



BANK OF PAPUA NEW GUINEA

**SUPERANNUATION PRUDENTIAL STANDARD
2/2004**

**MANAGEMENT EXPENSE RATIOS, TRUSTEE
FEES AND ENTITLEMENTS**

ARRANGEMENT OF SECTIONS

Part I—Preliminary

1. Short title
2. Authorisation
3. Application
4. Interpretation/Definitions
5. Commentary

Part II— Statement of Policy

6. Purpose
7. Scope
8. Responsibility

Part III—Implementation and Specific Requirements

9. Regular reports to include MER
10. Annual reports to include MER and other information
11. Master trust funds
12. General
13. Working out MERs
14. Using this standard to work out MERs
15. Formula
16. ASF expenses
17. Average NAV for the ASF
18. Master trust funds

Part IV— Corrective Measures

19. Remedial measures and sanctions
20. Licence conditions

Part V—Effective Date

21. Effective date
22. Questions and enquiries

Schedule 1—Table of Trustee Fees and Entitlements

PART I—PRELIMINARY

- 1) **Short Title**: This standard may be cited as Superannuation Prudential Standard (Management Expense Ratios, Trustee Fees and Entitlements) 2004.
- 2) **Authorisation**: The Bank of Papua New Guinea, acting under section 43 of the *Superannuation (General Provisions) Act 2000* and all other powers enabling it, determines this standard.
- 3) **Application**: All Authorised Superannuation Funds (“hereafter call ASFs”) and relevant license holders.
- 4) **Interpretations/Definitions**: In this standard, unless the contrary intention appears—
 - a. “Act” means the *Superannuation (General Provisions) Act 2000*, and regulations, other prudential standards, licences, authorities and other instruments made under or for the purposes of that Act.
 - b. “MER” means management expense ratio.
 - c. “NAV” means net asset value.
 - d. “master trust fund” means an ASF the governing rules of which provide to the effect that—
 - i. employees of more than 1 employer may be members of the ASF; and
 - ii. the members who are employees of 1 employer form a different class of members from members who are employees of other employers.

Commentary

1. This could be because, for example, there are different contribution requirements, or different benefits, or benefits are worked out by reference to different parts of the ASF’s assets.
- e. “regular report” means a report given by the licensed trustee of an ASF on an annual, 6 monthly or quarterly basis (however the report is given or published to members).

Commentary

1. Section 56 of the Act requires a licensed trustee to make an annual report to members.

- 5) **Commentary**: Commentary in this standard is included for guidance.

PART II—STATEMENT OF POLICY

- 6) **Purpose**: This standard principally prescribes requirements about working out and reporting management expense ratios. It is based on the methodology for working out MERs adopted in Technical

Direction Papers by the Association of Superannuation Funds of Papua New Guinea.

- 7) **Scope**: This standard applies to all ASFs and relevant license holders.
- 8) **Responsibility**: It is the responsibility of the board of directors of the Trustee Company and relevant licence holders to comply with this standard.

PART III—IMPLEMENTATION AND SPECIFIC REQUIREMENTS

- 9) **Requirements for regular reports to include MER:**
 - a. The licensed trustee of an ASF must ensure that each regular report given to members (including regular reports published as advertorials in newspapers and other media)—
 - i. states the ASF's MER for the period covered by the report; and
 - ii. includes a brief description of how the MER was worked out; and
 - iii. includes a statement of the effect of the change on the previous year's MER for the ASF if—
 1. the basis for working out the fees or expenses used in working out the MER is changed or is proposed to be changed; and
 2. the change would affect MERs for the previous financial year if such a change had then been in effect;
 - iv. states the amount of the fees for the period covered by the report payable to—
 1. the licensed trustee; and
 2. the licensed investment manager; and
 3. the licensed fund administrator.
- 10) **Annual reports to include MER and other information.**
 - a. The licensed trustee of an ASF must ensure that each regular report it makes to members as required by section 56 of the Act sets out—
 - i. the ASF's MER for the financial year covered by the report and for the previous 3 full financial years of the ASF; and
 - ii. the amounts of the fees for the financial year covered by the report and for the previous 5 full financial years of the ASF payable to—

1. the licensed trustee; and
2. the licensed investment manager; and
3. the licensed fund administrator.

