

Cost Transparency in Asset Management

THE e-AMIS COST TRANSPARENCY REPORT – THE PROFESSIONAL SOLUTION FOR OCCUPATIONAL PENSION FUND MANAGERS

Regulatory efforts to avoid future financial crises focus on improving the safety of banks, the stability of the financial system and the investor protection. According to the supervisory authorities, market activities of financial institutions should be transparent for all market participants in order for the securities market to function efficiently. The issue of transparency has become of increasing significance in various national and international legislative texts. The European Union Markets in Financial Instruments Directive (MiFID) stipulates that all cost components must be disclosed in investment consulting and portfolio management. The Swiss Financial Services Law also adopts these guidelines.

The ordinance for the implementation of the structural reform of occupational pension funds even takes it one step further. Occupational pension funds will be obliged to disclose hidden costs of collective investments and display their administrative costs in a comprehensive and detailed manner.

Based on a new classification of the financial instruments and costs, with the new cost transparency report a module is provided that supports the regulatory requirements of the Swiss Supervisory Commission of Occupational Pension Plans (OAK BV) and provides occupational pension funds with the required data for their financial statements.

LEGAL BACKGROUND

With the edition of 23 April 2013 (W-02/2013), OAK BV published the final 'Disclosure of Asset Management Fees' directives including detailed regulations and calculation bases for occupational pension funds. These regulations will be applied in the financial statements of occupational pension funds and vendors of collective investments as of the 31.12.2013.

OAK BV Directives on the Statement of Asset Management Fees. As part of the structural reform of the Swiss Pension Fund Act (BVG), Art. 48a BVV2 has been extended with regard to the disclosure provisions for administrative costs of occupational pension funds: Pursuant to Art. 48a Para. 3 BVV2, all investments whose asset management fees cannot be reported in the accounting statement in accordance with Art. 48a Para. 1 BVV2, must be listed separately in the notes to the financial statement. Moreover, the new OAK BV regulations specify the methods for calculating a cost key figure for investments. This means that investments are disclosed as 'cost-transparent' when their costs are charged against the return on assets rather than being invoiced directly to an occupational pension fund. Investments for which no cost key figure is defined are deemed non-cost transparent and must likewise be shown in the notes to the financial statement.

Collective and direct Investments. The OAK BV directives distinguish between collective and direct investments, whereby financial instruments that fall into the category of collective investments are specified in the explanatory note to the OAK BV directives. All other financial instruments are classified as direct investments.

Cost Categories. All costs of direct and collective investments are to be assigned respectively to the following three cost categories:

- Asset management (AM) fees (total expense ratio – TER costs)
- Transaction costs and taxes (transaction and tax cost – TTC costs)
- Other costs (supplementary costs – SC costs)

	TER	TTC	SC
Direct Investments	<ul style="list-style-type: none"> – AM fees – Custodian bank fees 	<ul style="list-style-type: none"> – Stamp duties – Transaction costs, taxes 	Other costs
Collective Investments	<ul style="list-style-type: none"> – Issue fees – Redemption fees 		Other costs
	<ul style="list-style-type: none"> – AM and custodian bank fees within the collective investments – Issue and redemption fees within the collective investment (recorded using TER) 	Transaction costs and taxes within the collective investment (are not recorded)	

Cost Transparency. A direct investment is defined as 'cost transparent' if an occupational pension fund displays all TER costs as well as any TTC costs incurred at pension fund level in the accounting statement. The TER costs assigned to the collective investments must be calculated using the TER key figure, whereas the TTC costs assigned to the collective investments do not have to be listed separately.

