. However, disclosing returns gross of tax is not as useful for investors when considering fund performance because it does not show the impact of taxes on the final return they receive. What is relevant to investors is final return net of tax.

26 Disclosing net of tax is not, however, straightforward. The tax payable by investors is affected by the class of assets the fund invests in, and therefore funds with different asset classes will have different tax implications. Tax is also affected by the individual PIRs of investors in the fund. Therefore, the funds whose investors have higher PIRs will appear to have a lower average return net of tax. Presenting the return net of tax will show the fund's actual return, which is useful for researchers and investors, but will not provide investors with an accurate reflection of their individual return. As with fees, disclosing the total tax compared to the net returns gross of tax, rather than the total return net of tax, will avoid confusing investors.

Relevance and comparability of information

27 A total return figure, consisting of all earnings and presented as a percentage of the NAV, shows the actual return of the fund as a whole which is likely to be useful for commentators and researchers. However, this total return figure is not the best measure for investors to compare funds.

28 The most beneficial form of disclosure for investors remains a summary of their individual returns. However, individual investor statements do not aid in fund comparison. In addition, individual investors are already provided with annual investor statements. The intention of these periodic disclosure obligations is to provide more general disclosure for the market as opposed to additional individualised information.

29 One approach which is likely to assist individuals is the use of a worked example using a hypothetical investor. This is likely to make the information more accessible and understandable for investors, and in addition the use of a standard hypothetical scenario will enable investors to make an accurate comparison of the net returns across different funds. Alternatively, a number of hypothetical scenarios could be presented using different hypothetical scenarios, including different PIRs and different amounts invested. While this may increase the chance of investors being able to apply one of the examples to their own situation, it is likely to lead to longer documents with more information, which is likely to hinder engagement.

30 The use of a hypothetical example also helps accurately reflect the effect of scheme level fees. Because the scheme level fees are commonly fixed dollar amounts the effect of such fees on the percentage return will vary depending on the amount of funds the investor has invested in the fund. The use of a hypothetical investor with a fixed amount of funds will enable an accurate comparison of the impact of scheme level fees on the return.

31 The design of the hypothetical scenario presents a number of challenges:

- Tax is dependent on the investor's PIR, and thus the only way to enable a fair comparison is by prescribing a set PIR that funds must use when calculating the hypothetical return. This will mean that even though a fund's actual return may be high due to their investor's low PIRs, the fund's hypothetical return for an individual investor will be calculated as if all the fund's investors had a PIR of 28%, and will lower the return. Using the highest PIR rate of 28% will show the greatest possible impact of tax on final returns to the investor, or the 'worst case scenario'. This will avoid the possibility of investors receiving a lower individual return than is quoted in the QDS or ADS;
- The use of a notional balance of $10,000 for the standard hypothetical example is appropriate as most KiwiSaver investors will have less than $10,000 at this stage and a multiple of 10 is easy to adjust. This figure could increase as the average value of KiwiSaver members' accounts increase.

Fees and costs

32 While returns are the most important factor for investors, the area over which fund managers have most control is fees. Fees have an impact on returns and different fee arrangements are to be encouraged. However, it is important that investors understand what they are being charged for and what they receive in return.

Proposed presentation

33 All fees and costs will be calculated and disclosed on an annual basis and repeated in a summarised form on a quarterly basis. There will be a prescribed template and prescribed terminology for the presentation of fees and costs which will be set in regulations. Schemes will be required to disclose all fees and costs, including fees and costs that are deducted from:

a. The fund;

b. The scheme; and

c. Specific investors.

34 Schemes will also be required to present the total expense ratio (TER) of the fund and the portfolio turnover rate.

Analysis of options

35 The Ministry has chosen the above presentation because it increases transparency, is comparable, accessible, and understandable and is useful for the investor as well as researchers and commentators, minimises compliance costs.

