



**Mandatory Provident Fund Schemes Authority**

**CODE ON DISCLOSURE FOR  
MPF INVESTMENT FUNDS**

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## CODE ON DISCLOSURE FOR MPF INVESTMENT FUNDS

### Explanatory Notes:

- (a) Section 6H(1) of the Mandatory Provident Fund Schemes Ordinance (Cap. 485) (“the Ordinance”) provides that the Authority may issue guidelines for the guidance of approved trustees, service providers and other persons concerned with the Ordinance. Section 6H(2)(a) provides that a guideline may consist of a code, standard, rule, specification or provision relating to provident fund schemes or a class of such schemes.
- (b) This Code has the same effect as a guideline.
- (c) The issue of an advertisement, document or invitation to the public in Hong Kong to participate/invest in a master trust scheme/industry scheme/pooled investment fund must seek prior approval from the Securities and Futures Commission (“the SFC”) under the Securities and Futures Ordinance (Cap. 571). Please refer to the SFC Code on MPF Products in this respect.
- (d) Section 31 of the Mandatory Provident Fund Schemes (General) Regulation provides that ...:
  - (2) The following information must be disclosed to a person who is considering making an application to become a scheme member or participating employer –
    - (a) the requirements and information required for application for membership of or participation in the scheme;
    - (b) the governing rules of the scheme;
    - (c) scheme information, including all of the fees and charges payable under the scheme.
  - (3) The information referred to in subsection (2)(c) must include (but is not limited to) the actual amounts of the annual fees payable in respect of –
    - (a) scheme members of the different income levels prescribed by the guidelines; and
    - (b) participating employers of the different scales of operation prescribed by the guidelines.
- (e) Section 54 of the Mandatory Provident Fund Schemes (General) Regulation provides as follows:
  - (1) The approved trustee of a registered scheme must ensure that, within 60 days after a person becomes a scheme member, the person is provided with a document containing information relating to the scheme.
  - (2) The document must-
    - (a) include a general description of the scheme, including its terms and the fees and charges payable under the scheme; and
    - (b) if the scheme comprises 2 or more constituent funds, specify particulars of those funds; and
    - (c) specify the person (if any) designated by the trustee as the scheme contact person, either by name or by reference to the person's position or job description, and the means by which the person can be contacted.
  - (3) If a member of an employer sponsored scheme or a master trust scheme is an employee of a participating employer, the trustee may arrange to give to the member's employer the

document referred to in subsection (1). In that case, that employer must ensure that the document is given to the member within 7 working days after the employer receives it.

## PART A - GENERAL

### Chapter A1 : Interpretation

A1.1 Unless otherwise defined below, words and expressions used in this Code are as defined in the Ordinance and the Regulation.

“APIF” means an approved pooled investment fund that has been approved by the Authority pursuant to section 6(1) of the Regulation;

“the Authority” means the Mandatory Provident Fund Schemes Authority;

“constitutive documents” means the principal documents governing the formation and operation of a MPF scheme or a pooled investment fund, including the policy document in the case of a pooled investment fund which is an insurance policy and the trust deed in the case of a MPF scheme comprising one or more constituent funds or a pooled investment fund which is a unit trust;

“FER” means fund expense ratio;

“fund” means constituent fund and/or approved pooled investment fund as appropriate to the context;

“NAV” means net asset value (i.e. gross asset value net of accounts payable and accrued fees and expenses);

“operator” when used in connection with an APIF that is a unit trust means the trustee of the APIF and when used in connection with an APIF that is an insurance policy means the authorized insurer that issued the policy;

“the Ordinance” means the Mandatory Provident Fund Schemes Ordinance;

“recognized industry performance presentation standards” means any standards or guides issued by an industry body in Hong Kong recognized by the Authority for the purpose of this Code;

“the Regulation” means the Mandatory Provident Fund Schemes (General) Regulation;

“SFC” means the Securities and Futures Commission of Hong Kong;

“the SFC Code” means the SFC Code on MPF Products.

## **Chapter A2 : Purpose and Administration**

### **Purpose**

A2.1 The purpose of this Code is to give guidance to approved trustees and other service providers about the disclosure of information about MPF schemes and constituent funds and in particular information about fees, charges and performance. This Code also gives guidance to operators of APIFs about the disclosure of information (particularly expense information) to operators of funds that invest in those APIFs.

### **Status**

A2.2 This Code is issued pursuant to section 6H of the Ordinance and has the same status as a guideline issued under that section. Section 6H(6) of the Ordinance sets out the consequence of the contravention of a guideline. Compliance with a guideline issued by the Authority is also a standard condition of approval of an approved trustee, registration of a scheme and approval of an APIF.

### **Interaction with other requirements**

A2.3 This Code sets out guidance about content for a range of documents such as offering documents, fund fact sheets and member benefit statements. It is recognized that other sources impose requirements in relation to some documents; for example, the SFC Code contains detailed requirements in relation to offering documents and advertising materials. In relation to offering documents and advertising materials, this Code is intended only to supplement the requirements of the SFC Code and is not intended to replace or replicate any of the requirements contained within the SFC Code.

### **Administration by the Authority and the SFC**

A2.4 Chapter A2 of the Code on MPF Investment Funds sets out the respective regulatory

functions and the delineation of roles and functions of the Authority and the SFC concerning MPF matters. The respective roles and the functions set out in the Code on MPF Investment Funds continue to apply as modified to the extent set out in this Code. To the extent that the SFC gives any authorization in relation to a MPF scheme or pooled investment fund, such authorization or approval relates to the requirements of the SFC Code and does not signify any assessment by the SFC of compliance with the contents of this Code unless otherwise indicated.

A2.5 Section 63A of the Regulation requires that any amendment to the offering document of a registered scheme shall not be made available until the Authority has given written notice to the approved trustee that the Authority has approved the amendment. The inclusion of, or amendment to, a Fee Table in an offering document (as set out in Part C of this Code) would be an amendment that would require the Authority's approval under section 63A of the Regulation. In addition, any amendment to an offering document will also require SFC approval pursuant to the SFC Code.

A2.6 The Authority maintains supervisory responsibility for the contents set out in this Code. This includes, for example, approving changes to offering documents as described in the previous paragraph and supervising compliance with other parts of the Code by way of regular or random review. It is not necessary for an approved trustee to obtain the prior approval of the Authority for On-going Cost Illustrations, fund fact sheets or any advertising material unless that document constitutes an offering document as defined in the Regulation. Approved trustees should however provide copies of these documents to the Authority for its information. The Authority may periodically review these documents and provide comments to approved trustees or take any other action as considered necessary.

### **On-going review**

A2.7 The Authority will review the operation of this Code and compliance with it by approved trustees and other service providers. This Code may be amended or added to by the Authority in the light of operational experience. The Authority will also give consideration to the need, in due course, to impose relevant obligations by way of legislative amendment to the Ordinance or Regulation.



## **PART B - DISCLOSURE PRINCIPLES**

### **Chapter B1 : Background**

B1.1 In the course of scheme operation, information is provided to a range of parties for a range of different purposes. In addition to the obvious needs of scheme members, other stakeholders such as employers, industry peers, academics, regulators, the government and the media have an interest in information about registered schemes. The focus of the guidance contained within this Code is on the provision of information to members of registered schemes, however the needs of other stakeholders, particularly employers, have also been considered in developing this Code. Better information about fees and charges should be of assistance to employers in choosing a scheme as they should be encouraged to consider fees and charges as one of the key relevant factors in making that decision.

#### **Why members need information**

B1.2 Scheme members and prospective scheme members need information for a variety of purposes including the following four purposes:

- firstly, to understand the nature, characteristics and rights accruing under the scheme of which they have become, or are considering becoming a member;
- secondly, to enable them to make informed investment decisions about the range of choices available to them as members of a registered scheme;
- thirdly, to verify transactional information such as contributions and redemptions;  
and
- fourthly, to assist them in longer term financial planning for retirement and lifestyle needs.

### **Investment decisions**

B1.3 Members of MPF schemes have a broad range of investment decisions that they should be encouraged to actively consider. In order to facilitate decision-making, members need to be provided with information on a continuous basis.