COST TRANSPARENCY REPORT

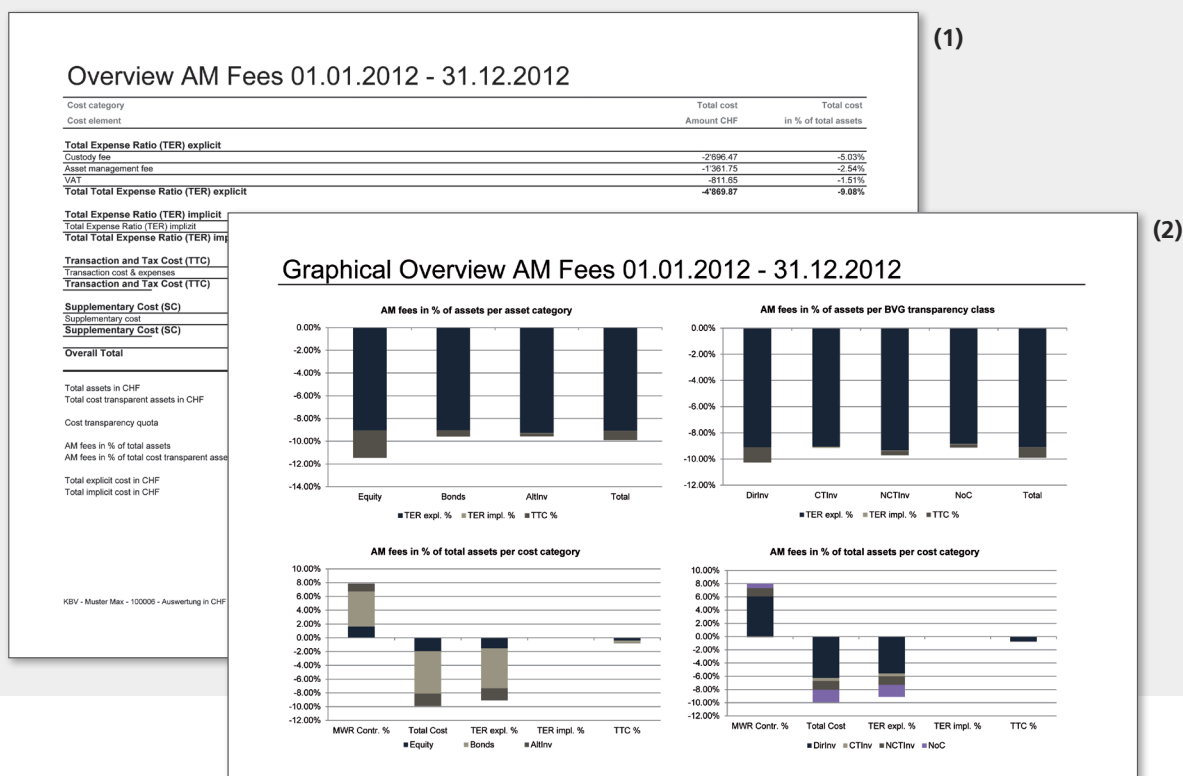
The new Profidata cost transparency report completely fulfils all statutory requirements. The report comprises multiple report modules that can be integrated in the reporting set for the list of assets and thus selected for defined customer groups in the periodic reporting.

Data basis. The relevant financial instruments (securities) are classified in accordance with OAK BV directives and supplemented with the cost ratio TER. Classification and cost ratio can be imported or entered manually. To ensure the 'exact allocation' of the cost – as described in the OAK directives – the TER can be computed in ratio to the average invested capital and broken down into the asset allocation. The assignment of profit with regards to cost components booked in e-AMIS to the OAK BV defined cost categories is parameterisable. This enables later enhancements of cost structuring.

Report Modules. The cost transparency report consists of five sections:

(1) The 'Overview AM Fees' table displays the categorised costs. Individual cost elements are listed separately in their respective cost categories. The overview can be supplemented with various key figures such as the cost transparency ratio to be published in the notes to the financial statement or the percentage of asset management fees in the entire cost transparency investment.

(2) The 'Graphical Overview AM Fees' complements the first section and ensures a quick orientation of the cost structure within the different asset classes. The returns are also compared to the costs in the graphical overview.



(3) The 'Restatement AM Fees' offers an alternative view of the investment and cost structure in accordance with the transparency requirements for collective and direct investments corresponding to the OAK BV directives. As in the 'Overview AM Fees', additional key figures can be added to this module.

