

PROPOSED FEE STRUCTURE FOR INDUSTRY - DRAFT

DATE: Monday 6th September 2004

The Committee designated by ASFPNG to prepare a paper on Fees met on Friday 03 September. Please review this Draft and return comments if any to rodmitchell@nasfund.com.pg

Background

The ASFPNG have expressed serious concerns over the level of regulatory fees imposed by the Central Bank on the Superannuation Industry. This concern has led to the forming of a Committee to review the fee structure and determine a policy position for the ASFPNG to adopt. The current fees adopted by the Central Bank are as follows

- For Superannuation Funds - 0.143% of the Net Asset Value of the Fund
- For Service Providers - K15, 000

Concern at the current fees levied on the industry, have been heightened by invoicing for both 2002 and 2003 fees together which has the effect of increasing superannuation fund expense ratios dramatically.

Proposal

The Committee came up with five recommendations. They are

Standard Service Provider Fee to remain as is

1. That the standard fee for a service provider remain at K15,000 per annum. This currently represents a total collection to the Central Bank of K135,000 per annum. The reason for this decision was that K15,000 was not seen as excessive.

Fee for 2005-2006 to be reduced to .06% of Net Assets

2. The fee going forward for the next two years be reduced to .06% from 0.143% of Net Asset Value. This was based on two issues
 - Estimated Cost

	Expenses 2004	Expenses Current
Staff Wages	400,000	400,000
Indirect	187,748	187,748
Special Projects	200,000	390,000
Technical Assistance Industry Reserve	100,000	400,000
Education Campaign	200,000	
Training (PNGID)	100,000	250,000
Complaints Mechanism		200,000
Electronic Lodgement	-	400,000
Discount		-
	1,187,748	591,099
		1,636,649

Total			
Total Assets	2004		2003
	^(000)		
NASFUND	500,000		
POSF	1,000,000		
DFRB	100,000		
Others	185,000		
Total	1,785,000		1,144,509
Fee Levied (Funds)	1,071,000	0.060%	
Fee Levied Service Providers	135,000	0.008%	
Total Fee	1,206,000	0.068%	0.143%

- Comparison with comparable fees in Australia
The fees in Australia for regulation are significantly lower on a percentage of net assets basis at .035%. The recommended fee is nearly twice the fee currently in operation in Australia.

Fee to be reviewed in 2007

3. That the fee be reviewed after two years on the basis that funds under management would have significantly grown and .06% of net asset value would then be significantly in excess of the costs of regulation.

Fee calculation in 2007 to be changed from percentage based to fixed basis

4. That on review of the regulatory fee in 2007, the Committee would look to change the fee from a percentage of net assets basis to a fixed expense with a minimum cut off point based on asset size. It was viewed that by then all ASF's should have reached a critical mass to absorb a fixed fee.

Waiving of fees for 2002 year

5. That the Central Bank be asked to waive all fees in regards to the 2002-year. This was recommended on the basis that
 - Nearly every ASF was licenced in 2003 and therefore 2002 is not relevant
 - The 2004 fee levied by the Central Bank is more than double what the recommend fee should be and as such should be viewed as sufficient to cover any issues the central Bank may have in relation to 2002.

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