B1.4 The range of possible decisions varies across individual schemes and members but generally, includes decisions such as the following:

- decisions about which constituent fund/s to invest in initially and in what proportion;
- decisions about whether to switch between constituent funds for accrued benefits and/or future contributions;
- decisions about whether to make voluntary contributions and if so into which funds, in what proportion and in what amounts;
- for those members who are self-employed, decisions about which scheme to join, which constituent funds to invest into and in what proportions; and
- for those members who have changed employers, whether to transfer benefits to another scheme and if so into which constituent fund/s of that scheme.

### **Verifying contribution and other transactional information**

B1.5 Scheme members also need information in order to verify that their contributions and other transactions have been correctly processed. Member verification of contributions and transactions is only one of the mechanisms built in to the MPF system that is designed to ensure that contributions and transactions are correctly processed and recorded. It is appropriate, however, that members have at least a minimum amount of information that can satisfy them that there are no irregularities in processing of contributions and other transactions.

## **Financial planning for retirement**

B1.6 Although closely connected to investment decision making under B1.3 and B1.4 above, the information required for financial planning purposes is slightly different to that required for the range of investment decisions set out above. Generally, members would need the same types of information for financial planning purposes as they would for MPF specific investment decisions. Their needs, however, in this respect are broader because they need to consider issues outside of the MPF system. Whilst historical information, such as past performance information, might have limited relevance in assisting investment decisions across MPF funds, it may be relevant for members in understanding how their retirement savings are accumulating so that they can properly make judgements and decisions about their longer term saving and retirement needs.

## **Chapter B2 : Good Disclosure Principles**

B2.1 The focus of Parts C to F of this Code is to provide guidance about minimum disclosure content for a number of key disclosure documents including, for example, offering documents, annual benefit statements and fund fact sheets. This Code focuses on those documents because they are the principal mechanisms for delivering information to members and other interested parties.

B2.2 Five good disclosure principles have been applied in the development of the contents of this Code. These same five principles should also guide approved trustees and their delegates in the interpretation of this Code and in preparing any information for disclosure to scheme members, whether in the documents specified in this Code or in more generalized disclosure material such as promotional material. It is recognized, however, that not all of the principles will have application in relation to all types of information provided to scheme members.

- B2.3 It is recognized that some disclosure material, in practice, serves the dual purpose of providing information to scheme members to help them make decisions and also serves the commercial purpose of promoting products. In administering the scheme, approved trustees are ultimately subject to a duty to act in the interest of scheme members and not in the trustees' own interest<sup>1</sup>.
- B2.4 The good disclosure principles set out in this Code are intended only as high level conduct guidance for trustees. They are not intended to have any operation or application where their content is contrary to, or inconsistent with, any direct obligation (for example arising under the Ordinance, or the Securities and Futures Ordinance or any relevant code issued by the SFC) or any specific guidance set out in this Code or other guidance issued by the Authority.

***Principle 1 - Information should facilitate decision making***

- B2.5 Information should be provided to scheme members not merely on the basis that there is a legal requirement to do so but principally in order to inform members and to facilitate informed decision making by them. As highlighted above in B1.4, members of registered schemes have a wide range of investment decisions that they need to make on a periodic basis. Approved trustees and their delegates should keep in mind the range of these decisions and seek to ensure that information is provided in a way and means which facilitates that decision making by scheme members. Members should have access to relevant information on a continuous basis that will assist them to make informed decision on the whole range of decisions that are available to them. By way of example, one key decision which scheme members have is the choice across constituent funds within a scheme. Members make this decision not just upon joining a scheme but, at least implicitly, on a continuous basis. They therefore need access to

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<sup>1</sup> Section 43(d) of the Regulation.

information that will facilitate that decision making on a continuous basis.

- B2.6 The particular information that will facilitate a decision depends on the nature of the specific decision that is being made. In making MPF investment decisions, members will need a range of information about issues such as the attributes and features of relevant funds, the attributes of relevant parties, the range and quality of services being offered, the risk profile of relevant funds and the fees and charges that relate to investments in various funds (including the comparative costs of those investments).
- B2.7 Information about fees and charges is important in comparative decision making for members because fees and charges represent the comparative cost of products and information about fees and charges has higher forward-looking reliability than, for example, information about past performance. Members should therefore be encouraged to consider the effect of fees and charges as one of the relevant factors when making comparative investment decision across funds (either within the same scheme or across different schemes).

***Principle 2 - Information should be timely***

- B2.8 Regardless of the legal obligations which apply as to when or how often information should be updated, members need up-to-date information to facilitate on-going decision making. Members' needs in this respect might vary depending on the nature of products, the volatility of relevant markets and the importance of other relevant key events.

***Principle 3 - Disclosure should promote comparability***

- B2.9 Many of the key decisions that scheme members are required to make necessarily involve the comparison of constituent funds; either within schemes or comparison of funds across schemes or in some circumstances even outside the MPF system. It is

therefore important that information be provided in a manner that facilitates comparison across funds and, to the extent possible, across schemes and providers. Information will be more comparable if it is presented in a consistent manner across funds and across schemes and if the terminology and language used are presented in a consistent, unambiguous and logical way.

***Principle 4 - Disclosure should be consistent***

B2.10 In addition to the comments about consistency in the previous paragraph, it is important that information is calculated and presented in a consistent way to minimize overly optimistic use, or “cherry picking” of information. Once a methodology is applied, it should be used consistently unless there is a legitimate reason to change approach. This is particularly relevant in relation to the presentation of performance information (for example, providers should not alter performance reporting timeframes to suit circumstances and they should consistently report against the same benchmarks). This principle is also relevant in those circumstances where approved trustees or their delegates are given a discretion in the way that information is presented or calculated (for example in the number of pricing points adopted for the purpose of calculating FER).

B2.11 In many respects, consistency of disclosure can be obtained without the need for prescriptive regulation if those responsible for disclosure put in place standards that will facilitate consistency. The Authority has encouraged this through a process of recognizing certain industry standards for particular purposes<sup>2</sup>. The Authority encourages the development and use of industry standards to improve consistency of disclosure outside of that framework.

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<sup>2</sup> See for instance Part D relating to fund fact sheets and in particular D2.3.

***Principle 5 - Disclosure should be clear and concise***

B2.12 Participation in the MPF system applies to different sectors of the community, not just those who are used to making investment decisions. It is therefore essential that information be disclosed in a way that is comprehensible to the general population and not just those who may be used to reading investment literature.

B2.13 The Authority would encourage approved trustees and other service providers to consumer test disclosure documentation to ensure that the information is presented in a way that is comprehensible and meaningful for the general population.

B2.14 Disclosure should, in general, be as brief as possible to set out the required information and should focus on those items that have a material impact. Technical and industry jargon should be avoided or where it is unavoidable to use technical terms, they should be explained in language that is as simple as possible. The layout of information can assist its clarity and service providers should use tools such as charts, graphs or other illustrations where they can assist interpretation.

## **PART C - DECISION POINT DISCLOSURE OF FEES AND CHARGES OF A REGISTERED SCHEME**

### **Chapter C1 : Background**

- C1.1 This part of the Code deals with the information concerning fees and charges that approved trustees should make available to participating employers and scheme members as well as prospective participating employers and prospective scheme members in order to facilitate effective decision making by those persons. Specifically, this part of the Code provides guidance that is intended to supplement Chapter 5 of the SFC Code, particularly in relation to the disclosure of fees and charges of registered schemes. This part of the Code also contains guidelines that prescribe the income levels of scheme members and scales of operation of participating employers for the purposes of section 31(3) of the Regulation. The guidance provided in this part is also intended to assist approved trustees in understanding their obligations under sections 31(2) and 54 of the Regulation.
- C1.2 Chapters 5 and 7 of the SFC Code set out the general requirements for offering documents.
- C1.3 Section 31(2)(c) of the Regulation provides that scheme information, including all of the fees and charges payable under a registered scheme, must be disclosed to a person who is considering making an application to become a scheme member or participating employer. Section 31(3) of the Regulation further requires that the scheme information must include the actual amounts of the annual fees payable in respect of scheme members of the different income levels and participating employers of the different scales of operation prescribed by the guidelines. Pursuant to section 22 of the Ordinance, the approved trustee of a registered scheme must, as far as reasonably practicable, ensure that sections 31(2) and 31(3) of the Regulation are complied with.



C1.4 Section 54 of the Regulation provides that an approved trustee must ensure that, within 60 days of a person becoming a scheme member, the person is provided with a document containing general information about the scheme (including the fees and charges payable under the scheme), particulars of constituent funds and contact details.

