

5 May 2017

Financial Markets Authority
New Zealand

By email: consultation@fma.govt.nz

Dear Sirs,

Consultation Paper: KiwiSaver Annual Statements – Calculation of Total Fees (in dollar values)

The Financial Services Council of New Zealand Incorporated (**FSC**) thanks the Financial Markets Authority (**FMA**) for this opportunity to make a submission in relation to the Consultation Paper on KiwiSaver Annual Statements. We support the FMA's goal of transparency and consistency for consumers.

To more fully represent the voice of the KiwiSaver community, this submission is made jointly with Workplace Savings NZ Incorporated (**WSNZ**).

The FSC represents New Zealand's financial services industry having 15 member companies and 15 associate members at 31 March 2017. Companies represented in the FSC include the major insurers in life, disability, income, and trauma insurance, and some fund managers and KiwiSaver providers. Law firms, audit firms, and other providers to the financial services sector are represented among the associate members.

WSNZ represents the interests of employers who offer workplace retirement savings schemes, their trustees and their members, other retirement scheme managers (including KiwiSaver scheme providers) and supervisors, retirement savings industry service providers and professional advisers.

This submission provides our responses to the specific questions and gives voice to the recommendations of both FSC and WSNZ members.

Please contact me on 021 0233 5414 to discuss our submission.

Yours sincerely

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Table of Contents

Table of Contents.....	2
Who we are – Financial Services Council.....	3
Who we are – Workplace Savings NZ	4
Responding to the Issues Paper - our approach	5
Our feedback.....	6

Who we are – Financial Services Council

The Financial Services Council of New Zealand Incorporated (FSC) has 15 member companies and 15 associate members at 31 March 2017. Companies represented in the FSC include the major insurers in life, disability, income, and trauma insurance, and some fund managers and KiwiSaver providers. Law firms, audit firms, and other providers to the financial services sector are represented among the associate members.

The FSC's vision is to be the voice of New Zealand's financial services industry, with three areas of strategic intent:

1. Strong and sustainable consumer outcomes
2. Sustainability of the financial services sector
3. Increasing professionalism and trust of the industry through the FSC Code of Conduct

Our purpose is to:

- be recognised as an organisation that represents the interests of the New Zealand financial services industry, including to regulators and Government
- promote best practice and integrity in the financial services industry, including through the institution of codes of conduct, standards and the publication of guidance for industry participants
- promote the financial services industry for the economic benefit of New Zealand and to enhance the sustainability of the industry, whilst recognising the primacy of the interests of consumers
- develop and promote evidence-based policies and practices designed to assist New Zealanders to build and protect their wealth
- promote the financial services industry as a medium for investment and protection for consumers
- promote, assist and generally advance the interests of members

To deliver on our vision and purpose FSC activity centres on five strategic pillars:



POLICY AND ADVOCACY

Aim: To be the trusted voice of the financial services sector in New Zealand



INDUSTRY LEADERSHIP & INSIGHT

Aim: Bringing the industry together with knowledge and insight for the benefit of all New Zealanders



INDUSTRY BEST PRACTICE

Aim: Showcasing industry excellence in understanding, growing and protecting New Zealanders' wealth



COMMUNITY OF PROFESSIONALS

Aim: A community developing itself to better understand and serve the needs of New Zealanders



DEVELOP THE FSC

Aim: A sustainable business model delivering an effective and efficient industry body

Who we are – Workplace Savings NZ

Workplace Savings NZ (**WSNZ**) is a not-for-profit apolitical membership organisation representing the interests of employers who offer workplace retirement savings schemes, their trustees and their members, other retirement scheme managers and supervisors, retirement savings industry service providers and professional advisers. WSNZ's membership embraces all types of retirement schemes (KiwiSaver, workplace savings and superannuation schemes) and participants who are public and corporate, union-sponsored and industry-based.

The objective of WSNZ (which works closely with the Financial Services Council) is to be the *Voice of Workplace Savings* - advancing the sustainable, effective, and efficient delivery of workplace savings outcomes for all involved, including the workplace savings scheme members who remain key to the organisation. WSNZ aims to do this through:

1. Advocacy – proposing and commenting on legislative and public policy initiatives beneficial to workplace savings and participation in the workplace savings industry, making submissions, engaging with policy-makers and officials and issuing media commentary to advance those causes.
2. Education – promoting trustee, employer and member financial and regulatory education through dedicated training programmes, newsletters and special interest seminars.
3. Networking – providing trustees, employers and service providers involved in workplace superannuation with a regular forum for sharing ideas and information on industry matters.
4. Promotion – publicising the benefits of workplace savings and helping to improve public confidence and participation in workplace savings.

