ANNEX

HONG KONG SOCIETY OF ACCOUNTANTS' COMMENTS ON MPFA's CONSULTATION PAPER ON DRAFT CODE ON DISCLOSURE FOR MPF INVESTMENT FUNDS

A. Comments on the Identified Issues in the Consultation Paper

We set out below our comments on four of the issues identified in the Consultation Paper. We do not have any comments on the other identified issues.

1. *Question G4*

Do you agree with the approach to standardization adopted in the proposed standardized fee table (Appendix A)? Do you consider that the standardized fee table could be improved in any respect (including formatting, terminology and definitions) to improve the quality and comprehensibility of information that is provided to members? Do you consider, for example, that members needs would be better served if a table were prepared for each fund within a scheme, rather than, as proposed, that the one table set out fees and charges for all funds within a scheme?

HKSA's comments

It is considered that a table should be prepared for each fund within a scheme.

2. *Question G6*

Do you consider it adequate that the on-going cost illustrations are merely an accompaniment to scheme offering documents rather than being part of the offering document?

HKSA's comments

It is considered inadequate that the on-going cost illustrations are merely an accompaniment to scheme offering documents.

3. *Question T1*

Appendix B (the on-going cost illustration) includes a column for the fund expense ratio for the relevant financial year. Do you think that the figure to be included in that column should be the calculated FER for the relevant fund/class or should it be the ratio adjusted under paragraph b of the instructions to approved trustees? Either approach might tend to confuse users; how do you consider that the scope for such confusion can be minimized?

HKSA's comments

It is considered that the figure to be included in the column for the fund expense ratio for the relevant financial year should be the ratio adjusted under paragraph b of the instructions to approved trustees.

4. *Question T2*

Both the fund fact sheet requirement (paragraph D2.3(h)) and the on-going cost illustration (Appendix B) require FER calculations for each class of unit of each constituent fund. Clearly, including information about each class for each fund has the disadvantage that it requires much more information than if information about the constituent fund only were included. The concern with including only an average fund FER is that that figure might not have actual application to any members and will clearly understate the FER for some members and overstate the FER for others. Do you consider that the use of FER for each class of a constituent fund is warranted? If not, how do you propose that information could be presented to scheme members in a way that does not mislead them?

HKSA's comments

It is considered that the use of FER for each class of a constituent fund is warranted.

B. Comments on the draft Code

1.	P.3 A1.1	Suggested wording change: "NAV" should mean net asset value (i.e. gross asset value net of accounts payable and accrued fees and expenses ~~relevant fees and expenses~~).
2.	P. 11 B2.7	We suggest deleting "or even outside the MPF system" in the third line since comparison of funds outside the MPF system may not be meaningful because the information may not be comparable.
3.	P.24 D2.3(f)	For a constituent fund where the management fee can be paid by means of deduction of fund units, compound annualized rate of return should be calculated after unit deduction. Suggest that this point should be specified either in the Code.
4.	P.25 D2.3(h)	Suggested wording change: "Latest fund expense ratio".
5.	P.25 D2.3(i)	Suggested wording change: "…a brief description of the reserve, ~~and~~ the amount (in dollars and as a percentage of the NAV of the fund) of the reserve as at the reporting date~~) that~~ and the amount that was transferred ~~paid~~ into and out of the reserve over the latest financial period." For a constituent fund where the whole or a part of the fund is invested in an APIF that maintains a reserve appropriated from the fund assets for smoothing and other purposes, the relevant amounts of the reserve of the APIF that are ***attributable to the constituent fund*** should be disclosed.

6.	P. 26 D2.3(k)	The requirement is too vague and may not be able to result in comparability. Suggest that more concrete requirements are set out either in the Code or the relevant industry standard/guideline.
7.	P.26 D2.3(l)	We suggest deleting "the scheme or". Commentary on each constituent fund would be useful but a global commentary on the scheme as a whole may not serve the purpose of helping scheme members to make more effective MPF investment decisions since it is the performance of each constituent fund that matters.
8.	P. 30 E1.6	We suggest reconsidering whether it would be necessary for operators of APIFs to provide FER information within a period of less than 2 months, say 45 days, in order that other requirements in the Code such as that in D3.3 concerning fund fact sheets can be fulfilled.
9.	P.33 E3.2(b)	We suggest that the term "guarantee charge paid to guarantor" be changed to, for example, "guarantee fees paid to guarantor", if the amount is paid to the guarantor as remuneration for the guarantee and the legal entitlement of the amount rests with the guarantor. In such case, the fund holders should have no legal right to the amount. It is important that there should be a clear distinction from the "guarantee charge" included in E3.3(e).
10.	P.33 E3.2(g)	Interest on borrowings will distort FER since it is not a direct expense in running the scheme, rather it serves to augment the investment potential of the scheme.
11.	P.33 E3.2(j)	Normally, expenses should not be amortized under the current accounting convention unless they meet the definition of intangible assets. The same principle should apply in the calculation of FER.
12.	P.33 E3.2(k)	We understand that this item relates to expenses for capital preservation funds which are deferred from a previous period for a maximum period of twelve months due to inadequate profits to set off the expenses incurred. We suggest rephrasing the description to "expenses for capital preservation funds deferred from a previous period" such that the nature of the expenses would be self-explanatory. Similar comments apply to "expenses relating to the relevant year that are deferred to a subsequent period" in E3.3(g).
13.	P.34 E3.3(e)	If the amount is deducted for the purpose of smoothing of investment returns and the legal entitlement of the amount rests with the fund holders, we suggest rephrasing the description "guarantee charge" to, for

		example, “amount transferred to guarantee reserve” or “amount transferred to smoothing provision” so as to make clear its distinction from the “guarantee charge” included in E3.2(b). Please also see comments on E3.2(b) above.
14.	Pages B-1 & C-2	“**THE ILLUSTRATION ASSUMES THAT:** (a) you make a gross contribution of HK$1,000……” on page B-1 and “Based on these assumptions, the ***total amounts of annual fees*** you need to pay…” on page C-2. Suggest to make clear whether the amount in question includes contribution by the scheme member only or also includes that by the employer.
15.	Page B-2 b(ii)	We suggest that expenses of a non-recurring nature should also be taken into account, for example, they can be spread out for a number of years for the purpose of FER calculation. Although expenses such as set-up costs, restructuring costs and costs relating to system enhancements due to any legislative/guidelines amendments do not recur every year and do not seem to have an impact on the on-going cost, their recurrence every few years is not uncommon and therefore their effect on on-going cost should not be ignored.
16.	Page B-2 b(iv)	There should be information available for estimating the cost of a new fund.

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