**What information should be disclosed?**

C1.5 Participating employers and scheme members, as well as prospective participating employers and prospective scheme members should be provided with adequate information to enable them to make informed investment decisions. For scheme members and prospective scheme members some of those decisions are set out above in B1.4.

C1.6 This Code does not attempt to provide detailed guidance on the entire range of information that should be disclosed. General disclosure content is a matter for the approved trustee to determine considering the Regulation, the requirements under the SFC Code and the good disclosure principles set out above. As information about fees and charges should be one of the key factors considered in the range of relevant decisions, this Code focuses on the provision of clear and comprehensible information regarding fees and charges.

**Distribution of offering document**

C1.7 Taken together, the SFC Code and sections 31(2)(c) and 54 of the Regulation provide a comprehensive framework for the provision of information to relevant parties. Various parts of those provisions have overlapping operation and require the same information to be provided at various points in time. Approved trustees can satisfy these overlapping obligations through appropriate use of offering documents. In particular, approved trustees should ensure that, in relation to scheme members and prospective

scheme members:

- (a) a copy of the current offering document of a registered scheme is provided to all prospective scheme members when they are considering making an application to become scheme members; and
- (b) a copy of the current offering document is provided, at any time, to current scheme members upon request.

C1.8 Approved trustees should provide the offering document directly to prospective scheme members or ensure that they are delivered through a delegate or arrange distribution through participating employers where the employer agrees to distribute such document to their employees. If arranging distribution through participating employers, approved trustees should give participating employers a sufficient number of copies of the offering document to distribute to their employees. If an approved trustee becomes aware, for example, that an employer is refusing to distribute offering documents, it should take other steps to distribute the offering document to relevant employees such as posting the offering document to new scheme members or providing copies to existing members upon request. It would not be adequate distribution, for instance, if the participating employer or approved trustee merely hold copies of the offering document which are available for prospective employee members' reference or available on request.

#### **Fee information in documents other than offering documents**

C1.9 Where documents other than offering documents make references to fees and charges, that information should be consistent with the information disclosed in the relevant offering documents and should state that detailed information about applicable fees and charges is contained in the offering document which is available on request. In order to

minimize the possibility of confusion, publications (including, for example, handbooks, guides, brochures or booklets that are provided to scheme members and prospective scheme members) that provide detailed information about the level of fees and charges (as opposed to merely making references to fees and charges) should set out the fees and charges in the format of the Fee Table as it appears in the relevant offering document of the registered scheme.

## **Chapter C2 : Specific Disclosures for Fee Information**

C2.1 The following fee information in relation to a registered scheme should be provided by approved trustees to applicants (both prospective participating employers and prospective scheme members) as part of the scheme information required under section 31(2)(c) of the Regulation:

- (a) a **Fee Table** which, to the extent practicable, follows the format and terminology used in *Appendix A*;
- (b) **On-going Cost Illustrations** which to the extent practicable, follow the format and terminology used in *Appendix B*. C2.10 describes when this illustration is not required for a constituent fund; and
- (c) **an Illustrative Example** on annual fees charged by a constituent fund which is a capital preservation fund offered under a registered scheme that follows the format and terminology used in *Appendix C* (previously contained in Annex to Guidelines IV.1).

C2.2 The fee information referred to in C2.1 should also be made available to both participating employers and scheme members upon their request.

## **Fee Table**

C2.3 The purposes of the Fee Table are:

- (a) to ensure that all fees and charges are brought together at one point;
- (b) to group the fees and charges together in a manner that is consistent across funds so that comparison is facilitated;
- (c) to minimize the use of disparate terms to describe the same fees and charges; and
- (d) to facilitate an “at a glance” understanding of fees and charges.

C2.4 Chapter 5.20 of the SFC Code requires that all fees and charges for registered schemes, constituent funds or pooled investment funds should be clearly identified in tabular form in the relevant offering documents. The guidance about the use of a Fee Table for all registered schemes supplements the requirement in the SFC Code. The Fee Table should be incorporated into the relevant offering documents and should be located in a prominent position in the offering document.

C2.5 To the extent that it is necessary that more detailed information about particular fees and charges be contained outside of the Fee Table, that information should appear within the same section (i.e. the section on fees and charges) in the offering document.

C2.6 In order to achieve the purposes set out in C2.3, the Fee Table must disclose:

- (a) all fees and charges;
- (b) what a particular fee is for;
- (c) the amount of each fee currently charged; and
- (d) from whom each fee is payable.

C2.7 The various fees in the Fee Table are listed according to their purpose and generally in the order that scheme members or participating employers encounter them. It

comprises five sections:

- (A) Joining fee and annual fee;
- (B) Fees and charges payable arising from transactions in individual member's accounts;
- (C) Annual fund operating charges and expenses in relation to constituent funds of the scheme;
- (D) Fees and charges payable out of the underlying funds; and
- (E) Other fees and charges for providing additional services.

A glossary for defining the various fees charged by a registered scheme is included at the end of the table. The format of the Fee Table and instructions to approved trustees for completing the Fee Table (which do not form part of the Fee Table) are also set out in *Appendix A*.

### **On-going Cost Illustrations**

C2.8 The purpose of the On-going Cost Illustrations is to assist users in understanding the effect of the textual information about fees and charges that is contained in the Fee Table. The On-going Cost Illustrations do this by illustrating, in dollars, the costs that may be incurred in investing in the constituent funds of a registered scheme across several defined time horizons, based on a set of consistent assumptions. The On-going Cost Illustrations also serve as a comparison of dollar costs among constituent funds with similar investment objectives offered by different registered schemes.

C2.9 The On-going Cost Illustrations should be provided to prospective participating employers and prospective scheme members as part of the scheme information required under section 31(2) of the Regulation, either as a part of the scheme offering document

or as an accompaniment to the scheme offering document. The illustrations should also be made available to participating employers and scheme members upon their reasonable request.

C2.10 The guidance about providing On-going Cost Illustrations does not apply in relation to:

- (a) those constituent funds that are capital preservation funds; or
- (b) those constituent funds that are guaranteed funds where the effect of the guarantee is that the amount which accrues to a member is in no circumstances affected by the net of fee performance of the fund; or
- (c) constituent funds where the time between the inception date of the fund and the relevant financial year end of the scheme is one year or less.

C2.11 *Appendix B* sets out the format and terminology for the On-going Cost Illustrations. That Appendix also sets out instructions on how the On-going Cost Illustrations should be prepared and calculated.

C2.12 The On-going Cost Illustrations should be updated annually using the FER figures of the last financial period and illustrations should not be distributed or made available by other means if they are based on FER figures that relate to a financial period that concluded more than 18 months prior to that date of publication. In other words approved trustees should update illustrations within 6 months after the financial year end of a scheme.

#### **Illustrative example for capital preservation funds**

C2.13 No On-going Cost Illustration is required for capital preservation funds due to the unique fee deduction arrangements as stipulated under section 37 of the Regulation. A separate Illustrative Example is required for capital preservation funds. *Appendix C*

sets out a template which contains the prescribed income levels of scheme members and scales of operation of participating employers for the purposes of section 31(3) of the Regulation.

C2.14 The Illustrative Example for capital preservation funds (the “CPF example”) should be provided to prospective participating employers and prospective scheme members as part of the scheme information required under section 31(2) of the Regulation. It should also be made available to participating employers and scheme members upon their reasonable request. The CPF example and the On-going Cost Illustrations may be incorporated into one document.

### **Signposting illustrations**

C2.15 Offering documents that do not contain the On-going Cost Illustrations and the CPF example, and any advertising material that refer to fees and charges, should prominently disclose the availability of On-going Cost Illustrations and CPF example by the use of words similar in effect to the following:

“A document/s (*as relevant*) that illustrates the on-going costs on contributions to constituent funds in this scheme (*where relevant* except for the ABC Guaranteed Fund) is distributed with the offering document. Before making any investment decisions concerning MPF investments, you should ensure that you have the latest version of this document which can be obtained from [*insert details of how a copy of the document can be obtained*].”

### **Verification of the calculation of the illustrations**

C2.16 Approved trustees of registered schemes are responsible for verifying the various figures stated in the On-going Cost Illustrations (including any adjustment to FER for non-recurring items) and the CPF example. Verification procedures should be

documented in the relevant compliance manuals. Calculations should be documented and retained for inspection by the Authority. The individuals within approved trustees who perform the verification work should have sufficient seniority to play an effective verification role.



