

**INVESTMENT SAVINGS & INSURANCE ASSOCIATION OF NZ INC**

**MANUAL**

**OF**

**PRACTICE STANDARDS**



**June 2008**

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## INTRODUCTION

These Standards have been prepared as an aid to members in the preparation and presentation of those parts of their selling and marketing material which are not covered by the statutory disclosure requirements.

They also aim to provide consistency of presentation in such areas as the measurement of investment returns, the calculation of benefit projections and the management expense ratio.

Some pieces of information such as benefit projections and policy illustrations are not mandatory but where members do seek to provide them, they must be presented in accordance with the relevant standard.

There are currently no statutory disclosure requirements for term life or disability products and the standard for the sale of these products is therefore provided to present the minimum information requirements for both insurers and intermediaries.

Compliance with these standards is mandatory for all relevant retail products being offered in New Zealand by members or any of their subsidiary or associated companies and will include investment funds such as unit trusts, group investment funds or retail superannuation schemes and life insurance products such as insurance bonds, term life or disability policies.

Where there is any doubt as regards a member's obligation to comply, or where there may be substantive grounds for a waiver from compliance with any part of these standards, the decision of the Board on any waiver or obligation to comply shall be final and binding.

## DEFINITIONS AND INTERPRETATION

- **base currency** - the currency in which the fund's statutory financial statements are prepared.
- **cash fund** - a fund whose assets are confined to money market securities, with a duration generally less than 180 days.
- **exit price** - the price per unit that is applied for the purpose of ascertaining the withdrawal value payable to an investor, and is net of tax paid or payable by the scheme trustee.
- **fixed interest fund** - a fund whose assets are confined to fixed interest securities and interest bearing deposits.
- **gross distribution yield** - the per unit amount of the net distribution plus imputation credits attached to the net distribution divided by the exit price immediately following the previous distribution expressed as a percentage.
- **intermediary** - any person, partnership or body corporate, whether acting as agent, sub-agent or broker for the sale of any insurance or investment product offered by any member on a retail basis and whether on behalf of a fund manager, insurer or an investor or potential investor, and includes any director or employee of such person, partnership or body corporate.
- **mortgage fund** - a unitised fund whose assets are confined to mortgages and interest bearing deposits the income from which is accounted for on a historical accrual basis.

- **net distribution yield** - the per unit amount that can be paid out on a distribution divided by the exit price immediately following the previous distribution expressed as a percentage.
- **promotional statement** - any statement intended, or apparently intended to promote a fund whether it is made by means of newspapers, magazines, brochures, pamphlets, letters, billboards or other written or print media or by means of telephone, radio, television, tape or video recorder or other aural or visual means. This does not include a communication to existing unitholders unless material which would constitute a promotional statement is included in that communication.
- **property fund** - a fund whose assets primarily comprise real property held either directly or indirectly through property companies and/or other property funds.
- **total investment return** - includes both income and capital gains or losses from a fund.

## **STANDARD FOR BENEFIT PROJECTIONS INVOLVING INVESTMENT PERFORMANCE**

- 1.1** The decision on whether or not to provide benefit projections in the selling process is a matter for the individual member.

If benefit projections are provided, then they must comply with this standard.

- 2.1** Benefit projections involving investment performance must:
- 2.1.1** be made in a form and on a basis which has been approved by the member company after taking appropriate advice, and
  - 2.1.2** use two (sets of) projection rates (“higher” and “lower”), each of which can realistically be expected to be achieved over the life of the investment having regard to the underlying assets, and each of which is clearly stated, and
  - 2.1.3** be net of all charges (whether implicit or explicit, direct or indirect and including all commission and other costs associated with the sale of the policy) and where appropriate include an allowance for inflation;
  - 2.1.4** when allowing for inflation include provision for increases in contribution levels and fixed fees and shall not be at a greater annual rate than the upper level of the target rate set from time to time for the Governor of the Reserve Bank;
  - 2.1.5** not be misleading or give unrealistic expectations, and
  - 2.1.6** be objectively fair and reasonable.

**2.2** For policies with reversionary bonuses, benefit projections may require up to three projection rates. These are bonus on sum assured, bonus on bonus, and a terminal or end bonus rate.

**2.2.1** The higher projection rate(s) must not exceed the actual bonus rate for policies of the same class for the life company concerned when averaged over the last three reported financial years. For a new bonus series without a three-year bonus history, the higher projection rate(s) must not exceed the best estimate by the life company of the average bonus rate(s) that might have been declared by it over the last three years.

