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Occupational Pension
Supervisory Commission (OPSC)

Directives OPSC	**D – 02/2013**	English
Reporting Asset Management Costs		

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Contents

The Occupational Pension Supervisory Commission (OPSC),

having regard to Article 64a (1) letters a and f of the Federal law of 25 June 1982 on occupational old-age, survivors and disability benefit plan (BVG; SR 831.40),

enacts the following directives:

1 Purpose and scope

As part of the structural reform, Article 48a of the Ordinance of 18 April 1984 on occupational old-age, survivors and disability benefit plan (BVV 2; SR 831.441.1) was extended with respect to instructions on reporting the management costs of pension institutions. According to Article 48a (3) of BVV 2, those investments, whose asset management costs (hereinafter: "costs") cannot be reported in the income statement in line with Article 48a (1) of BVV 2, must be stated individually in the notes to the financial statements and are thus considered to be intransparent. The following directives enable institutions to include in their income statement those costs that are not invoiced, but instead are set off against the investment returns. These directives apply to pension institutions as well as other institutions which serve the purpose of occupational pensions (hereinafter: "institutions") with the exception of investment foundations as defined in article 53g of the BVG.

2 Definitions

2.1 Collective investment schemes (CIS)

Collective investment schemes (CIS) are considered to be assets raised by investors for the purpose of a joint investment and managed on their behalf. The investment needs of the investors are satisfied in an equitable fashion. Types of CIS include in particular single-investor funds, internal special funds, derivatives on CIS and structured products as well as investment and real estate companies. With respect to the last of these, listed investment and real estate companies are only regarded CIS, if they are regulated by a national or international fund supervisory authority.

Multi-level CIS (funds of funds) invest their assets entirely or partly in other CIS *(target funds).*

2.2 Cost levels

Costs at the institutional level (level 1) arise with all types of investments. In addition, there are costs within CIS (level 2) which are deducted from the investment return. Negative investment returns (such as interest paid on deposits) are not counted as costs. Multi-level CIS also have a third cost level (the target funds).

2.3 Cost categories

All costs of investments belong to one of the following three cost categories:

- Fees for asset management, also known as the total expense ratio (hereinafter: *TER costs*),
- Transaction and tax costs (hereinafter: *TTC costs*),
- Other costs or supplementary costs (hereinafter: *SC costs*).

TER costs include in particular fees for management, performance, safekeeping accounts, administration, benchmarking, analyses and service (including VAT).

3 Cost transparency

3.1 Conditions

All investments, for which the institution can report at least the following costs in its income statement, are considered to be *cost-transparent*:

- All TER costs,
- All TTC costs at the institutional level (level 1), not including spreads or market impact costs.

3.2 Cost transparency ratio

The *cost transparency ratio* is the value share of all cost-transparent investments in relation to the total investment.

4 TER and cost indicators

4.1 Recognition of TER concepts for CIS

TER concepts are used to concretize the requirements in these directives for specific categories of investment and/or specific legal forms. The OPSC may recognize the TER concept of a domestic or foreign industry association at the association's request, either globally or for a specific group of investments or providers. Recognition is conditional upon the concept's essential fulfillment of the requirements of these directives. Recognized TER concepts are published on the OPSC website together with any applicable restrictions.

4.2 TER

Every TER concept defines a TER containing the TER costs at level 2 and, if applicable, at level 3.

The TER must fulfill the following principles:

- Calculation on the basis of the invested net assets
- Complete inclusion of TER costs
- Retrospective record of TER costs for one accounting year
- Economic view of cash flows
- Review of the calculation by an auditor
- Separate calculation for each CIS with different costs
- Composite (synthetic) TER for multi-level CIS

4.3 Cost indicators in CHF for CIS

In order to include the costs of CIS in the income statement, the institution calculates a cost indicator in CHF for every CIS. This involves multiplying the TER of the CIS by the assets invested in the CIS as of the balance sheet date (reporting date principle).

Ideally, the reporting date for the TER will correspond to the institution's balance sheet date. If this is not possible, older TER may be used, but their reporting dates may not be more than 18 months prior to the institution's balance sheet date.

If the use of the reporting date principle results in material deviations between an institution's reported costs and its actual costs, for example owing to buying or selling during the reporting year, a more precise calculation must be made.

5 Reporting in the financial statements

5.1 Income statement

At the institutional level (level 1) the costs of cost-transparent investments must be reported completely in the income statement as costs. This includes TER, TTC and SC costs.