## **PART D - FUND FACT SHEET**

### **Chapter D1 : Purpose and Background**

- D1.1 The purpose of this part is to give guidance on the manner, and the extent to which, approved trustees should provide updated information about registered schemes and constituent funds to scheme members.
- D1.2 In addition to anything contained within this Code, approved trustees are required, pursuant to section 89 of the Regulation, to publish a consolidated report for a registered scheme (incorporating the financial statements of the scheme, the auditor's report, the scheme report and the investment report). Pursuant to section 90 of the Regulation, a scheme member may request the approved trustee of a scheme for a copy of the consolidated report.
- D1.3 The focus of this part is to ensure that, in addition to the statutory requirements set out above, members of registered schemes are provided with at least a basic level of information about a registered scheme and its constituent funds on a regular and timely basis.

### **Chapter D2 : Minimum Content**

- D2.1 To ensure that scheme members receive at least a basic level of information about the constituent funds within the scheme of which they are members, approved trustees should prepare and make available to all members of registered schemes, at least twice per calendar year, a document (referred to in this Code as a "fund fact sheet") that meets the minimum content requirements set out below.
- D2.2 This part sets out the minimum content that should be contained within a fund fact sheet. The minimum content guidance is intended only to cover the essential pieces of information that members need. Approved trustees are encouraged to include any other

information they consider necessary in order to meet the needs of members and the good disclosure principles set out in Part B above.

D2.3 The following items are the minimum contents that should be contained in a fund fact sheet of a registered scheme:

- (a) **Fund size** – the net asset value (“NAV”) of each of the constituent funds of the scheme as at the reporting date of the fund fact sheet.
- (b) **Launch date** – for each constituent fund, the launch date of the fund.
- (c) **Investment objectives of each constituent fund** – a brief description of the investment objectives of the funds and, where relevant, any change in the statement of investment policy and objectives of any of the constituent funds since the last fund fact sheet.
- (d) **Portfolio allocation** – for each constituent fund, the allocation of assets as at the reporting date of the fund fact sheet. This can be presented in either tabular or graphical summary and the basis of allocation should be expressed in a manner that is consistent with the way that the intended portfolio allocation was expressed in the statement of investment policy and objectives contained in the offering document.
- (e) **Top 10 portfolio holdings** – the largest ten asset holdings of each constituent fund as a percentage of fund NAV as at the reporting date of the fund fact sheet, or as at the last fund valuation date prior to the reporting date of the fund fact sheet. For fund-of-funds arrangements, where possible, the largest holdings should be disclosed down to the securities/assets level. For example, if a constituent fund is a portfolio management fund (i.e. it invests in other funds), the largest holdings should be listed in accordance with the attributed exposures of the constituent

fund to the underlying assets of the underlying funds. Operators of APIFs should ensure that relevant information is made available to approved trustees of constituent funds to enable them to calculate these holdings.

- (f) **Fund performance information** – for each constituent fund, the periodic rate of return for the fund over the periods of 1, 5, 10 years and since launch<sup>3</sup>.
- (g) **Performance measurement against any benchmark used** – for each constituent fund, a comparison of the fund’s performance against the benchmark, if any, identified in the relevant offering document.
- (h) **Latest FER** – the latest available FER for each class of units of each constituent fund (calculated in accordance with Part E of this Code) as at the reporting date of the fund fact sheet. If the calculated FER might not accurately reflect the actual expense ratio of the fund (for example because the costs of underlying funds could not be ascertained), then a note to that effect should be included. It is not necessary to show a FER for a constituent fund where the period between the reporting date of the fund fact sheet and the inception date for the fund is less than 2 years.
- (i) **Appropriate fund risk indicators** – for each constituent fund, a general indication about the level of risk of the fund in a manner that assists members in assessing the level of risks consistently across funds in the scheme.
- (j) **Fund descriptor** –for each constituent fund, a description of the fund type in a manner that will facilitate comparison with other similar funds.

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<sup>3</sup> Noting that “since launch” or “since inception” figures should only be used in the circumstances permitted under Appendix D of the SFC Code.

- (k) **Commentary** – in relation to each constituent fund, a discussion of fund performance, market review and market outlook.

In each case, the information should be prepared, calculated and presented in accordance with any applicable industry performance presentation standard that has been recognized by the Authority for the purposes of this Code.

## **Chapter D3 : Frequency, Timing and Distribution**

### **Frequency of fund fact sheets**

- D3.1 At least two fund fact sheets complying with this part of the Code should be issued for each financial year of a registered scheme. Nothing in this Code is intended to discourage approved trustees or their delegates from providing more frequent reporting to scheme members that covers any, or all, of the matters set out in this part. Consistent with the good disclosure principles set out in Part B, the Authority encourages approved trustees and/or their delegates to provide scheme members with regular, timely, comprehensible information that will best assist scheme members.
- D3.2 For the purpose of D3.1, the reporting date for the fund fact sheets should be as at the end of the financial year of the relevant scheme and a date which is six months after the financial year end of the relevant scheme.

### **Distribution and timing**

- D3.3 The fund fact sheet that reports as at the financial year end of a scheme should be provided to members with the annual benefit statement under section 56(1) of the Regulation.
- D3.4 The other fund fact sheet does not need to be posted to members, but should be distributed within two months of the reporting date, in a manner that is reasonably likely to bring it to the attention of all scheme members. The distribution means could,

for example, be through a combination of direct mailings, distribution through employers, electronic mail, internet access, facsimile-on-demand and call centre support. The material sent with the annual benefit statement should prominently identify when and how the other fund fact sheet will be distributed.

### **Regulatory compliance**

- D3.5 In addition to the guidance set out in this Code, fund fact sheets may in some circumstances be considered as advertisements under the SFC Code and would need to meet the requirements of Chapter 8.6 and Appendix D of the SFC Code. Any authorization given by the SFC relates to the requirements of the SFC Code and does not signify any assessment by the SFC of compliance with the contents of this part of this Code.
- D3.6 It is not necessary for an approved trustee to obtain the prior approval of the Authority for fund fact sheets, unless that document constitutes an offering document as defined in the Regulation. Approved trustees should, however, provide copies of fund fact sheets to the Authority for its information. The Authority may periodically review these documents and provide any comments as considered necessary to approved trustees.

## **PART E - FUND EXPENSE RATIO (“FER”)**

### **Chapter E1 : Purpose and Background**

E1.1 The purposes of this part are to:

- (a) summarize where FER should be disclosed;
- (b) specify how to calculate FER;
- (c) provide guidance in the interpretation and application of the calculation formula;  
and
- (d) specify the responsibilities of various parties in the preparation and calculation of FER.

E1.2 The purpose of FER is to provide a measure of the total level of expenses incurred in investing through a fund, including the costs incurred at lower level collective investment schemes but not including those expenses paid directly by the scheme member. The FER has been developed considering the good disclosure principles in Part B and the need to strike a balance between precision and materiality.

E1.3 FER calculation is applicable both in relation to constituent funds and also APIFs. Where the term “fund” is used in this part, the attached guidance is relevant both to constituent funds and APIFs.

#### **Where FER is to be disclosed or used**

E1.4 Other parts of this Code and other Guidelines set out in detail where the FER of constituent funds, classes of constituent funds and APIFs are to be disclosed or used. The following list summarizes and identifies the relevant parts of this Code or other Guidelines where the detailed guidance is set out.

***List of detailed FER disclosures:***

- in the fund fact sheet relating to a constituent fund (see D2.3 of this Code);
- in the On-going Cost Illustration for a constituent fund (see Appendix B of this Code);
- in the annual return of a registered scheme (see Guideline II.4: Form CF-AS); and
- in the annual return of an APIF (see Guideline II.5: Form APIF-AS/UT or APIF-AS/IP).