36 Disclosing all the fees and costs at fund, scheme and the investor level increases transparency and enables market participants to accurately compare the information across funds. Disclosing only some of the fees and costs, such as those at the fund level, would decrease comparability because different schemes have different charging structures (some charge certain costs at the scheme level and others at the fund level). This also ensures that investors are aware of every fee and cost and ensures that schemes cannot omit certain fees and costs and thus present the fund's return as higher than its actual return.

37 Updating annual fees and costs information on quarterly basis would provide up-to-date information. This would be consistent with the return information and result in a more accurate calculation of the return. However, this would also increase the cost of reporting as all the fees and costs would have to be updated quarterly. It is more important that the return is comparable and basing the return on historic fees and costs will still provide an indication of the investor's likely returns if they invest in the fund.

38 Only breaking down the fees and costs annually may slightly reduce the accessibility of the information. However, because some of the fees and costs are only incurred on an annual basis, there is little benefit in setting out the fees and costs in full detail every quarter. A summarised table with headline figures will simplify the information and make it more understandable to investors.

Transaction costs or portfolio turnover rate?

39 The proposal does not include a requirement to disclose the transaction costs. Transaction costs arise when a fund buys and sells securities. Ideally transaction costs should be transparent. However, they are difficult to extract because they are sometimes included in the value of the security and are often beyond the fund manager's control. This would mean that not all transaction costs could be disclosed and would reduce the comparability of the information. Requiring disclosure of such costs will also increase the cost of disclosure. Although excluding transaction costs reduces transparency, the impact of the transaction costs will still show up on the fund's gross returns as they affect the value of the assets.

40 Alternatively funds could be required to disclose an estimate of the total transaction costs. However requiring an estimate would still impose compliance costs on providers. Further, because it is only an estimate it will not be verifiable and will not be as useful for investors.

41 Rather than disclosing transaction costs, the Ministry recommends disclosure of the portfolio turnover rate. A high turnover rate means that the fund has been engaged in many transactions. The portfolio turnover rate gives an indication of the transaction costs because the greater the turnover rate the more costs the fund incurs. The portfolio turnover rate is a better option than an estimate or an incomplete figure because it is based on complete information and is therefore comparable across funds. The portfolio turnover rate may be less understood by investors. However, it is useful for researchers and commentators who can translate the information for the benefit of investors.

Total Expense Ratio

42 The TER is an internationally recognised method for calculating and presenting fees and costs. It is a measure of the additional cost that an investor incurs by using the manager instead of directly investing themselves. Although the TER may not be understood by investors, disclosure will enable commentators and researchers to compare the administrative and operational costs of different funds. It will also enable comparisons of New Zealand and international funds.

43 There are two methods for calculating the TER: the IOSCO method and the ISI method. Both methods exclude transaction costs from the calculation and the ISI method also excludes performance fees. Performance fees are a legitimate charge to the fund that investors have no control over. Excluding performance fees would mean not all of the operating costs are included in the TER and would also mean the TER is not internationally comparable. In addition, the IOSCO TER would enable international comparisons. Overall we believe the IOSCO method is more appropriate and should be adopted.

Asset allocation and portfolio holdings

44 Disclosure of portfolio holdings increases the ability of investors to monitor the investment practices of the fund manager to assess whether they are consistent with the investor's investment philosophy and to assess their level of exposure. Disclosure of the composition of the fund is also important as it shows investors where the investments are concentrated and where the potential risks lie.

Proposed presentation

45 Annually schemes will be required to disclose:

a. The top 10 holdings;

b. The full list of underlying asset holdings, subject to exceptions set in regulations or an exemption from the FMA;

c. A pie graph disclosing the composition of the fund in terms of prescribed asset classes;

d. A table disclosing the fund's target asset allocation;

e. The liquidity ratio; and

f. The debt level.

46 Quarterly schemes will be required to disclose:

a. The top 10 holdings;

b. A pie graph disclosing the composition of the fund in terms of prescribed asset classes;

c. A table disclosing the fund's target asset allocation;

d. The liquidity ratio; and

e. The debt level.