In addition, the TER costs of cost-transparent CIS (level 2 and, if relevant, level 3) must be calculated in line with the guidelines in these directives and likewise reported in the income statement as costs. The returns in the respective categories of investment must be increased accordingly. The position "Net result from investment" remains unchanged.

5.2 Notes

The following represents the minimum of information to be disclosed in the notes to the financial statements:

- Sum of all cost indicators in CHF for CIS
- Total of all the costs reported in the income statement as a percentage of the cost-transparent investments
- Cost transparency ratio.

6 Responsibilities

6.1 Responsibility of the supreme body

The institution's supreme body is responsible for reporting costs in line with these directives, when preparing the institution's financial statements.

6.2 Responsibility of the auditors

The institution's auditors review, whether the institution has applied a TER, which was calculated and verified by the provider or broker of the CIS, in line with these directives. They also review a TER calculated by the institution. Furthermore, they check whether the calculation and reporting of the costs fulfill the requirements of these directives.

6.3 Responsibility of the supervisory authority

The supervisory authority ensures that the institutions and auditors comply with the provisions of these directives.

7 Entry into force

These directives enter into force on 1 January 2013 and apply for the first time to financial statements as of 31 December 2013.

23 April 2013

Occupational Pension
Supervisory Commission (OPSC)

the president, Mr. Pierre Triponez

the director, Mr. Manfred Hüsler

8 Explanatory notes

On: Chapter 1 “Purpose and scope“

Structural reform
To date, in their income statement institutions have generally reported only explicit costs for which they received invoices. This meant that neither the costs of CIS nor the transaction costs implicitly set off against the investment return were reported. Article 48a (3) of BVV 2 was introduced as part of the structural reform in order to render these costs more transparent in future. It requires that investments, whose costs cannot be reported, be listed in the notes to the annual financial statements. The explanatory notes to the structural reform state, that the Occupational Pension Supervisory Commission (OPSC) can provide further guidance as needed in order to achieve improved transparency. The OPSC has analyzed the existing cost concepts and is enacting these directives as a contribution to clarity when applying them.

Inclusion of the costs of CIS in the income statement
The chosen form of investment is now no longer decisive for the inclusion of its costs in the income statement. The costs of direct investments and CIS should appear in the income statement of the institution. In general, the TER published by the providers serve as a basis for calculating the costs of CIS. These directives describe minimum requirements for these TER based on the relevant applicable international provisions. In addition, they define the requirements for reporting these costs in the income statement and the notes to the financial statements.

Scope
These directives apply to pension funds as well as institutions, which serve the purpose of occupational pensions, such as vested benefit institutions, institutions for recognized providence forms as defined in Article 82 of the BVG, the Substitute Occupational Benefit Institution and the Guarantee Fund.

Investment foundations
These directives do not apply to the income statements of investment foundations; special directives are to be enacted for them as per Article 38 (7) of the Ordinance on Investment Foundations (OFP; SR 831.403.2). However, investment foundations are indirectly affected by these directives: in their role as providers of CIS, they will calculate the TER for the individual sub-funds.

On: Chapter 2 “Definitions“

On: 2.1Collective investment schemes (CIS)

Collective investments are defined here more comprehensively than in the Collective Investment Schemes Act.
Chapter 2.1 defines, what is understood by CIS in these directives. Here the area of CIS is defined more comprehensively than the scope of the Swiss Federal Act of 23 June 2006 on Collective Investment Schemes (LPCC; SR 951.31). In addition to all the types of capital investments subsumed under the LPCC, the following vehicles are understood in particular to be CIS:

- Swiss internal special funds and foreign investment funds for qualified investors
- Swiss and foreign investment companies for qualified investors (such as limited partnerships, investment-related special purpose vehicles and investment trusts)
- CIS forms as defined in the Ordinance on Investment Foundations (OFP, SR 831.403.2)
- Swiss and foreign structured products [1],
- Derivatives on CIS

As per these directives, one characteristic feature of CIS is, that they are exposed to costs originating within the investment (level 2), which are deducted from the investment return. It is irrelevant whether these are costs for buying or selling further investments or for the ongoing management of the investments.

Listed investment or real estate companies
Listed investment or real estate companies take the form of a stock company. The internal expenses of a listed stock company (such as wage payments to employees, taxes etc.) are not regarded as asset management costs. For this reason, for example, listed real estate investment companies only count as CIS, if they are regulated by a fund supervisory authority (see Chapter 3.3.2. of the recommendations issued by c-alm AG and published by the Federal Social Insurance Office (OFAS) on 17 August 2012 to increase cost transparency in line with Article 48a (3) of BVV 2).