**Preparation and calculation of FER for APIFs**

- E1.5 The FER calculation for a constituent fund that invests in an APIF or a number of APIFs will need to include fees and charges incurred at the APIF level. For this purpose, it is necessary that operators of all APIFs calculate the annual FER of APIFs (and, if relevant, the classes of the APIF) so that that information can be used in the calculation of FER of “higher level” constituent funds or APIFs. The operators of all APIFs should ensure that such a FER calculation is prepared in accordance with this Code and is made available to the approved trustee of any constituent fund or the operator of any APIF that holds an interest in the APIF.
- E1.6 In order to ensure that approved trustees of constituent funds have adequate information to calculate and present FER information in the timeframes required, they will need to be provided with FER information from APIF operators within a reasonably short time after the financial year end of the relevant APIFs. Operators of APIFs should endeavor to provide FER information to the approved trustees or if relevant, operators of other APIFs that invest in that APIF within four months of the end of the financial period of the APIF.

## Chapter E2 : Formula for Calculation of FER

E2.1 Annual FER will need to be calculated for all constituent funds and APIFs.

E2.2 The FER of a fund, or for a particular class of units of a fund, for a financial year should be calculated to two decimal places in the following manner:

$$\text{FER (\%)} = \text{direct expense (\%)} + \text{underlying fund costs (\%)}$$

Where, for the purposes of this formula only, the following terms have the meanings indicated:

Term	Meanings
direct expense (%)	The expenses of the fund or class divided by the average NAV of the fund or class expressed as a percentage.
underlying fund costs (%)	<p>An attributed percentage of fees and charges of each APIF or other collective investment scheme (“CIS”) held by a fund or class calculated by the formula</p> $\text{Underlying fund costs (\%)} = \sum (\mathbf{H} \times \mathbf{E})$ <p>Where:</p> <p><math>\sum (\mathbf{H} \times \mathbf{E})</math> means the summation of the product (H x E) for each APIF and/or CIS held by the fund during the financial year</p> <p><b>H</b> = the average percentage of the fund invested in each APIF or other CIS which is obtained by dividing the sum of the holding of the APIF or other CIS (as a percentage of the fund) at each pricing point of the fund by the number of pricing points.</p> <p><b>E</b> = the latest FER of the corresponding APIF or the latest expense ratio of the corresponding CIS as relevant.</p>
average NAV	The sum of the NAV of the fund or class at the pricing points divided by the number of pricing points.



adjusted unit expenses	An amount equal to the value of units deducted from member's accounts over the financial year, where those units were deducted for payment of any annual fees, or fees or charges that would be counted as expenses of the fund if deducted directly from the fund.
expenses	In relation to a fund means, the amount of expenses of the fund as set out in the income statement/profit and loss account of the fund for the relevant year + any adjusted unit expenses.  In relation to a class of units of a fund, means the proportion of expenses of that fund attributable to that class + any adjusted unit expenses attributable to that class.
latest FER of the APIF	The FER of an APIF, calculated in accordance with this formula for the most recent financial period which ended no later than the last day of the financial year of the fund
latest expense ratio of the CIS	The most recently available expense ratio of the CIS (whether calculated in accordance with this formula or not), or if such a figure is not available, a reasonable estimate of the expense ratio of the CIS.
NAV	In relation to a fund, means the NAV of the fund at a pricing point.  In relation to a class of a fund, means the proportion of the NAV of the fund attributable to that class.
pricing point	Evenly distributed points in time throughout a year at which the NAV of a fund or class is calculated. For the purposes of this formula, a fund should have a minimum of 12 pricing points per year (i.e. once per calendar month). Trustees are however encouraged to use more frequent pricing points for the purpose of this calculation.

## **Chapter E3 : Explanations of the Terms Defined in E2.2**

E3.1 The explanations in this Chapter are provided in order to help those responsible for the preparation of FER to understand the way that the formula operates and the intended meaning of the terms that are defined in E2.2. Nothing in this Chapter, however, has the effect of changing the meaning of terms from the definitions that they are given in E2.2.

### **“expenses”**

E3.2 For simplicity, expenses mean the amount that appears as expenses of the fund for the financial year in its income statement/profit and loss account, plus adjusted unit expenses (as defined in E2.2). The figure appearing as expenses in the fund’s income statement/profit and loss account should be used for the purpose of FER calculation whether or not components of it were, for example, non-recurring or extraordinary.

E3.3 This means that, in general, items including those listed below would be captured in the defined term “expenses”:

- (a) Management fees including investment management fee, trustee fee, administration fee, accounting and valuation fees, custodian and related fees, sponsor fee;
- (b) Guarantee charge paid to the guarantor (not including a guarantee charge described in E3.4(e) below);
- (c) Registration fees (e.g. those paid to the Authority and the SFC);
- (d) Legal and professional fees (including audit fee);
- (e) Printing and distribution costs;
- (f) Banking charges;

- (g) Interest on borrowings;
- (h) Insurance costs;
- (i) Compensation fund levy;
- (j) Amortized expenses; and
- (k) In relation to capital preservation fund, expenses deferred from a previous period.

E3.4 Further, in general items such as those listed below would not be captured in the defined term “expenses”:

- (a) capital account movements such as charges and costs which derive from the acquisition and disposal of underlying assets (including, for example, brokerage and other transaction costs associated with the purchase and sale of underlying assets);
- (b) the capital appreciation or depreciation of underlying assets;
- (c) the income of the fund, etc.;
- (d) non-fund fees and charges paid directly by employers and scheme members (such as bid or offer spread, contribution or withdrawal charges, joining and annual fees<sup>4</sup> and optional member transaction costs);
- (e) a guarantee charge deducted for smoothing provision which accumulates as a guarantee reserve in the fund;
- (f) realized and unrealized foreign exchange gains and losses of the fund; and
- (g) in relation to capital preservation funds, expenses relating to the relevant year that are deferred to a subsequent period.

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<sup>4</sup> Noting however that an annual fee indirectly paid by a member by way of deduction of units is captured as “expenses” because it is an “adjusted unit expense” as defined.

**“adjusted unit expenses”**

- E3.5 The term “adjusted unit expenses” has been incorporated into the calculation formula to ensure that any part of the operating costs or expenses of a fund that is charged against fund holders by way of deduction of units in the members’ accounts, is fairly represented in the FER calculation.
- E3.6 The formula does not require any adjustment for deduction of units made for member-based fees and charges (such as contribution or withdrawal charges and any other unit administration costs or service charges) except in the case of an annual fee that is charged by way of deduction of units from members’ accounts.

**“latest FER of the APIF”**

- E3.7 The intended effect of this part of the formula is to identify which year FER of an APIF, should be used by a fund in calculating the underlying fund costs. If a fund and its underlying APIF have the same financial year end, the trustee or operator of the fund should obtain and use the coterminous FER of the APIF for calculation of the FER. Otherwise, the fund should obtain and use the latest available FER of the APIF instead.

**“latest expense ratio of the CIS”**

- E3.8 Investments in collective investment schemes other than APIFs, such as approved index-tracking collective investment schemes, and SFC-authorized unit trust funds that are approved by the Authority, should, as far as practicable, be treated in the same way as investments in APIFs for the purposes of the calculation.
- E3.9 If a publicly available expense ratio for the collective investment scheme is available, then that ratio should be used for the purposes of the calculation. It is understood, for instance, that some index tracking collective investment schemes approved by the Authority do publish expense ratios that are calculated in a manner substantially similar

to FER.

E3.10 If a published expense ratio is not available for a collective investment scheme, then the trustee or operator of a fund should make an estimate of the expense ratio of the scheme. The estimate should be made on a best effort basis and the basis of the estimation should be applied consistently. The estimate could for example be based on the latest available financial statements of the scheme or on information obtained directly from the scheme operator. If no information is reasonably obtainable upon which an estimation can be based, it is not necessary to make any estimation. The Authority will consider providing further guidance in this respect at a later time in light of operational experience.

**“underlying fund costs (%)”**

E3.11 For constituent funds or APIFs investing in APIFs or other collective investment schemes, fees and charges incurred at the “underlying” fund level should be included in the calculation of the FER of the fund. For this reason, “underlying fund costs” are added to the expenses incurred directly by the fund.

**Worked examples**

E3.12 In order to assist approved trustees and operators of APIFs, *Appendix D* provides worked examples of how the formula and defined terms should be applied in calculating FER of a fund or class.

**Chapter E4 : Review and Compliance**

E4.1 The Authority will periodically review the operation of the formula to ensure that accounting practices have not been applied or modified in a way that distorts the calculation of FER such that its objective and the consistency of its application are undermined.

E4.2 Approved trustees and operators of APIFs should ensure that the calculation of the FER

is checked by the auditor of the financial statements of the relevant scheme or APIF. Calculations and source data should be documented and retained by approved trustees or operators of APIFs for inspection by the Authority.