Analysis of options

47 Disclosing the assets and liabilities increases transparency. Disclosing the information in a graphical form increases the ability of investors to make comparisons and improves the usefulness of the information.

Portfolio holdings

48 Full quarterly disclosure of the asset holdings would further increase transparency. However, it would also increase compliance costs. Further this may expose investors to excessive amounts of information making the reports less accessible. Disclosing the top 10 holdings is a manageable amount of information for investors to process and will give investors a sample of the types of assets invested in. This is consistent with the purpose of the proposed disclosure regime.

49 Providing a mechanism for schemes to seek exemptions from full annual disclosure will reduce compliance costs for schemes where the information is already publicly available or too hard to obtain. There is a small risk that this may incentivise funds to change investment strategies to avoid disclosure. It is not anticipated, however, that many exemptions will be sought as it may solicit negative investor and peer responses..

Composition, liquidity and debt level

50 Disclosing the composition of the fund alongside the target asset allocation is a simple and understandable way of showing the fund's investment strategy. The pie graph also shows the areas the investments are concentrated in. However, the graph does not provide information as to the potential level of risk. The liquidity ratio and debt level show the level of risk and enable investors to use this information to assess the suitability of the fund's strategy against their own investment goals. Disclosure will also increase transparency and remind investors of the risks inherent in investing. Investors may have a limited understanding about the liquidity and debt level. However, disclosure will enable advisers, commentators and regulators to assess the fund's strategy and alert investors to funds with high leverage ratios and the risks associated with them.

Key personnel and conflicts of interest

51 Funds are responsible for the investments of other people and therefore it is important that the investment decisions of the fund are transparent and consistent with investor interests. The fund's investment decisions are ultimately made by individuals within the fund. The decisions they make are dependent on who the people making the investment decisions are, what their experience and history is, and any other conflicts or constraints that they may hold as individuals.

52 As a result, information regarding the individuals making investment decisions is not only relevant to monitoring the fund, but may also influence investor decision making. Information regarding who is making investment decisions can help investors and commentators determine the background and experience of the management team. Furthermore, disclosing conflicts of interest is important because it enables market participants to monitor the fund manager’s investment decisions to determine whether these are consistent with the fund’s investment strategy and the investors’ interests.

Proposed presentation

53 Annually schemes will be required to disclose:

a. The name, position, previous position and tenure in those positions of up to the top 5 personnel who have the most impact on the fund’s investment decisions;

b. A summary of the material changes to the fund’s trade allocation and execution policies and the proxy voting policies; and

c. A list of related party transactions and total percentage of exposure.

54 Quarterly schemes will be required to disclose:

a. The name, position, previous position and tenure in that position of the person who has the most impact on the fund’s investment decisions;

b. Any material changes to the fund’s trade allocation and execution policies and the proxy voting policies within that quarter; and

c. Any new related party transactions that occurred within that quarter.

Analysis of options

Key personnel

55 Disclosing the key personnel who have ultimate accountability for the investment decisions increases transparency and is useful for the investor as well as researchers, commentators and the regulator. One way funds market and differentiate themselves is on the basis of their key personnel. The background and tenure of the key personnel is also linked to the fund’s investment strategy and long-term performance.

56 It is anticipated that the people caught by this requirement will be the top level decision makers, not the lower level analysts. This may capture, for example, the Chief Executive, the Chief Investment Officer, and any senior analysts running the individual fund.

57 An alternative option would be to disclose all the controlling persons of the fund. More information could also be provided such as remuneration and other benefits. This would ensure transparency but would also increase costs and may provide excessive information. Disclosing basic information of up to the top persons provides market participants with targeted information that may have an impact on investors’ decision making. For example, how much experience the person has in investing.

Conflicts of interest

58 Disclosing the fund’s conflicts of interest also increases transparency and will provide valuable information to the regulator and commentators. More information such as the trade allocation and execution policies and the proxy voting policies could be provided. However, it is intended that these will be required to be included in the periodic disclosure statement (PDS) under the new Financial Markets Conduct Bill and therefore it may not be necessary to repeat this information.