Commentary

1. Where the financial year for the ASF differs from the 31 December financial year, the appropriate financial year (30 June or 30 September whatever the case may be) is to be used.
- iii. what allowances are payable to directors of the licensed trustee, the circumstances in which they are payable and the amount or maximum amount of those allowances;
- iv. whether, and if so in what circumstances, a director of the licensed trustee is entitled to additional fees for serving on a committee of the board, and how those additional fees are worked out;
- v. whether the ASF meets expenses associated with meetings of directors of the licensed trustee and, if so, on what basis;
- vi. whether, and if so in what circumstances, the costs of overseas travel for directors of the licensed trustee is met by—
 1. the ASF; or
 2. the licensed trustee; or
 3. a subsidiary of the licensed trustee; or
 4. an entity that the ASF, the licensed trustee or a subsidiary of the licensed trustee owns or controls;and how those costs are worked out;
- vii. whether, and if so in what circumstances, a director of the licensed trustee may be given an advance in respect of an entitlement mentioned in this subsection;
- viii. the policies adopted for accommodation of directors of the licensed trustee in connection with board meetings.

Commentary

1. In particular, any requirement for board approval should be disclosed.

11) **Master trust funds**

- a. For an ASF that is a master trust fund, the licensed trustee of the ASF must ensure that a regular report given to a member in a particular class includes, as well as the MER for the ASF, the relevant MER worked out under subsection 17 for that class of members.

12) **General**

- a. MERs presented in a regular report required by section 56 of the Act must be presented in a table format.
- b. Information required by paragraphs (10) (a)(iii) to (viii) may be presented in table format. Schedule 1 is an example of such a table.

13) **Using this standard to work out MERs**

- a. Where, under or for the purposes of the Act or this standard, the licensed trustee of an ASF must publish or disclose the MER of an ASF, the MER is to be worked out in accordance with this section.
- b. If the licensed trustee considers that it would be misleading to work out the MER for the ASF in accordance with the following provisions of this section—
 - i. it may work out the MER in accordance with those provisions modified only so far as necessary to ensure that the MER is not misleading; and
 - ii. it must not publish or disclose the MER worked out in that modified way unless—
 - 1. it has given the Central Bank at least 3 months notice of the modification and its reasons for the modification; and
 - 2. it also publishes or discloses at the same time the nature of the modification.

Commentary

- 1. A principal purpose of this standard is to standardise the calculation of management expense ratios by ASFs, so that members can compare MERs. Therefore, although MERs can vary greatly from ASF to ASF, it is important to avoid conflicting and inconsistent calculations by applying the requirements in this standard.
- 2. Nevertheless, if an ASF is not able to use to the methodology prescribed in this standard because it would give a misleading result, modifications of the methodology are allowed. In these cases, the Central Bank must be notified, and the nature of the modifications also disclosed.

14) **Formula**

- a. An ASF's MER for a period is to be worked out using the formula—

$$\frac{\text{total of ASF expenses for the period}}{\text{average NAV for the ASF over the period}}$$

15) **ASF expenses**

- a. Subject to subsections 15(b), (c) and (d), ASF expenses are the costs and expenses properly and directly incurred by the licensed trustee to the extent that they are attributable to the operation of the ASF.

