SFAMA
Swiss Funds & Asset Management Association

Guidelines

Guidelines on the calculation and disclosure of the Total Expense Ratio (TER) of collective investment schemes

16 May 2008

(Status as of 20 April 2015)

I Basic principles, aims and binding force

According to the Code of Conduct of the Swiss Funds & Asset Management Association SFAMA, fund management companies pursuant to Art. 28 et seqq. CISA, investment companies with variable capital (SICAVs) pursuant to Art. 36 et seqq. CISA, investment companies with fixed capital (SICAFs) pursuant to Art. 110 et seqq. CISA and representatives of foreign collective investment schemes pursuant to Art. 123 et seqq. CISA in Switzerland must ensure cost transparency in line with international standards. **1**

These guidelines are aimed at ensuring the uniform implementation of this provision with regard to the fees (commissions) and incidental costs incurred in connection with the management of collective investment schemes, thereby contributing to the highest possible pricing transparency for the collective investment schemes offered on the Swiss market. The guidelines are to be used for all collective investment schemes authorized in Switzerland with the exception of the limited partnership for collective investment and real estate funds. **2**

Materially, these guidelines are based on international standards. **3**

II Guidelines

A Standard ratio

1. Basic principle

The fees and incidental costs charged on the management of collective investment schemes are to be disclosed using the internationally recognized Total Expense Ratio (TER). This ratio expresses the sum of all fees and incidental costs charged on an ongoing basis to the collective investment scheme's assets (operating expenses) taken retrospectively as a percentage of the net assets, and is in principle calculated using the following formula: **4**

$$\text{TER \%} = \frac{\text{Total operating expenses in CU*}}{\text{Average net assets in CU*}} \times 100$$ **5**

* CU = currency units in the accounting currency of the collective investment scheme

2. Frequency of calculation

The TER is to be calculated for the preceding 12 months at the close of the annual and **6**

semi-annual accounts, i.e. either

- for the financial year just ended, or **7**
- for the first half of the current financial year and the second half of the preceding financial year. **8**

The calculation is to be based on the fees and incidental costs listed in the income statement. **9**

The calculation methods for newly launched collective investment schemes and in cases where collective investment schemes are restructured are detailed under sections 8 and 9 below. **10**

3. Operating expenses

All fees and incidental costs charged to the income statement of the collective investment scheme during the reporting period are to be included in the TER: **11**

- Management fee of the fund management company / SICAV / SICAF or the management company for the remuneration of its activity; **12**
- Custody fee and other costs for the remuneration of the custodian bank's activity, including the costs for the safekeeping of the fund's assets by third-party custodians or collective securities depositories; **13**
- Management fee and any performance fees for the remuneration of the asset manager of collective investment schemes; **13a**
- Distribution fee for remuneration of the distributors' activity; **13b**
- Incidental costs that may be charged to the fund's assets in accordance with the fund regulations, provided they are not included in the above fees. **14**

[repealed] **15-24**

- Taxes and duty (e.g. taxe d'abonnement); **25**

or alternatively:

- an "all-in fee" charged by the fund management company / SICAV / SICAF or management company; including all incidental costs; **26**
- a "flat fee" charged by the fund management company / SICAV / SICAF or management company plus any fees and incidental costs the flat fee does not include. **27**

Essentially the operating expenses correspond to the expense side of a collective investment scheme's income statement excluding the negative investment income (e.g. interest payable) and accruals and deferrals (e.g. payment of current income). Fees and incidental costs that form part of the operating expenses may not be offset against the investment income. **28**

The incidental costs incurred by the collective investment scheme on the purchase and sale of investments are not included in the operating expenses (except in the case of an "all-in fee"). These are integral to the investments themselves and accrue to the realized capital gains / losses on the sale of the investments. **29**

4. Average net assets

The average net assets are defined as the arithmetic mean of the net assets on a given valuation day calculated using the following formula: **30**

$$\text{Average net assets in CU*} = \frac{\sum \text{net assets on n valuation days}}{n} \quad \textbf{31}$$

* CU = currency units in the accounting currency of the collective investment scheme

B Special cases

5. Collective investment schemes paying a performance fee to the asset manager

If a performance fee for the remuneration of the asset manager is applied, this is to be included in the TER and stated separately as a percentage of the average net assets. **32**

6. Composite (synthetic) TER in the case of acquisitions of units of other collective investment schemes (target funds)

If a collective investment scheme invests at least 10% of its net assets as a fund of funds in other collective investment schemes (target funds) which publish a TER within the meaning of the present guidelines, a composite (synthetic) TER of the fund of funds is to be calculated as of the closing date of the financial year or the end of the first half of the financial year. This corresponds to the sum of **33**

- the prorated TER of the individual target funds, weighted on the basis of their proportion in the net assets of the fund of funds as of the closing date, **34**
- the issue and redemption commissions of the target funds actually paid, and **35**
- the TER of the fund of funds minus the retrocessions and rebates received from the target funds during the reporting period. **36**

If any of the target funds does not publish a TER pursuant to the present guidelines, the following procedure must be followed when disclosing the costs incurred by the fund of funds: **37**