59 Funds could also be required to disclose how the proxy votes were actually voted. This would further increase transparency. However, this may be burdensome on funds and create too much information. Disclosing only the material changes for the proxy policies will reduce the chance of long lists and high costs. This will also put the onus on funds to disclose any material changes and mean that those changes can't be hidden among long list of proxy votes.

60 Similarly, further information could be provided about the related party transactions such as the percentage of exposure to each transaction. However, this would increase compliance costs while adding little additional benefit as information regarding related party exposures is already disclosed as part of schemes' financial reporting obligations.

Compliance costs

61 Most KiwiSaver providers already have the systems in place to collect information about the fund's returns, fees and assets. All providers are required to report on such information in their annual report, which is audited, and their annual return to the FMA. Therefore, it is not anticipated that providers will incur significant additional costs associated with obtaining the required information. The requirements imposed by these regulations largely relate to how this base information is presented and distributed, and the internal processes undertaken before the documentation can be released.

62 Providers are likely to have start-up costs associated with implementing the new data systems, depending on the final details of the proposed presentation and methodologies. Because providers have different fund structures and different methodologies for calculating and presenting information, the costs imposed on them by the proposals will differ between providers, depending whether their current methodologies are similar to the proposals. However, based on information from two large providers, it is estimated that the start-up costs for each provider may range from $25,000 to $100,000.

63 Many KiwiSaver providers also already make such information available to the public and provide information to commentators and researchers. The key on-going cost for providers will be associated with their internal quality assurance processes to ensure the QDS and ADS are accurate and published on time. While these documents will not be audited externally, full accountability for misstatements will attach to them, and so companies will have to have sufficiently robust internal mechanisms to ensure accuracy.

Consultation

64 The Ministry received 36 submissions on the discussion document from fund managers, retail scheme providers, financial advisors, market commentators, lawyers, accountants, consumers, consumer bodies and industry bodies.

65 Following submissions the Ministry consulted further with industry, including retail KiwiSaver providers, Workplace Savings, the Investment Savings and Insurance Association, the New Zealand Banker's Association and Morningstar.

66 The Ministry also consulted the following government agencies: Financial Markets Authority and Treasury and the Inland Revenue Department.

Stakeholders' views

67 Stakeholders generally agree on the proposed approach and presentation. However, there are many forms of retail KiwiSaver schemes and therefore the detail of the requirements is especially important. Hence, providers are interested in seeing the detail of the proposal and how the proposal is translated into regulation.

68 KiwiSaver providers agree with the need and desirability for greater disclosure of consistent and comparable fund performance. However, they are also mindful of the compliance costs. They were particularly concerned that the proposals may require the disclosure of information that is already required to be disclosed under other legislation in a different way. In order to avoid duplicating disclosure requirements, the Ministry has kept in mind the other disclosure requirements when developing its proposals.

69 Some providers were able to give the Ministry an estimate of the costs. However, some providers submitted that they already have the systems in place to obtain the required information, whereas others do not. Therefore, the start-up costs associated with complying with the new calculation methodologies will differ widely for each provider.

70 Providers were also particularly concerned with the level of detail provided in respect of the disclosure requirements. Providers asked that comprehensive guidance be given around the definition of key personnel, determining what falls into particular asset classes, the allocation of particular fees and costs to specific categories and the calculation of the net asset value. The Ministry will be working closely with the FMA to ensure that the appropriate level of guidance is provided.