(4) With the 'AM Fees Detail' list, the cost information for each financial instrument can be retraced. The breakdown of implicit and explicit TER costs shows which costs for the collective investments are accumulated directly on occupational pension fund level and which costs can be calculated indirectly from the delivered TER key figure.

(5) 'Non-Cost Transparent Collective Investments' are displayed in a further list with, for example, BVV2 itemised attributes such as ISIN, vendor, product name, position and market value per due date, so that these investments, including the required key figures, can also be published in the notes to the financial statement of the occupational pension funds.

Restatement AM Fees 01.01.2012 - 31.12.2012

Restatement of total investments

	Inv. capital CHF	Return CHF	TER expl. CHF	TER impl. CHF	TTC CHF	SC CHF	BankAc CHF	Total cost CHF
	Inv. capital %	MWR contr. %	TER expl. %	TER impl. %	TTC %	SC %	BankAc %	Total %
Direct investments	32735.52	3257.17	-2978.32	-377.95	-377.95			-3956.27
	61.02%	6.07%	-5.55%	-0.70%	-0.70%			-6.26%
Cost transparent collective investments	2593.39	-83.71	-235.06	-2.07	-2.07			-237.13
	4.83%	-0.12%	-0.44%	-0.00%	-0.00%			-0.44%
Non-cost transparent collective investments	7407.42	678.37	-892.00	-2.96	-25.00			-719.99
	13.81%	1.26%	-1.29%	-0.01%	-0.05%			-1.34%
No classified investments	10908.53	350.00	-984.50	-4.36	-26.88			-995.74
	20.33%	0.65%	-1.80%	-0.01%	-0.05%			-1.86%
Total investments	53'644.86	4'219.83	-4'869.87	-9.40	-429.83			-5'309.10
	100.00%	7.87%	-9.08%	-0.02%	-0.80%			-9.90%

AM Fees Detail 01.01.2012 - 31.12.2012

Non-classified investments

Cur	Name	Inv. capital CHF	Return CHF	TER expl. CHF	TER impl. CHF	TTC CHF	SC CHF	Total cost CHF
	ISIN / Sec ID	Inv. capital %	MWR contr. %	TER expl. %	TER impl. %	TTC %	SC %	Total %
Bond								
Government bond								
EUR	xxxx	10908.53	350.00	-984.50	-4.36	-26.88		-995.74
	xxxxx	20.33%	0.65%	-1.80%	-0.01%	-0.05%		-1.86%
EUR	xxxx							
	xxxxx							
Total government bond								
Total bond								
Rounding difference								
Total non-classified investments								

Non-Cost Transparent Collective Investments 01.01.2012 - 31.12.2012

Cur	Name	Company	Start date	End date	Qua/Nom at start	Qua/Nom at end	Market value at start	Market value at end	Investment	Disinvestment	Inv. capital	Return
	ISIN / Sec ID										Inv. capital %	MWR contr. %
Alternative investment												
Alternative investment euro area												
EUR	LBBW Commodities 2	BADEN-WÜRTTEMBERGISCHE	01.01.2012		-		5'046.45		55.84		330.48	160.61
	DE000ADN9FE0 / xxxx	KAG MBH	01.02.2012		-				-5'212.80		0.62%	0.30%
EUR	ALC Risk Priority 7	ALGEDIA FUND MANAGEMENT	01.01.2012		130.00		15'577.90		34.32		7'075.54	515.76
	LU0326194015 / xxxx	SA	31.12.2012		45.00		5'642.55		-10'485.43		13.19%	0.96%
Total alternative investment euro area							20'627.35		90.16		7'407.42	676.37
							5'642.55		-15'688.23		13.81%	1.26%
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							5'642.55		-15'688.23		13.81%	1.26%
Rounding difference												
Total non-cost transparent collective investments							20'627.35		90.16		7'407.42	676.37
							5'642.55		-15'688.23		13.81%	1.26%

CONCLUSION

With the implementation of the cost transparency report in e-AMIS, Profidata promptly responded to the structural BVG reforms. This solution supports and complies with the new OAK BV directives and offers occupational pension funds and vendors of collective investments a significant reduction in administrative workload that these regulatory changes would otherwise entail.

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