- Reference must be made to the fact that no composite (synthetic) TER can be determined for the respective portion of the fund of funds. **38**
- A composite (synthetic) value must be indicated for the overall costs that the fund of funds is expected to incur. To this end **39**
  - a truncated (synthetic) TER is calculated which – weighted on the basis of the fund of fund's investment proportion – includes the TERs of all target funds for **40**

which the TER is determined as per the present guidelines (i.e. target funds with TER), and

- to this are added for each of the other target funds (i.e. target funds without TER) the issue and redemption commissions plus as precise as possible an estimate of the upper limit of the costs relevant for the TER. This value – weighted on the basis of the target funds' weighting in the fund of fund – must include the maximum management fee and the most recent performance fee available for this target fund. **41**

If a collective investment scheme pursuant to Art. 68 and Art. 110 CISA invests a significant portion of its net assets in target funds which do not publish a TER as per the present guidelines or for which no current TER is available (e.g. hedge funds), a calculation may be waived and a corresponding explanation is to be published. **42**

7. Changes to the percentage rates of the fees

If any of the fees set out in margin notes 12 to 13b have been changed during the reporting period or between the end of the reporting period and the publication of the TER, attention must be drawn to this fact in a corresponding footnote. **43**

8. Initial publication of the TER for newly launched collective investment schemes

In the case of newly launched collective investment schemes, the TER is to be calculated for the first time on the basis of the income statement published in the first annual or semi-annual report. Where necessary, the operating expenses are to be annualized. The average value for the net assets is taken as the mean of the month-end values during the reporting period. **44**

$$\text{Annualized operating expenses in CU*} = \frac{\text{Operating expenses in n months}}{n} \times 12$$ **45**

* CU = currency units in the accounting currency of the collective investment scheme

9. Restructuring of collective investment schemes

In cases where a collective investment scheme is restructured, the historical TER is only to be used if historical performance data are also published. Similarly, in cases where collective investment schemes are merged, the TER is to be calculated for the collective investment scheme whose historical performance is taken over. **46**

If a new collective investment scheme is created as the result of restructuring or a merger, and no meaningful historical performance data can be produced for this new collective investment scheme, no TER is to be calculated until the first annual or semi-annual report is issued for the corresponding collective investment scheme. **47**

10. Collective investment schemes with subfunds (umbrella funds)

In the case of an umbrella fund, the TER for each subfund is to be calculated and published in accordance with these guidelines. **48**

11. Collective investment schemes with several unit classes

If collective investment schemes charge different fees and incidental costs to their assets for individual unit classes, a separate TER is to be calculated for each unit class on the basis of the income statement issued for the class concerned. **49**

[12.-14. repealed] **50-56**

C. Publication

15. Publication of the TER in the annual and semi-annual report

The TER is to be published in the annual and semi-annual report, together with a reference to any change in the percentage rate of the fees if applicable (cf. point 7 above). **57**

16. Disclosure of fees and incidental costs in the fund regulations, prospectus, and Key Investor Information Document (KIID)

The disclosure of fees and incidental costs in the above fund documents is governed by the applicable provisions. **58**

III Other provisions

A Minimum standard

The supervisory authority has recognized these guidelines as a minimum standard (FINMA-Circ. 08/10 Self-Regulation as a Minimum Standard). **59**

B Entry into force

These amended guidelines were approved by the Board of Directors of the Swiss Funds & Asset Management Association SFAMA on 20 April 2015 and enter into force on 1 June 2015. **60**

Appendix: Calculation example – calculating and publishing the TER **61**

Appendix to the guidelines on the calculation and disclosure of the Total Expense Ratio (TER) of collective investment schemes

Example: calculation and publication of the TER

Scenario

Close of accounts of the collective investment scheme:	30 June	**1**
Management fee charged by fund management company / SICAV / SICAF:	until 30.06.07: 1.5% from 01.07.07: 2.0%	**2**
Average net assets for the period 31.12.06 - 31.12.07:	77,142,857 CU*	**3**

Excerpt from income statement

Expenses (in CU* 1,000)	31.12.06 Semi-annual report	30.06.07 Annual report	31.12.07 Semi-annual report	**4**
Management fee of fund management company / SICAV / SICAF	500	1,200	650	
Performance fee of asset manager of collective investment schemes	0	100	0	
Custody fee of custodian bank	75	160	80	
Other expenses	50	120	70	
Taxes	12	25	13	
Total operating expenses	637	1,605 (H2: 968)	813	

Calculating the TER for the 12 months from 31.12.2006 to 31.12.2007

TER including the performance fee **5**

$$\text{TER\%} = \frac{(968{,}000 \text{ CU*} + 813{,}000 \text{ CU*})}{77{,}142{,}857 \text{ CU*}} \times 100 = \mathbf{3.31\%}$$ **6**

Performance fee as a percentage of the average net assets **7**

$$\% = \frac{(100{,}000 \text{ CU*} + 0 \text{ CU*})}{77{,}142{,}857 \text{ CU*}} \times 100 = \mathbf{0.13\%}$$ **8**

* CU = currency units in the accounting currency of the collective investment scheme

Publication of the TER

The TER is to be published including the performance fee together with the date (as of 31 December 2007) and a reference to the increase in the management fee charged by the fund management company / SICAV / SICAF from 1.5% to 2.0% as of 1 July 2007. In addition the performance fee is to be stated separately as a percentage of the average net assets. **9**

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