71 Specific issues that stakeholders were concerned about include:

a. Ensuring that the categorisation of fees and costs would accurately and fairly disclose all the fees and costs. Stakeholders were also concerned with the ability to disclose, and the costs involved with disclosing, the transaction costs. The Ministry undertook comprehensive consultation with stakeholders to understand the different cost structures of different schemes in order to accurately capture all the fees and costs. In response to stakeholder concerns the Ministry made the distinction between scheme level and fund level fees and costs and removed the requirement to disclose all the transaction costs;

b. Presenting the returns in an accurate and meaningful way. Stakeholders had differing views as to whether returns should be presented net or gross of fees and tax. Some stakeholders are of the opinion that disclosing the total fund return net of taxes could be misleading because the tax payable by the investor is dependent on the members' PIR and the fund's investment strategy. Stakeholders agreed that a hypothetical investor would more fairly compare the impact of tax and fees across different funds. In response to these concerns the Ministry removed the total return net of taxes. However, the total tax figure is still included in the return table to show the total taxes deducted from the fund on behalf of investors;

c. The costs involved with disclosure of asset holdings. Providers are generally happy to disclose full lists of assets annually. However, providers believed that disclosing full lists more frequently would take too much time and be too costly;

d. The relevance of the liquidity ratio. Stakeholders generally accepted that liquidity and liabilities should be disclosed. However, some stakeholders questioned the value of disclosing the liquidity ratio. Despite these concerns the Ministry considers that disclosing the liquidity ratio will add little compliance costs and be a useful way of measuring fund risk.

Conclusions and Recommendations

Preferred option

72 The preferred option is made up of the following:

Performance and returns

73 On a quarterly and annual basis schemes will be required to disclose:

a. A dollar figure example of the return based on a hypothetical individual investor. The hypothetical investor will have a set amount invested of $10,000 and a Prescribed Investor Rate (PIR) of 28%;

b. The fund's returns on a rolling annual basis[2] presented gross of fees and tax as a percentage of the net asset value (NAV);

c. The net total of fees as a percentage of the NAV; and

d. The net total of tax as a percentage of the NAV.

Fees and costs

74 On an annual basis schemes will be required to disclose all fees and costs, including fees and costs that are deducted from:

a. The fund;

b. The scheme; and

c. Specific investors.

75 Schemes will also be required to present the total expense ratio (TER) of the fund and the portfolio turnover rate.

76 On a quarterly basis schemes will be required to disclose the all the fees and costs in a summarised form.

Asset allocation and portfolio holdings

77 On an annual basis schemes will be required to disclose:

a. The top 10 holdings;

b. The full list of underlying asset holdings, subject to exceptions set in regulations or an exemption from the FMA;

c. A pie graph disclosing the composition of the fund in terms of prescribed asset classes;

d. A table disclosing the fund's target asset allocation, using prescribed asset classes;

e. The liquidity ratio; and

f. The debt level.

78 On a quarterly basis schemes will be required to disclose:

a. The top 10 holdings;

b. A pie graph disclosing the proportion of the fund invested in each class of asset;

c. A table disclosing the fund's target asset allocation, using prescribed asset classes;

d. The liquidity ratio; and

e. The debt level.

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[2] This means that the quarterly disclosure statement will include the returns for the last four quarters.

Key personnel and conflicts of interest

79 On an annual basis schemes will be required to disclose:

a. The name, position, previous position and tenure in those positions of up to the top 5 personnel who have the most impact on the fund's investment decisions;

b. A summary of the material changes to the fund's trade allocation and execution policies and the proxy voting policies; and

c. A list of related party transactions and total percentage of exposure.

80 On a quarterly basis schemes will be required to disclose:

a. The name, position, previous position and tenure in that position of the person who has the most impact on the fund's investment decisions;

b. Material changes to the fund's trade allocation and execution policies and the proxy voting policies within that quarter; and

c. Any new related party transactions that occurred within that quarter.

Implementation

81 The primary risk associated with implementation is the translation of policy decisions into regulations. The Ministry will continue to work with stakeholders during the drafting process.

Monitoring, Evaluation and Review

82 It is intended that the proposals will be imposed on all managed investment schemes under the Financial Markets Conduct Bill. It is expected that a review of that Bill will take place at an appropriate date after enactment. The above proposals will be part of that review.