

# KiwiSaver annual statements – calculation of total fees (in dollar values)

## About this consultation paper

All KiwiSaver providers are required, by law, to give those who are members of their scheme (**KiwiSaver investors**) an annual statement containing information about their retirement savings for that year.

These requirements are being changed to require KiwiSaver providers to include the dollar amount of total annual fees charged to each KiwiSaver investor.

Annual statements are personalised and sent directly to KiwiSaver investors. The statements offer a unique opportunity for KiwiSaver providers to engage with their investors, and to help them make good decisions about their investment. For this to happen, the information contained in the annual statement needs to be compelling and relevant for the KiwiSaver investor. This is what informs the requirement to show KiwiSaver investors the dollar value of the fees they are paying.

## Proposed methodology and guidance for fees calculation

We are considering issuing a methodology notice that prescribes how the total fees amount should be calculated. This paper sets out a proposed method of fees calculation. We want feedback on this proposal from KiwiSaver providers, their representatives, and any other interested persons.

We also want feedback on proposed supporting guidance on the use of estimates to calculate the total fees amount.

Submissions close on 5 May 2017. Please submit your feedback using the form at the end of this paper.

This consultation is for: KiwiSaver providers and other interested parties

It aims to: Gain feedback on a proposed methodology and supporting guidance for calculating the total fees paid per year by each KiwiSaver investor in a KiwiSaver scheme



Document history

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This version was issued in April 2017 and is based on legislation and regulations as at the date of issue.

**FMA document reference code 3326243**



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# Background

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## New regulations

At the end of an accounting period, KiwiSaver providers must, by law, give each KiwiSaver investor an annual statement.

The content of these statements is set out in section 100 of the Financial Markets Conduct Act 2013 (**FMC Act**) and regulations 69-71 of the Financial Markets Conduct Regulations 2014 (**FMC Regulations**).

The FMC Regulations are being amended, which will change the requirements for these statements (**new regulations**).

Under the new regulations, the statements must show KiwiSaver investors the total fees they paid, during the previous year, in dollar value.

This requirement will apply to annual statements provided on or after 31 March 2018.

*Please keep in mind that this consultation paper has been prepared based on the confidential exposure draft of the new regulations as at 22 March 2017. The regulations are still being finalised. They may change before publication.*

## Proposed timing

11 April to 5 May	Consultation with providers on proposed methodology and guidance
Late April (expected)	New regulations become effective
May-June	Consultation with providers on draft methodology notice and/or draft guidance note.
June-August	Expected timing to issue a methodology notice and/or guidance note (if any)

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### *Advantages and disadvantages of using the T AFC methodology*

#### Advantages:

- Developed on the basis that providers should give the most accurate fee figure possible to KiwiSaver investors, without incurring significant build costs.
- Works for all funds.
- By including fund charges, the methodology includes underlying costs the fund incurs.
- Should be able to be calculated using existing system functionality. This would then lead to fewer sunk costs if a new methodology is adopted in future.
- Based on existing Australian fee disclosure requirements for superannuation products.
- Providers should be able to largely rely on current methods for calculating the actual fund charges for their fund updates when calculating the total fees amount.
- The calculation will be done at a similar time when providers will be revising their total fund charges for their next fund update.

#### Disadvantages:

- Relies on approximations rather than true actual costs.
- Not the most accurate method.



# Proposed guidance

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## Use of estimates

We are considering issuing guidance on the use of estimates to calculate the total fees paid by each KiwiSaver investor on the basis discussed below. We invite your feedback on our proposed guidance.

We propose this guidance will be similar in approach of calculating fees and charges set out in our [Guidance Note- Fee Disclosure for Managed Funds](#).

However, where a fund invests into a non-related underlying fund (which charges a performance fee), and that fund is based in New Zealand and has PIE status, managers should ask those underlying funds to provide their daily performance fee. We understand that this information can be derived from ISI files.