Multi-level CIS
Multi-level CIS (funds of funds), which invest in other CIS (target funds), represent a special case. These investments engender costs on at least three levels.

[1] Structured products are defined as per the FINMA Circular 2008/18: http://www.finma.ch/d/regulierung/Documents/finma-rs-2008-18.pdf, No. 157: "Structured products are investments in the form of a bond or debenture in which a cash instrument (such as a fixed-income security) is combined with one or more derivative financial instruments to form a single legal and economic unit. The derivative financial instruments are based on one or more underlying instruments (e.g. stocks, obligations, interest rates, exchange rates, alternative investments)."

On: 2.2 Cost levels

Cost level 1
Level 1 costs arise with all types of investments and are invoiced to the institutions (examples include advisory mandate fees, consulting fees etc.). To date they have generally been reported as costs in the institution's income statement.

Cost levels 2 and 3
In general, most institutions will not have reported level 2 and 3 costs of CIS in their income statements before the entry into force of these directives. This part of the TER costs will therefore now be treated differently.

On: 2.3Cost categories

Three cost categories
The costs of investments are divided into three cost categories: TER costs, TTC costs and SC costs. The total expense ratio (TER) concept, which is internationally recognized for CIS by the asset management sector, is used to report the costs of CIS.
TER and TTC costs occur on all three levels, but SC costs arise only on the institutional level (level 1).

TER costs
With *TER costs* it is irrelevant whether tasks are assigned internally or externally, whether compensation is fixed or dependent on the value of the investment or the transaction volume or any other factor, and whether compensation is performance-based or not. Likewise included are all levies and taxes, such as VAT, which are unconnected to transactions.

TTC-costs
TTC costs are all costs occasioned by the purchase or sale of investments which are not considered to be TER costs. They include all levies and taxes associated with transactions, e.g. stock exchange fees, transaction taxes and income taxes.

SC costs
SC costs are all institutional costs which cannot be allocated to a single investment, such as internal costs for asset management or expenses for strategy advice, investment monitoring or global custody.

TER costs and ongoing charges
These directives also take account of Commission Regulation (EU) No. 583/2010 of 1 July 2010“[2],which was concretized as regards ongoing charges through Directive CESR/10-674 issued by the Committee of European Securities Regulators [3]. TER costs correspond for the purpose of these directives to the total of the ongoing charges and performance-based costs as set forth in EU terminology. In defining TER costs, it is irrelevant what they are called and how they are calculated; what is decisive is the type of service for which they arise.

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[2] http://www.esma.europa.eu/system/files/5-Reg___583___210.pdf

[3] www.esma.europa.eu/system/files/10_674.pdf

On: Chapter 3 “Cost transparency“

On: 3.1Conditions

Schematic view of the requirements of cost-transparent investments

Required cost reporting	Level 1 institution	Level 2 CIS	Level 3 Target fund
TER costs	Fees for management, performance, safekeeping accounts, administration, benchmarking, analyses and services (including VAT)	**Fees for management, performance, safekeeping accounts, administration, benchmarking, analyses and services (including VAT)** TER	**ditto Simplification possible if costs do not change sig-nificantly** CIS
TTC costs	Transaction costs not including spreads and market impact, that is, broker's commissions / brokerage fees, stock ex-change fees, transaction taxes and non-reclaimable withholding and income taxes, issue and redemp-tion fees of CIS	TTC costs are not included	TTC costs are not included
Other costs	Internal costs, advisory fees, investment controlling, global custody (including VAT)		

Spread and market impact
The *spread* is the difference between the purchase and sale price of an investment. *Market impact* de-scribes the investor's influence on the price of an investment when buying or selling it.

Cost transparency
The term cost transparency is new. It assumes that TER costs and part of the TTC costs (those at the institutional level, level 1, with the exception of spreads and market impacts) are reported in the in-come statement. If an investment does not fulfill this condition, it must be listed in the notes to the financial statements with the information defined in Article 48a (3) of BVV 2.

No set-off of transaction costs and transaction taxes
Furthermore, the directives require explicit posting of any transaction expenses, commissions and taxes that arise in conjunction with securities transactions (e.g. federal securities transfer tax). This measure is intended in future to prevent the hitherto widespread practice, permitted by customary accounting standards, of setting off transaction expenses and taxes to produce a net transaction price.