Commentary

1. The kinds of costs and expenses could include—
 - fees payable to licensed investment managers, licensed fund administrators and custodians for investment management services, fund administration services and custody services, or related services, for the ASF and fees payable to advisers and service providers in respect of the ASF (for example, for legal, accounting or audit services);
 - remuneration and expenses for members of the board of the licensed trustee, and costs incurred in board meetings, to the extent that they are attributable to the operation of the ASF;
 - salary and related expenses in relation to staff of the licensed trustee, to the extent that they are attributable to the operation of the ASF;
 - “back office” costs, to the extent that they are attributable to the operation of the ASF;
 - costs of advertising for the ASF;
 - costs of running motor vehicles, to the extent that they are attributable to the operation of the ASF;
 - costs associated with the operation of computers for the ASF;
 - travel costs incurred in connection with the operation of the ASF.

b. A cost or expense is not an ASF expense if the governing rules of the ASF do not allow the licensed trustee to be indemnified from the ASF for the cost or expense, or allow the licensed trustee to meet the cost or expense from the ASF.

c. Costs and expenses directly related to acquiring, maintaining and disposing of investments (such as transaction costs, brokerage, repairs, security and electricity for rental properties) are not ASF expenses.

d. ASF expenses must be recognised on an accrual basis only.

16) **Average NAV for the ASF**

- a. The average NAV for an ASF is the average of the NAVs for the ASF as at the end of each month in the relevant period.

Commentary

1. For example, if the MER for a full financial year is being worked out, the NAVs of the ASF as at the end of each of the 12 months in the year would be averaged.

- b. In working out an NAV for an ASF—
 - i. investment-related expenses referred to in subsection 15(c) must be netted off investment income; and

Commentary

- 1. These expenses do not form part of the MER calculation.
- ii. assets and liabilities of the ASF must be recognised in accordance with generally accepted accounting practice in Papua New Guinea; and
- iii. the most recent audited financial statements of the ASF must be used, and proper allowances must be made for changes in market values, depreciation, taxation and income and expense accruals.

17) **Master trust funds**

- a. For an ASF that is a master trust fund, an MER must be also worked out for each class of members as if that class were a separate ASF. In doing this, the income, assets, liabilities and costs and expenses of the ASF must be allocated between the classes of members fairly.

PART IV—CORRECTIVE MEASURES

- 18) **Remedial measures and sanctions**—If any provision of this Standard is breached in a flagrant manner that threatens the interests of ASF members or potential members, the Central Bank may pursue appropriate corrective actions and sanctions by imposing or varying licence conditions of the ASF's or licence holder as provided in Section 17 of the Act.

- 19) **Licence conditions**: Such conditions imposed on an ASF or licence holder's licence under Section 17 may include, but are not limited to, the following:

- a. require the licence holder to take certain steps or to refrain from adopting or pursuing a particular course of action;
- b. impose limitations on the acceptance of contributions or the making of investments;
- c. prohibit the licence holder from soliciting contributions, either from members or from persons who are not already members of the ASF;
- d. prohibit the licence holder from entering into any other transaction or class of transactions; and, more generally,
- e. suspend the operation or revoke the licence of the ASF or licence holder; or

Superannuation Prudential Standard (Management Expense Ratios, Trustee Fees and Entitlements) 2004

- f. suspend or require the removal of any directors, managers or chief executives.

PART V— EFFECTIVE DATE

- 20) ***Effective Date***: The effective date of this Prudential Standard shall be 2 February 2004.
- 21) ***Questions***: Any enquiries relating to this Prudential Standard should be addressed to The Manager, Financial System Supervision Department Bank of PNG, Tel: 322-7200.

.....
L WILSON KAMIT, CBE
GOVERNOR

Superannuation Prudential Standard (Management Expense Ratios, Trustee Fees and Entitlements) 2004

SCHEDULE 1—TABLE OF TRUSTEE FEES AND ENTITLEMENTS

This table is used as an example only and may not apply to all ASFs or licensed trustees.

Allowance	Trustee	Chairman	Period	Date Entitled
Board allowance	K2500	K3000	Quarterly	01/07, 01/10, 01/01, 01/04
Sitting allowance	K250	K250		At each Board meeting
Airfare, car hire	Yes (economy) For non POM residents only	Yes (economy) For non POM residents only	For night before and day of meeting only	Paid directly by ASF on invoice
Accommodation	For non POM residents only	For non POM residents only	For night before and day of meeting only	Paid directly by ASF on invoice; corporate rates apply with Crowne Plaza