# Other methods of calculation

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## Other methods

We would prefer that all providers use the same methodology to calculate total annual fees for the purposes of the annual statements. This allows KiwiSaver investors to easily and accurately compare the fees charged by different providers. We therefore intend to prescribe only one method of calculation in our methodology notice.

### **CPU methodology**

We have also looked at an alternative methodology where fees are attributed to Kiwi Saver investors daily on a Cent per Unit basis (**CPU methodology**).

The CPU methodology is similar to the method currently used to derive PIE taxable income for the purposes of the Income Tax Act 2007. Using the CPU methodology would give a more accurate total cost figure, but we are concerned about whether all providers have enough time to implement this methodology before their 2018 annual statements are due. We also understand that if this methodology is used, it may also mean that providers with a 31 March balance date would need to back fill data for the period from 1 April until the date the methodology notice is issued.

We would be interested in feedback on this methodology and any other methods of calculation that KiwiSaver providers may have considered. However, our current preferred method is the TAFC methodology.



# Questions

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## General

Q1. Do you think we need to issue a methodology notice for the calculation of total fees for KiwiSaver annual statements? If not, would any guidance about this help you?

## T AFC methodology

Q2. Do you have any comments (drafting or otherwise) on the T AFC methodology?

Q3. Should an investor's average balance be recorded on a daily, weekly or monthly basis? Would you have difficulty obtaining a monthly balance?

Q4. Are you using the T AFC methodology to calculate investors' total fees currently?

Q5. If you are not using the T AFC methodology at the moment, can you please give us your cost estimate to implement a system to calculate total fees using T AFC methodology? Please indicate how long it would take to implement this system, if possible.

Q6. We are thinking of issuing the methodology between June and August 2017. Given that timing will you be able to calculate the total fees figure for 2018 annual statements using the T AFC methodology?

Q7. Do you agree with the advantages and disadvantages of the T AFC methodology? Are there other advantages or disadvantages we need to know about?

## Guidance

Q8. Do you have any comments on our proposed guidance about the use of best estimates to calculate total fees?

## Other calculation methods

Q9. When calculating total fees for the annual statements, would you be able to attribute fund charges to an individual fund investor on a daily basis?

Q10. How long do you think it would take to build a system based on the CPU methodology? How much (if known) do you expect it would cost? If possible, can you please provide the formula for the CPU methodology that you would use?

Q11. Is there another methodology that you are using currently that you think we should consider? Please explain why you think we should use another methodology and provide the formula that you currently use or would use for this methodology. Please provide the advantages and disadvantages of that methodology.



# Feedback form

## Feedback: KiwiSaver annual statements

Please submit this feedback form electronically in both PDF and MS Word formats and email it to us at [consultation@fma.govt.nz](mailto:consultation@fma.govt.nz) with 'Feedback: KiwiSaver annual statements' and your entity name in the subject line. Thank you. **Submissions close on Friday, 5 May 2017.**

Date: \_\_\_\_\_ Number of pages: \_\_\_\_\_  
 Name of submitter: \_\_\_\_\_  
 Company or entity: \_\_\_\_\_  
 Organisation type: \_\_\_\_\_  
 Contact name (if different): \_\_\_\_\_ Contact email and Phone: \_\_\_\_\_

Paragraph or Question Number:	Comment	Recommendation
<i>You don't need to quote from the consultation document if you use question numbers. You may attach extra pages – please label each page with your name and organization. You don't need to give an answer to every question if you don't want to.</i>		
Q1		
Q2		
Q3		
Q4		
Q5		
Q6		
Q7		
Q8		
Q9		
Q10		
Q11		

**Feedback summary** – *if you wish to highlight anything in particular*

**Please note:** Feedback received is subject to the Official Information Act 1982. We may make submissions available on our website, compile a summary of submissions, or draw attention to individual submissions in internal or external reports. If you want us to withhold any commercially sensitive or proprietary information in your submission, please clearly state this and note the specific section. We will consider your request in line with our obligations under the Official Information Act.

**Thank you for your feedback – we appreciate your time and input.**