On: 3.2 Cost transparency ratio

Cost transparency ratio
The newly defined cost transparency ratio provides information on the percentage of an institution's investments which are invested in cost-transparent investments. As a result, it also indicates the informative value of the asset management costs reported in the income statements. The objective is to achieve a cost transparency ratio of close to 100%.

Total of investments
The total of all investments is the same as the corresponding balance sheet item in accounts prepared in accordance with Swiss GAAP FER 26.

On: Chapter 4 “TER and cost indicators“

On: 4.1 Recognition of TER concepts for CIS

Concretization of requirements using specific TER concepts
The provisions of these directives use a principle-oriented definition of the minimum requirements of a TER. These requirements must be concretized using TER concepts in the case of specific CIS categories (such as real estate) and/or legal forms (such as investment foundations).

Industry associations as petitioners
OPSC invites both domestic and foreign industry associations to submit TER concepts with a re-quest, that they be recognized. Industry associations are entitled to submit requests. If a concept is recognized, it may be used by any provider in line with OPSC guidelines independent of whether that provider is a member of the submitting industry association or not.

Possibility of restricted recognition of TER concepts
It is possible that industry associations' existing TER concepts comply with the requirements of these directives to a great degree, but contain defects in certain areas. In order nonetheless to enable rapid improvements in transparency, in such cases OPSC can issue a temporary TER concept recognition and agree on further development of the concept with the industry association.

On: 4.2 TER

Calculation on the basis of the invested net assets
A TER concept defines a TER as a percentage of the invested net assets. The use of the net assets as a point of reference excludes, for example, those TER concepts, which are standardized on gross assets or committed capital.

Complete inclusion of TER costs
The TER must report all TER costs of a CIS.

It is sometimes difficult to draw a line between TER costs and TTC costs. For this reason, the share of the transaction-dependent fees, which exceeds the costs of buying and selling the underlying investments, should fundamentally be allocated to the TER costs. However, as this kind of cost division cannot generally be implemented, the TER concepts developed by industry associations allocate costs according to their materiality.

Retrospective record of TER costs
The TER for a particular accounting year must report the costs that arose during that year. In the case of a newly established CIS, estimated costs may be used to calculate the TER during the first year of the investment's existence. This exception does not apply to fusions or conversions of existing CIS.

Economic view of cash flows
Fee-sharing agreements (such as retrocessions) involve two parties sharing the indirect (offset) or direct (invoiced) costs as compensation. In the case of such an agreement, the costs must be identified such that it is possible to take account of the effective cash flows.

Review of the calculation by an auditor
The calculation of the TER must be documented and reviewed by an auditor.

Separate calculation for each CIS with different costs
If there are different sub-funds within one CIS or different classes with differing cost burdens, separate TER must be calculated and reported for them.

Composite TER for multi-level CIS
A composite (synthetic) TER must be used for multi-level CIS. This ratio corresponds to:

- the sum of the proportionate TER of the individual target funds; that is, the individual TER weighted by the proportion of the target funds in the net assets of the fund of funds as of the re-porting date (level 3 costs),
- plus the TER of the fund of funds alone (level 2 costs).

Fundamentally, the TER of the target funds must be of the same quality as those of the fund of funds. However, for certain target funds there will be no TER available or calculable according to a recognized concept. In such cases, simplified calculations are permitted, if the costs are not changed significantly as a result.

Example 1:
Fund of funds A is invested in three target funds: B, C and D. The target funds are invested in A in the following proportions: B: 60%, C: 30% and D: 10%. The TER for B can be calculated as in Example 3 and amounts to 0.65%. The TER for C can be taken from the annual financial statements: 0.45%. In the case of D, only the management fee is known. It amounts to 0.75%. During the reporting year, no fund shares were bought or sold. For fund of funds A, a TER of 0.30% is reported. We can assume that the approximation used for C will not change significantly. The TER for A thus amounts to:
0.30% + 0.6 x 0.65% + 0.3 x 0.45% + 0.1 x 0.75% = 0.90%

Calculation of the TER
A formula for calculating the TER for the CIS may be as follows:

$$TER-Kostenquote\ in\ \% = \frac{TER-Kosten}{durchschnittliches\ Nettovermögen\ der\ Kollektivanlage} \times 100$$

$$\text{TER CIS in } \% = \frac{\text{TER costs}}{\text{average net assets of CIS}} \times 100$$

Obtaining the TER

Normally the product provider or a broker provides the institution with the TER. However, if there is no TER or it does not meet the requirements of these directives, institutions have the option of calculating a TER according to a recognized TER concept and having it reviewed by their auditors. A condition of this is that audited information is used to calculate the TER. The calculation of a TER by the institution should, however, be an exception.