## **PART F – ON-GOING DISCLOSURE AT MEMBER LEVEL**

- F1.1 The purpose of this part is to provide guidance on the disclosure of information to members at the member account level. Most of the guidance in other parts of this Code deals with disclosure on information about funds or schemes rather than member accounts.
- F1.2 The principal requirement in the law to provide information to scheme members is section 56 of the Regulation which requires that approved trustees must provide scheme members with annual benefit statements. Section 56(3) of the Regulation sets out the content requirements for annual benefit statements but it does not prescribe the format of how the information should be provided nor does it suggest what, if any, information should be provided as a complement to annual benefit statements.
- F1.3 The purpose of the annual benefit statement requirement is to ensure that each member is provided annually with a historical record of the member's account at a point in time. Annual benefit statements can therefore, in part, satisfy the second, third and fourth purposes for information provision set out in B1.2 above.
- F1.4 In preparing annual benefit statements and any material which might accompany them, approved trustees should have regard to the good disclosure principles set out in Chapter B2 above.

## **PART G – IMPLEMENTATION AND TRANSITIONAL TIMING**

### **Chapter G1 : General**

- G1.1 The purpose of this part is to provide guidance on transitional and implementation issues arising out of the contents of other parts of this Code. In particular, this part sets out when the guidance provided in this Code should first apply.
- G1.2 Generally, the guidance set out in this Code should be complied with immediately upon publication of the Code. Chapter G2 sets out specific transitional provisions that affect when the various documents referred to in this Code should first be made available to scheme members and prospective scheme members as well as participating and prospective participating employers.

### **Chapter G2 : Transitional Provisions**

#### **Fee Table of registered schemes**

- G2.1 The Authority recognizes that approved trustees and sponsors of registered schemes require time to make amendments to the constitutive documents of the relevant schemes in order to incorporate the Fee Table into offering documents and scheme information required under section 31(2)(c) of the Regulation. By 31 December 2005, the Fee Table should be incorporated into, and replace, existing fee tables in all offering documents of registered schemes as well as scheme information as required under section 31(2)(c) of the Regulation. Earlier adoption of the Fee Table in these documents is however encouraged.
- G2.2 During the period until 31 December 2005, approved trustees of registered schemes should prepare and provide a copy of the Fee Table to prospective participating employers and prospective scheme members as a supplement to any offering documents or scheme information under section 31(2)(c) of the Regulation distributed



to them. As the 'supplement' Fee Table will eventually be incorporated into offering documents, a copy should be provided to the Authority for approval in principle prior to distribution. A copy should be provided to the Authority by 15 September 2004 for approval in principle. A copy of the Fee Table should be provided as a supplement to any offering document or scheme information that is distributed to prospective participating employers and prospective members, at any time more than one month after the Authority has given approval in principle. The Fee Table should thereafter also be made available to current participating employers and scheme members upon their request. Approved trustees should ensure that any difference in terminology used in the Fee Table and existing disclosure is adequately explained. Approved trustees might, for example, make use of the "Definitions" part of the table to explain any transitional differences in terminology.

### **On-going Cost Illustrations of registered schemes**

- G2.3 The guidance in relation to publishing the On-going Cost Illustrations should first apply when the FER for the relevant constituent funds are calculated for the first time (refer to G2.7 below). Approved trustees should prepare and update the On-going Cost Illustrations within 6 months after each financial year-end of a registered scheme. Whilst it is not an on-going requirement to obtain prior approval from the Authority before distribution, approved trustees should file the first issue of the On-going Cost Illustrations together with the supporting calculations (which should include the calculation of the FERs) with the Authority for its information.
- G2.4 Amendments to offering documents and other materials, signposting the availability of On-going Cost Illustrations and the CPF example as set out in C2.15, should be completed by the time that the first On-going Cost Illustrations are distributed.

### **Fund fact sheet**

- G2.5 The first fund fact sheet complying with this Code should be provided to scheme members with the first annual benefit statement provided after 28 February 2005.
- G2.6 The minimum content guidance as set out in D2.3 applies to the extent practicable given transitional implementation. For example, if a recognized industry performance presentation standard has not yet been issued, then relevant information should still be disclosed notwithstanding that it is not in accordance with any recognized industry performance presentation standard. Similarly, FER need not be included in fund fact sheet until they are available in accordance with the transitional implementation timing for FER.

### **FER**

- G2.7 FER of both constituent funds and APIFs should be first calculated for any financial period that commences after 31 December 2004.
- G2.8 In the calculation of the FER of a constituent fund for the first time, some timing differences will mean that it may be necessary to make an approximation of the expenses of an underlying APIF. For example, for those constituent funds that invest in APIFs with a financial year-end different from that of the relevant registered scheme, the FER of the APIF may not be available because it has not completed a financial period since the date referred to in G2.7. In those circumstances, it may be necessary to undertake an approximation of the APIF expenses for the calculation of the first FER calculation. In doing so, approved trustees should be guided by the principles set out in E3.10 above.

## APPENDIX A: FEE TABLE

The following template should be used for the Fee Table referred to in Part C. Instructions for filling in the template are set out after the table.

### Fee Table

The following table describes the fees, charges and expenses that participating employers and members may pay upon and after joining the scheme. Important explanatory notes and definitions are set out at the bottom of the table.

<b>(A) JOINING FEE &amp; ANNUAL FEE</b>					
Type of fees	Current amount (HK\$)			Payable by	
	Class A	Class B	Class C		
Joining fee <sup>1</sup>					
Annual fee <sup>2</sup>					
<b>(B) FEES AND CHARGES PAYABLE ARISING FROM TRANSACTIONS IN INDIVIDUAL MEMBER'S ACCOUNT</b>					
Type of fees & charges	Name of constituent fund	Current level			Payable by
		Class A	Class B	Class C	
Contribution charge <sup>3</sup>	Capital preservation fund	N/A			
	Constituent fund 1	<i>(e.g. x% of contribution amount)</i>			
	Constituent fund 2				
Offer spread <sup>4</sup>	Capital preservation fund	N/A			
	Constituent fund 1	<i>(e.g. y % of unit NAV)</i>			
	Constituent fund 2				
Bid spread <sup>5</sup>	Capital preservation fund	N/A			
	Constituent fund 1	<i>(e.g. z % of unit NAV)</i>			
	Constituent fund 2				
Withdrawal charge <sup>6</sup>	Capital preservation fund	N/A			
	Constituent fund 1	<i>(e.g. xx % of withdrawal amount)</i>			
	Constituent fund 2				

<b>(C) ANNUAL FUND OPERATING CHARGES &amp; EXPENSES OF CONSTITUENT FUNDS</b>					
<b>Type of charges &amp; expenses</b>	<b>Name of constituent fund</b>	<b>Current level</b>			<b>Deducted from</b>
		<b>Class A</b>	<b>Class B</b>	<b>Class C</b>	
Management fees <sup>7</sup>	Capital preservation fund	(e.g. x % p.a. of NAV)			<i>Relevant constituent fund assets / Relevant member's account by unit deduction / Other methods (Please provide a brief description)</i>
	Constituent fund 1				
	Constituent fund 2				
Guarantee charge <sup>8</sup> (if the scheme offers guaranteed funds)	Name(s) of guaranteed fund(s)				
Other expenses					
<b>(D) FEES AND CHARGES PAYABLE OUT OF THE UNDERLYING FUNDS</b>					
<b>(E) OTHER FEES AND CHARGES FOR PROVIDING ADDITIONAL SERVICES</b>					

## DEFINITIONS

The following are the definitions of the different types of fees and charges.

1. **“Joining fee”** means the one-off fee charged by the trustee/sponsor of a scheme and payable by the employers and/or members upon joining the scheme.
2. **“Annual fee”** means the fee charged by the trustee/sponsor of a scheme on an annual basis and payable by the employers and/or members of the scheme.
3. **“Contribution charge”** means the fee charged by the trustee/sponsor of a scheme against any contributions paid to the scheme. This fee is usually charged as a percentage of contributions and will be deducted from the contributions. This charge does not apply to capital preservation fund.