**2.2.2** The lower projection rate(s) should not be more than 80% of the corresponding higher projection rate.

**2.2.3** Bonus rate(s) used in the benefit projection must be clearly defined and stated, together with the basis on which they were determined using wording approved by the life company after taking actuarial advice.

**3.1** For policies without reversionary bonuses and investment funds:

**3.1.1** the higher and lower projection rates used in the benefit projections must be clearly stated in the benefit projection table;

**3.1.2** the higher and lower projection rates shall be net-of-tax rates before any life company charges or fund manager charges but after any normal dealing costs such as applied to the buying and selling of shares;

**3.1.3** the lower projection rate must not exceed 80% of the higher projection rate being used.

# STANDARD FOR A MANAGEMENT EXPENSE RATIO ["MER"]

## 1.0 INTRODUCTION

- 1.1 This Standard deals with disclosure to investors of a management expense ratio ("MER") representing the on-going fees and recovered expenses of an unlisted collective investment.
- 1.2 The rules in this Standard appear in bold type, with explanatory or interpretative paragraphs in standard type.
- 1.3 Some of the terms used in this Standard are given specific meanings in section 7.0.
- 1.4 The law prevails in any situation where there is conflict between this Standard and the law.

## 2.0 APPLICATION

### 2.1 This Standard applies to:

**2.1.1 each scheme in relation to participatory securities, units in a unit trust or interests in a superannuation scheme of which a Member is the issuer or a promoter and that are or at any time have been offered to the public in New Zealand for subscription; and**

**2.1.2 each investment fund in relation to investment-linked life insurance policies of which a Member is the issuer or a promoter and that are or at any time have been offered to the public in New Zealand for subscription;**

**but excluding any scheme in relation to securities that are listed on any stock exchange and any Occupational Superannuation Scheme.**

- 2.2 This Standard does not apply to conventional, investment account or other 'bundled' life insurance policies.
- 2.3 This Standard does not apply to "wrap" accounts or other custodial services that are not securities in their own right.
- 2.4 In the case of a scheme or investment fund where the returns to investors are calculated by reference to particular portfolios of assets or sub-funds (for example, a master trust), this Standard applies to each such portfolio of assets or sub-fund.
- 2.5 **No Member shall calculate or disclose an MER for a Fund other than in accordance with this Standard.**

### **3.0 PURPOSE**

**3.1 The purpose of this Standard is to:**

**3.1.1 require for a Fund that has completed at least one financial year that an MER is disclosed:**

- (a) in each registered prospectus for the Fund or, if there is no registered prospectus, in writing to every prospective investor in the Fund; and**
- (b) in writing upon request by any existing or prospective investor in the Fund;**

**3.1.2 require that a written statement setting out what the MER is and where it is disclosed (in accordance with para 4.12 of this Standard) is given to each prospective investor in the Fund;**

**3.1.3 specify the procedure to be followed in calculating the MER of a Fund; and**

**3.1.4 provide guidance for the application of the rules in this Standard.**

3.2 The purpose of an MER is to indicate the level of the Fees and Recovered Expenses of a Fund.

3.3 An MER disclosed in accordance with this Standard is based on certain stated assumptions and is not intended to provide an illustration of the actual Fees and Recovered Expenses attributable to any particular investor.

3.4 A Member must ensure that statements made to investors are not misleading. If for any reason a Member considers that disclosure of an MER in accordance with this Standard will or is likely to mislead an existing or prospective investor, the Member should disclose the MER together with sufficient further information so that the disclosure does not or is not likely to mislead an existing or prospective investor.

#### **4.0 DISCLOSURE**

**4.1 A Member, for every Fund in relation to securities of which the Member is the issuer or a promoter and that has completed at least one financial year, must ensure that the MER of the Fund for:**

**4.1.1 the last three completed financial years of the Fund; or**

**4.1.2 if the Fund has completed less than three financial years, each completed financial year of the Fund,**

is disclosed:

**4.1.3 in every registered prospectus for the Fund;**

**4.1.4 if there is no registered prospectus for the Fund, in writing to every prospective investor in the Fund before that person subscribes for the relevant securities; and**

**4.1.5 in writing to any existing or prospective investor in the Fund as soon as reasonably practicable after the Member receives a request accordingly from that existing or prospective investor.**