Two examples for obtaining a TER for a CIS:

> *Example 2:*
> *The TER is taken from the financial statements of the CIS:*
> *0.45%. If the TER was calculated using a concept recognized by the OPSC, it can be used.*
>
> *Example 3:*
> *The TER is calculated on the basis of information from the audited profit and loss statements of the CIS.*
> *TER costs of the CIS: 65*
> *Net assets of the CIS: 10,000*
> ⇨ *TER = 0.65%*

On: 4.3 Cost indicators in CHF for CIS

Calculation of the cost indicators

One cost indicator per CIS is calculated in CHF (or the respective accounting currency). The basis for this is the corresponding TER and normally also the assets invested in the investment as of the balance sheet date.

> *Example 4:*
> *The assets invested in the CIS amount to 2,000 as of the balance sheet date. With a TER of 0.45%, the cost indicator in CHF = 0.45% of 2,000 = 9.*

TER to be used

The cost indicator in CHF should fundamentally be calculated using the most recently available reviewed TER. The period of reference for calculating a TER may not exceed 18 months prior to the institution's balance sheet date.

> *Example 5:*
> *As of 30 June 2013 investment A has a revised TER of 0.25%. If there is no more recent figure, this TER can be used for the balance sheet date of 31 December 2013.*

Materiality

All calculations must be made according to the principle of materiality; this applies especially to the question whether one takes the assets as per balance-sheet date, or buying and selling throughout the year is taken into account. If it must be assumed that a cost calculation based on the holdings on the balance sheet date would deviate significantly from the actual costs owing to sales and purchases of CIS during the reporting year (such as the sale of an expensive CIS in September and its replacement with a less expensive one), then these regroupings must be taken into account (for example, through prorated weighting).

The concept of materiality is very familiar in accounting. According to the overall concept of Swiss GAAP FER, circumstances which influence the valuation and representation of the annual financial statements or individual items in it such that recipients would reach a different assessment if these circumstances had been considered, are regarded as material. Within the scope of these directives, we must, for example, ask whether any deviations between the reported and actual costs of an institution resulting from the use of the simplified balance-sheet-date principle are so material, that they could cause the recipient of the financial statements to reach a different conclusion about the costs. The basic parameters for assessing materiality are therefore the reported costs overall (or each partial amount, if the income statement reflects further division by category of investment) and not the costs of an individual CIS. Yet, should an accumulation of immaterial circumstances result in a material impact on the costs on the whole, this must be taken into account.

A voluntary, more precise determination of the costs is always possible, for example by using the average invested assets of the CIS. However, the principle of consistency must also be upheld: once applied, a method should normally be used in the following years as well.

On: Chapter 5 “Reporting in the financial statements“

On: 5.1 Income statement

The total costs of cost-transparent CIS calculated according to these directives must be reported in the income statement together with the remaining costs. At the same time, the returns in the various categories of the investments must be increased by the calculated costs of the CIS. This approach ensures that the asset management costs of the cost-transparent CIS are shown at gross value. Ac-cording to Swiss GAAP FER 26, item T of the income statement, "Net result from investment", does not change as a result.

Example 6:
The cost indicator in CHF amounts to 10, of which 8 applies to the investment category A and 2 to B. This results in the following postings:

- Costs / Return on investment category A: CHF 8
- Costs / Return on investment category B: CHF 2

On: 5.2 Notes

The notes to the financial statements must disclose the sum of the cost indicators in CHF (or the respective accounting currency) for CIS as calculated according to these directives, all the costs re-ported in the income statement as a percentage of the cost-transparent investments, and the cost transparency ratio.

Example 7:
The cost indicator in CHF amounts to 10 and is contained in the total costs of 20 reported in the income statement. The market value of the cost-transparent investment is 5,000 and that of the total investments is 5,200. At a minimum, the following information is therefore required in the notes:
- Sum of all cost indicators in CHF: 10
- Total costs as reported in the income statement as a percentage of the cost-transparent investments: 20 / 5,000 x 100% = 0.4%
- Cost transparency ratio: 5,000 / 5,200 x 100 = 96.2%

On: Chapter 7 “Entry into force“

These directives apply for the first time to fiscal years ending on or after 31 December 2013.