4. “**Offer spread**” is charged by the trustee/sponsor upon subscription of units of a constituent fund by a scheme member. Offer spread does not apply to a capital preservation fund.
5. “**Bid spread**” is charged by the trustee/sponsor upon redemption of units of a constituent fund by a scheme member. Bid spread does not apply to a capital preservation fund.
6. “**Withdrawal charge**” means the fee charged by the trustee/sponsor of a scheme upon withdrawal of accrued benefits from the scheme. This fee is usually charged as a percentage of the withdrawal amount and will be deducted from the withdrawal amount. This charge does not apply to capital preservation fund.
7. “**Management fees**” include fees paid to the trustee, custodian, administrator, investment manager (including fees based on fund performance, if any) and sponsor of a scheme for providing their services to the relevant fund. They are usually charged as a percentage of the net asset value of a fund.
8. “**Guarantee charge**” refers to an amount that is deducted out of the assets of a guaranteed fund for the purpose of providing the guarantee. This fee is usually charged as a percentage of the net asset value of a guaranteed fund.

#### **EXPLANATORY NOTES**

In respect of any increase in fees and charges from the current level as stated, at least three months prior notice must be given to all scheme members and participating employers.

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#### ***Instructions to approved trustees for completing the table***

- a. Where a particular fee or charge under each of Part (A) – (D) in the table is currently nil, waived or is not applicable to the relevant scheme, put “Nil”, “currently waived” or “N/A” in the appropriate boxes.
- b. For constituent funds with more than one classes of unit, the fees, charges and expenses for all classes should be stated.
- c. Formats would need to be adjusted as necessary to accommodate multiple funds and classes.
- d. Where the maximum levels of any fees and charges as prescribed in the trust deed of a registered scheme are not disclosed in the fee table, they should be clearly set out within the fees and charges section of documents (such as offering documents) that contain the fee information.

- e. The fee table should be accompanied by descriptions of when and how a particular fee or charge will be paid by the relevant parties within the fees and charges section of documents (including the offering documents) that contain the fee information.
- f. Breakdown of management fees (such as investment management fee, trustee fee, custodian fee and administration fee) may be disclosed within the fees and charges section of documents (including the offering documents) that contain the fee information.
- g. Under the item “Other Expenses” in Part (C), provide a list of all other expenses including, where applicable, compensation fund levy, establishment cost of the scheme, indemnity insurance, auditor’s fees and legal charges. The dollar amount of any establishment cost that is charged to the scheme should be stated. The method used to deduct the expenses should also be disclosed where appropriate.
- h. Part (D) relating to “FEES AND CHARGES PAYABLE OUT OF THE UNDERLYING FUNDS” should include available information about fees and charges of underlying funds that can help scheme members to understand the fees and charges that apply at that level. This may for example include the following:
  - (i) for constituent funds that take the form of a feeder fund or portfolio management fund (i.e. fund of funds), the various fees, charges and expenses in Parts (B) and (C) which are applicable to all underlying funds and payable by the relevant constituent fund as a unit holder of those underlying funds. The fee information should be disclosed in tabular form similar to the format in Parts (B) and (C) of the table.
  - (ii) for constituent funds that invest directly in permissible investments, a statement should be included to the effect that fees and charges will be incurred by the constituent fund when/if it invests in other funds, identifying where possible, the types of fees and charges.
- i. Disclosure of fees and charges in Parts (C) and (D) may be combined, but only if all the fees and charges can be accurately disclosed in that way. For these cases, it is not necessary to include Part (D) in the table but a note must be added in Part (C) to the effect that the fees stated reflect fees and charges of both the constituent funds and all the underlying funds.
- j. Under Part (E) “OTHER FEES AND CHARGES FOR PROVIDING ADDITIONAL SERVICES”, insert a list of all fees and charges, including the amounts, that will be charged upon providing services such as additional member benefit statements, copies of trust deeds, etc. The party that will receive the fee/charge and the party to be charged should also be disclosed.

- k. The text in italics is inserted for illustration or example. This text will need to be adjusted as appropriate.
- l. Further explanatory notes may be added to the table where disclosure will be improved in accordance with the good disclosure principles set out in Part B of this Code. If, for example, rebates are offered to some members, a note should be included stating that the Fee Table does not take into account any fee rebate that may be offered to some employers/members of the scheme.

## APPENDIX B: ON-GOING COST ILLUSTRATIONS

The following template should be used for the on-going cost illustrations referred to in Part C. Instructions for completing the template are set out below.

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### ON-GOING COST ILLUSTRATIONS FOR {NAME OF REGISTERED SCHEME}

Issued [date]

#### ABOUT THIS ILLUSTRATION

This is an illustration of the total effect of fees and charges on each HK\$1,000 contributed in the funds named below. The fees and charges of a fund are one of the factors that you should consider in making investment decisions across funds. You should however also consider other important information such as the risks of the fund, the nature of the fund, the attributes of relevant parties, the range and quality of services being offered and, most importantly, your own personal circumstances and expectations. The information about fees and charges set out in this table is intended to help you compare the cost of investing in one constituent fund with the cost of investing in other constituent funds.

The Illustration has been prepared based on some assumptions that are the same for all funds. The Illustration assumes the following:

- (a) a gross contribution of HK\$1,000 is made in the respective constituent fund now and, being eligible to do so, you withdraw all of your accrued benefits arising from this contribution at the end of each time period indicated;
- (b) for the purpose of this illustration only, the contribution has a 5% gross return each year [It is important that you note that the assumed rate of return used in this document for illustrative and comparative purposes only. The return is neither guaranteed nor based on past performance. The actual return may be different.]; and
- (c) the expenses of the funds (expressed as a percentage called the 'fund expense ratio' below) remain the same for each fund for all the periods shown in this illustration.

**BASED ON THE ABOVE ASSUMPTIONS, YOUR COSTS ON EACH HK\$1,000 CONTRIBUTED are ILLUSTRATED IN THE FOLLOWING TABLE. PLEASE NOTE THAT THE ACTUAL COSTS WILL DEPEND ON VARIOUS FACTORS AND MAY BE DIFFERENT FROM THE NUMBERS SHOWN BELOW.**



Name of constituent fund		Fund expense ratio for financial period ended [mm/yy]	Cost on each HK\$1,000 contributed		
			After 1 year (HK\$)	After 3 years (HK\$)	After 5 years (HK\$)
Constituent fund 1	Class A				
	Class B				
	Class C				
Constituent fund 2	Class A				
	Class B				
	Class C				

**Note:**

{Insert the following statement if it is applicable to the scheme} The example does not take into account any fee rebates that may be offered to certain employers/ members of the scheme.

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***Instructions to approved trustees for completing the illustrations***

- a. For constituent funds with different classes, the cost of each class should be disclosed.
- b. For the purpose of calculating the figures in the columns headed “After 1 year”, “After 3 years” and “After 5 years”,
  - (i) Use the current level of contribution charge and offer spread stated in the Fee Table in order to arrive at the net contribution amount invested into a constituent fund. If the current level in the Fee Table is a range, the maximum level of that range should be used.
  - (ii) Use the fund expense ratios (FER) of constituent funds or where relevant, classes of the constituent funds for the immediate past financial period and assume that they remain the same for all periods. If a FER includes expenses of a non-recurring nature (limited to set-up costs, restructuring costs and costs relating to system enhancements due to any legislative/guidelines amendments), the calculation of the table should be adjusted to take out the effect of those non-recurring expenses. In such cases, an explanatory note should accompany the illustrations in terms such as the following *“To improve the utility of these illustrations, the calculations have been adjusted to take out the effect of some non-recurring set-up costs”*.
  - (iii) Use the current level of bid spread and withdrawal charge stated in the Fee Table in order to arrive at the respective cost after each time period. If the current level in the Fee Table is a range, the maximum level of that range should be used.
  - (iv) For funds where the period between the inception date of the fund and the relevant

financial year-end of the scheme is one year or less, insert a note or footnote to the effect that no figures are available because this is a new fund.

- c. Round all cents to the nearest dollar.
- d. For simplicity, assume the annual fund operating charges and expenses of a constituent fund are only calculated and deducted at the end of each year. The investment return is also attributed at the end of a year. Also assume that there are no distributions from the funds during the time periods shown.

## APPENDIX C: ILLUSTRATIVE EXAMPLE FOR CAPITAL PRESERVATION FUNDS

The following template should be used for the illustrative example for capital preservation funds referred to in Part C. Instructions for completing the template are set out below.

