

**MEMO# 28241**

July 8, 2014

# **Letter to Swiss Pension Regulator Requesting Recognition of U.S. Mutual Fund Expense Ratio as a Recognized TER Concept**

[28241]

July 8, 2014

TO: INTERNATIONAL COMMITTEE No. 19-14

PENSION COMMITTEE No. 16-14

ICI GLOBAL REGULATED FUNDS COMMITTEE No. 5-14

ICI GLOBAL RETIREMENT SAVINGS COMMITTEE RE: LETTER TO SWISS PENSION REGULATOR  
REQUESTING RECOGNITION OF U.S. MUTUAL FUND EXPENSE RATIO AS A RECOGNIZED TER  
CONCEPT

In 2013, the Swiss Federal Occupational Pensions Regulatory Commission (OAK BV) enacted a directive on reporting the management costs of pension institutions with the goal of increasing cost transparency (Reporting Asset Management Costs, the “TER Directive”). The TER Directive imposes requirements on how a collective investment scheme must disclose its costs to pension institutions in order to be considered “cost-transparent” investments and included on a pension institution’s income statement. U.S. mutual funds need to comply with the TER Directive in order for Swiss pension institutions to consider such funds as “cost-transparent” investments, without the Swiss pension institutions themselves having to calculate, and have audited, the total expense ratio in accordance with a recognized TER concept (a more tedious and time-consuming process).

On July 2, ICI Global submitted a letter requesting that OAK BV recognize the total expense ratios of open-end investment companies registered under the U.S. Investment Company Act of 1940, calculated and disclosed in accordance with the requirements of the 1940 Act, as “Recognized TER Concepts for collective investment schemes,” pursuant to the TER Directive. The TER Directive authorizes OAK BV to recognize a TER concept as meeting the requirements of the TER Directive if it “essentially fulfills” the requirements of the TER Directive. OAK BV has already recognized certain TER concepts such as the TER concept for Undertakings for Collective Investment in Transferable Securities under EU Directive 2009/65/EC (“UCITS”) as disclosed in the Key Investor Information Document.

The letter describes in detail how the U.S. Securities and Exchange Commission’s rules

applicable to U.S. mutual funds for calculating and disclosing their total annual fund operating expenses in the mutual fund prospectus are substantially similar to the requirements in the TER Directive, as well as the already-recognized Swiss Fund Association methodologies and UCITS guidelines. It states that, in particular, the total annual fund operating expenses are based on all expenses disclosed in the fund's income statement in relation to the fund's average net assets. Furthermore, expenses incurred indirectly through investments in funds must be factored into the expense ratio in the fee table in the mutual fund prospectus.

The letter includes as attachments certain documents that OAK BV may find helpful in making its determination, namely, (1) a description of how the U.S. mutual fund expense ratio is calculated and (2) a chart comparing the calculation of the U.S. mutual fund expense ratio as disclosed in the prospectus fee table with the TER principles at 4.2 of OAK BV TER Directive. We further included a comparative chart of selected common areas of substantive fund regulation between U.S. registered investment companies and UCITS, as well as a document generally describing the organization of U.S. mutual funds and the core principles underlying the regulation of U.S. mutual funds.

We will keep members apprised of developments regarding this request to OAK BV.

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[Attachment](#)

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