Responding to the Issues Paper - our approach

This submission is the result of a consultation process across our joint member-bases and represents the views of our members and our industry.

The FSC's guiding vision is to be the voice of New Zealand's financial services industry. Given the different business models, diversity and expertise of our members, there are times when there are a range of insights and views. Where this has been the case in relation to this submission, we have adopted the FSC's standard approach to managing significant issues:

- **Principles-based:** keeping the conversation focussed on the big issues while acknowledging the detail
- **Best practice:** ensuring the recommendations and solutions are aspiring to high standards of service for clients and driving consistency within the industry
- **Market competition:** believing a free market will find the balance that works best for the consumer and the industry

For depth, there are instances in the feedback where we have included the range of member views. Our intent in doing this is to highlight the material concerns of our members and open the door for continued conversation.

We acknowledge the time and input of all our members in contributing to this submission.

Our feedback

The intent of the proposed changes is to bring consistency and a level playing field to the calculation of total fees in KiwiSaver annual statements. We support the goal of enabling consumers to easily and accurately compare fees between providers as we believe it will drive better consumer outcomes and ultimately build trust and confidence in the sector.

Our view is that providing guidance on the approach is sensible and will enable improved consumer outcomes. However prescribing a single approach may have unintended consequences in terms of cost and time.

Our members recommend that both CPU and TAFC methodologies are suitable as they are essentially the same calculation performed via different mechanisms. Benefits of continuing to allow the CPU methodology include:

- Acknowledgment and **use of the material work** already undertaken by the industry for CPU
- **Increased accuracy** from the CPU basis for those providers who choose this option
- **Consistency** with existing calculations (for example the PIE tax framework)

It is critical that should a single prescribed methodology be mandated, then it is future-proofed to minimise the cost and complexity arising from ongoing change.

Specific responses to the questions are:

Question Number	Comment	Recommendation
1	Members agree with the need for consistency but differ on whether this is best achieved through 'guidance' or a 'methodology notice'. The key requirement is transparency for the consumer.	Before issuing prescribing a methodology, we recommend the FMA assess the consumer benefit from issuing a prescriptive methodology compared to a guidance note (allowing for flexibility according to different providers and their circumstances).
2	Members generally agree the formula included in the TAFC methodology is unclear, specifically as to how changes in the total fund charges during the relevant accounting period would be accounted for. Specific member comments are: <ol style="list-style-type: none"> a. Audited fee figures are not available until May, which is too late to incorporate audited figures into calculations for the annual statements. b. Using the TAFC method (as proposed) will not provide a sufficiently close estimate in situations where a member is charged discounted fees because it would over-estimate fees for such members. 	Members recommend the calculation methodology needs to be done at a member level instead of the fund level. Specific member recommendations are: <ol style="list-style-type: none"> a. Clarify the formula: A's average balance should state 'for each fund they are invested in', because calculations would need to be performed for each member for each fund, before adding up all the dollar fees to produce one final dollar fee per member. b. Draft the formula to allow flexibility for individual/ provider differences. The Regulations require the fees to be calculated net of rebates that are paid or payable to a fund (regulation 70(4)(a)).

Question Number	Comment	Recommendation
3	Members generally agree current systems and processes enable the use of monthly balances, while making it difficult to use daily or weekly balances.	Members generally agree the monthly balance should be used.
4	Not applicable	Not applicable
5	Our members estimate costs of more than \$100,000 and development time of several months (6-12 months).	No recommendation
6	Given the development time of 6-12 months, our members generally agree that August 2017 is too late.	Members suggest there should be carve outs where a provider can demonstrate that it is impracticable to implement in less than 12 months.
7	Members generally agree the advantages and disadvantages look reasonable, with the following member-specific comments: <ul style="list-style-type: none"> a. Updated 31 March fee figures are not available until 30 June fund updates so are not ready to include in annual statements. b. Final expense figures would not be available until after the financial statements have been prepared and audited which is too late to include in annual statements. 	No recommendation
8	No comment	Members suggest detailed explanations may have the unintended consequence of complicating the annual statement and recommend further discussion with industry.
9	Members confirm system development is required to attribute fund charges to an individual fund investor on a daily basis.	Members recommend consideration of whether the cost justifies the benefit of this development. If it does proceed, then members recommend a commencement date of 31 March 2019.
10	Members estimate it would take up to 12 months and potentially cost several million dollars. Members highlight such a system would not be in place in time for the 2018 statements.	No comment
11	No other method is suggested.	No comment