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**ILLUSTRATIVE EXAMPLE FOR**  
**{NAME OF CAPITAL PRESERVATION FUNDS} OF THE**  
**{NAME OF REGISTERED SCHEME}**

**Issued [date]**

### **PURPOSE OF THE EXAMPLE**

This example is intended to help you compare the total amounts of annual fees and charges payable under this Scheme with those under other registered schemes.

### **THIS EXAMPLE ASSUMES THAT :**

#### ***Your MPF Account Activities***

- (a) your monthly relevant income is \$8,000
- (b) you have put all your accrued benefits into the Capital Preservation Fund; you have not switched your accrued benefits to other constituent funds during the financial period
- (c) you have not transferred any accrued benefits into or out of this Scheme during the financial period

#### ***Your Company Profile***

- (d) 5 employees (including yourself) of your employer participate in this Scheme
- (e) the monthly relevant income of each employee is \$8,000
- (f) no voluntary contribution is made
- (g) each of the other 4 employees has the same MPF account activities as yours

#### ***Investment Return and Savings Rate***

- (h) the monthly rate of investment return is 0.5% on total assets
- (i) the prescribed savings rate is 3.25% per annum throughout the financial period.

*[Insert the following paragraph if the capital preservation fund maintains an internal portfolio]*

Based on these assumptions, the **total amounts of annual fees** you need to pay under this Scheme in one financial period would be : \$\_\_\_\_\_.

*[Insert the following paragraph if the capital preservation fund is a feeder fund]*

Based on these assumptions, the **total amounts of annual fees** you need to pay under this Scheme (including those payable to the underlying approved pooled investment fund) in one financial period would be : \$\_\_\_\_\_.

**Warning :** This is just an illustrative example. The actual amounts of fees you need to pay may be **higher or lower**, depending on your choice of investments and activities taken during the financial period.

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***Instructions to approved trustees for completing the example***

- a. For the purposes of this illustrative example, “fees” refers to the total amount of money payable by a scheme member, directly or indirectly to any party which renders services in the administration of a registered scheme, regardless of whether the fees are to be deducted from the scheme member’s account or paid by the scheme member or employer separately.
- b. Where the capital preservation fund of the scheme invests in an approved pooled investment fund (“APIF”), the fees also include those of the APIF chargeable to the capital preservation fund.
- c. Round all cents to the nearest dollar and all percentages to the nearest hundredth of one percent.

## APPENDIX D - ILLUSTRATIONS OF THE FER CALCULATION

This Appendix illustrates the calculation of FER for each class of units of a constituent fund called Global Fund for the financial year ending 31 December 2004. It is provided to assist approved trustees and operators of APIFs in understanding how to calculate the FER of funds.

The FER of each class is calculated by the formula:

$$\text{FER (\%)} = \text{direct expense (\%)} + \text{underlying fund costs (\%)}$$

### Step 1: Calculation of "average NAV" of each class of units of Global Fund

#### Assumptions:

1. Global Fund issues 3 classes of units: Classes A, B and C.

#### NAV Information:

Pricing points	Class A	Class B	Class C	Total
	NAV (in HK\$'000)			
31 Jan 04	1,000	2,000	3,000	6,000
29 Feb 04	2,000	4,000	6,000	12,000
31 Mar 04	3,000	6,000	9,000	18,000
30 Apr 04	4,000	8,000	12,000	24,000
31 May 04	5,000	10,000	15,000	30,000
30 Jun 04	6,000	12,000	18,000	36,000
31 Jul 04	7,000	14,000	21,000	42,000
31 Aug 04	8,000	16,000	24,000	48,000
30 Sep 04	9,000	18,000	27,000	54,000
31 Oct 04	10,000	20,000	30,000	60,000
30 Nov 04	11,000	22,000	33,000	66,000
31 Dec 04	12,000	24,000	36,000	72,000
<b>Calculation of the "average NAV":</b>				
(a) Sum of NAV at pricing points	78,000	156,000	234,000	
(b) No. of pricing points	12	12	12	
<b>Average NAV:</b> (a) divided by (b)	<b>6,500</b>	<b>13,000</b>	<b>19,500</b>	

**Step 2: Calculation of “expenses” of each class of units**Assumptions:

1. The expenses of Global Fund for the year ending 31 December 2004 attributable to Classes A, B and C are HK\$65,000, HK\$260,000 and HK\$585,000 respectively.
2. During the year, in addition to charging the expenses mentioned in (1) above against the fund assets, the sponsor of global fund charges an additional asset fee by deducting the equivalent value of units in member’s accounts (instead of charging it against the fund assets). The amounts of fee so deducted are Class A: HK\$65,000, Class B: HK\$130,000 and Class C: HK\$195,000.

	<b>Class A</b>	<b>Class B</b>	<b>Class C</b>
Expenses attributable to each class	65,000	260,000	585,000
+Adjusted unit expenses	65,000	130,000	195,000
<b>Total</b>	<b>130,000</b>	<b>390,000</b>	<b>780,000</b>

**Step 3: Calculation of “direct expense” of each class of units**

Direct expense (%)	=	$\frac{\text{“expenses” of the class}}{\text{average NAV of the class}} \times 100\%$	
Class A expense (%)	=	$\$130,000 / \$6,500,000 \times 100\%$	= <b>2.00%</b>
Class B expense (%)	=	$\$390,000 / \$13,000,000 \times 100\%$	= <b>3.00%</b>
Class C expense (%)	=	$\$780,000 / \$19,500,000 \times 100\%$	= <b>4.00%</b>

**Step 4: Calculation of “underlying fund costs” of each class of units**

Assumptions:

1. Global Fund invested in two APIFs during the year called APIF-A and APIF-B.
2. Global Fund also invested in a collective investment scheme named CIS for 8 months during the year. Global Fund held no cash or other investments at any pricing point.
3. APIF-A has financial year ending at 31 December each year. FER of APIF-A for the financial year ending 31 December 2004 is 2.00%.
4. APIF-B has financial year ending at 30 June each year. FER of APIF-B for the financial year ending 30 June 2004 is 1.00%.
5. CIS has financial year ending at 30 September each year. No FER is provided in the prospectus of CIS. Financial statements of CIS for the year ending 30 September 2004 indicates the total expenses of HK\$16 million in the income statement. Balance sheet of CIS indicates that the NAV of CIS as at 30 September 2003 and 30 September 2004 is, respectively, HK\$1.5 billion and HK\$1.7 billion.

Pricing points	APIF-A	APIF-B	CIS	Total
	Asset allocation (in %)			
31 Jan 04	40%	50%	10%	100%
29 Feb 04	40%	50%	10%	100%
31 Mar 04	40%	50%	10%	100%
30 Apr 04	40%	50%	10%	100%
31 May 04	50%	45%	5%	100%
30 Jun 04	50%	45%	5%	100%
31 Jul 04	50%	45%	5%	100%
31 Aug 04	50%	45%	5%	100%
30 Sep 04	60%	40%	0%	100%
31 Oct 04	60%	40%	0%	100%
30 Nov 04	60%	40%	0%	100%
31 Dec 04	60%	40%	0%	100%

**Calculation of the H - the average holding of the APIF and CIS**

(a) Sum of the holdings	600%	540%	60%	
(b) Number of pricing points	12	12	12	
<b>The average holding: (a) divided by (b)</b>	<b>50%</b>	<b>45%</b>	<b>5%</b>	

**Calculation of the H x E**

	APIF-A	APIF-B	CIS	
Average holding (H)	50%	45%	5%	
Latest FER (E)	2.00%	1.00%	1.00%*	
	(y.e. 31/12/04)	(y.e. 30/6/04)	(y.e. 30/9/04)	
<b>Underlying fund costs (%)</b>	<b>1.00%</b>	<b>0.45%</b>	<b>0.05%</b>	

**Calculation of the  $\sum H \times E = 1.00\% + 0.45\% + 0.05\% = 1.50\%$**

\* estimated as \$16M / [(\$1.5B+\$1.7B) / 2] x 100%

**Step 5: The total FER**

Based on the above assumptions, the FER for each class of units of Global Fund for the year ending 31 December 2004 will therefore be:

	Direct expense (%)	Underlying fund costs (%)	<i>FER</i>
Class A	2.00%	1.50%	<b>3.50%</b>
Class B	3.00%	1.50%	<b>4.50%</b>
Class C	4.00%	1.50%	<b>5.50%</b>

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