



BANK OF PAPUA NEW GUINEA

**SUPERANNUATION PRUDENTIAL STANDARD
2/2006**

**GOOD GOVERNANCE -
MANAGEMENT EXPENSE RATIO**

ARRANGEMENT OF SECTIONS

Part I—Preliminary

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

Part II—Statement of Policy

6. Purpose
7. Scope
8. Responsibility

Part III—Investment managers and custodians

9. MER Formula
10. ASF Expenses
11. Average Net Assets
12. Publication of the MER

Part IV—Corrective Measures

13. Remedial measures and sanctions

Part V—Investment objectives and investment strategies

14. Effective Date
15. Supersedence

PART I—PRELIMINARY

- 1) **Short Title:** This standard may be cited as Superannuation Prudential Standard No. 2/2006 (Management Expense Ratios).
- 2) **Authorisation:** The Bank of Papua New Guinea, acting under section 43 of the *Superannuation (General Provisions) Act 2000* and all other powers enabling it, determines this standard.
- 3) **Application:** All Authorised Superannuation Funds (“hereafter call ASFs”) and relevant license holders.
- 4) **Interpretations/Definitions:** In this standard, unless the contrary intention appears—
 - a. “Act” means the *Superannuation (General Provisions) Act 2000*, and regulations, other prudential standards, licences, authorities and other instruments made under or for the purposes of that Act.
 - b. “MER” means management expense ratio.

Commentary

1. Section 56 of the Act requires a licensed trustee to make an annual report to members.
- 5) **Commentary:** Commentary in this standard is included for guidance.

PART II- STATEMENT OF POLICY

- 6) **Purpose:** To standardise the calculation of management expense ratios between years and between ASFs for the information of members.
- 7) **Scope:** This standard applies to all ASFs and relevant license holders.
- 8) **Responsibility:** It is the responsibility of the board of directors of the Trustee Company and relevant license holders to comply with this standard

PART III- IMPLEMENTATION AND SPECIFIC REQUIREMENTS

- 9) **MER Formula** - Each ASF will calculate an annual management expense ratio, using the formula

$$\frac{\text{total ASF expenses}}{\text{average net assets}}$$

- 10) **ASF expenses** - ASF expenses are **all** those included as Expenditure in the Operating Statement (refer Prudential Standard on Financial Statements), unless expressly excluded with the concurrence of the Central Bank.

Commentary

1. ASF expenses will include
 - salary and all other staff and management expenses allowances and benefits
 - Board fees and all other Board expenses and allowances
 - fees payable to advisers and consultants

- service provider fees including the investment manager & funds administrator
 - charges of the regulator
 - donations, advertising and any like expenditure
 - all taxes and other charges other than tax on the income of the ASF
 - depreciation on building, plant and equipment used in the management of the ASF
 - any other operational expense.
2. Costs and expenses directly related to acquiring, maintaining and disposing of investments (such as transaction costs, commissions and brokerage, and repairs, security, insurance and electricity for rental properties) are **not** included.
 3. The Central Bank would only agree to the exclusion of an expense item from the MER if inclusion would result in a material distortion in the calculation in comparison with earlier years or between ASFs.
- 11) **Average net assets** - Net assets are found in the Statement of Net Assets in Prudential Standard 3. For the purpose of calculating the annual MER, average net assets is the simple average of the net assets as at the balance date and the balance date of the previous year.
- 12) **Publication of the MER** - The licensed trustee of an ASF must ensure that the Annual Report includes the MER for that year, and the preceding 3 years on the same basis.

The annual written statement to members of the financial and management performance of the ASF under Section 56 will include the MER for the most recent 3 years, presented in a form readily understood by members.

PART IV – CORRECTIVE MEASURES

- 13) **Remedial measures and sanctions:-**

If a license holder fails to comply with this standard, the Bank may impose or vary conditions on the license to ensure compliance or, if necessary, suspend or revoke the license. Any license holder, which experiences difficulty in complying with the standard, should advise the Bank forthwith.

PART V— EFFECTIVE DATE

- 14) **Effective Date:** The effective date of this Prudential Standard shall be 30th June 2006.
- 15) **Supercedence :** This standard supersedes and replaces Prudential Standard 2/2004 “Management Expense Ratios, Trustee Fees and Entitlements” issued in February 2004.

Questions and enquiries relating to this prudential standard should be addressed to The Manager, Financial System Supervision Department Bank of PNG, Tel: 322-7222.

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