**4.2 A Member, for every Fund in relation to securities of which the Member is the issuer or a promoter and that has not completed at least one financial year, in any document may disclose an estimated MER of the Fund being either:**

**4.2.1 the annual equivalent of the MER of the Fund calculated by reference to the Average Fund Size, Fees and Recoverable Expenses for the period from commencement of the Fund to the date of calculation; or**

**4.2.2 the MER of the Fund calculated by reference to the Average Fund Size, Fees and Recoverable Expenses that the Member reasonably believes will apply for the period from commencement of the Fund to the last day of the first financial year of the Fund.**

**An estimated MER must be accompanied by an explanatory statement disclosing that it is an estimate.**

**4.3 A Member must not disclose an estimated MER of a Fund that has completed at least one financial year. A Member must not disclose an**

**estimated MER of a Fund that has not completed at least one financial year other than in accordance with paragraph 4.2.**

**4.4 Where a Member has disclosed an estimated MER of a Fund in accordance with this Standard and the actual MER of the Fund for the first financial year of the Fund is materially higher than the estimated MER, the Member must provide to every investor in the Fund to whom the estimated MER was disclosed:**

**4.4.1 a written statement of the actual MER of the Fund for the first financial year of the Fund; and**

**4.4.2 a written explanation of the reasons for the difference between that MER and the estimated MER.**

4.5 In addition to the disclosure required by paragraph 4.1, a Member in accordance with this Standard may disclose the MER of a Fund in any document (including an investment statement for the Fund).

**4.6 Any disclosure by a Member of the MER of a Fund must be accompanied by a statement containing:**

**4.6.1 a description of the assumptions and method of calculation of the MER; and**

**4.6.2 a warning that the MER of the Fund does not show the actual on-going fees and other expenses of the Fund or of any individual investor in the Fund.**

4.7 A sample statement for the purpose of paragraph 4.6 is set out in Appendix A.

**4.8 Where:**

**4.8.1** the basis of the calculation of Fees or Recovered Expenses of a Fund has changed since the end of the last completed financial year of the Fund or is proposed to be changed; and

**4.8.2** the change would have affected the calculation of the MER of the Fund for the last completed financial year if such a change had been in effect,

any disclosure of the MER of the Fund must be accompanied by a statement of the effect of the change.

**4.9** Where two or more classes of securities are issued in relation to a Fund (for example separate classes of unit subject to different administration charges) the rules in this Standard shall be read so as to require disclosure of an MER in respect of each class of securities.

**4.10** Where the Fees in relation to an investor and a Fund differ according to the amount invested, the MER of the Fund calculated using the highest Fees that may apply must be disclosed in accordance with this Standard.

**4.11** In addition to disclosing the MER of the Fund calculated using the highest Fees that may apply, a Member may disclose an MER of the Fund calculated using lesser Fees together with a description of the assumptions and method of calculation.

**4.12** A Member, for every Fund in relation to securities of which the Member is the issuer or a promoter, must ensure that every prospective investor in the Fund before subscribing for the relevant securities is given a statement in writing that contains:

**4.12.1** a brief description of the purpose of an MER; and

**4.12.2 notice that the MER of the Fund for each completed financial year of the Fund must be disclosed:**

- (a) in every registered prospectus for the Fund;**
- (b) if there is no registered prospectus for the Fund, in writing to every prospective investor in the Fund before that person subscribes for the relevant securities; and**
- (c) in writing to any existing or prospective investor in the Fund as soon as reasonably practicable after the Member receives a request accordingly from that existing or prospective investor.**

4.13 The statement required by paragraph 4.12 may be contained in the investment statement for the relevant securities or, if there is no investment statement for the relevant securities, in a separate document given to the prospective investor.

**4.14 If any additional fees or expenses that are not included in the computation of Fees or Recovered Expenses (as applicable) may be incurred in respect of a Fund based on the performance of a manager, that fact and details of those additional fees or expenses must be disclosed in the statement referred to in paragraph 4.6.**

4.15 If securities in relation to a Fund currently are not offered to the public in New Zealand for subscription (for example, because the Fund is closed), disclosure of the MER of the Fund is required only in accordance with the "on request" obligation in paragraph 4.1.5.

## 5.0 CALCULATION

5.1 Where a Fund declares pre-tax returns, the MER of the Fund for any period shall be calculated in accordance with the following formula:

$$\text{MER} = \frac{\text{Fees and Recovered Expenses}}{\text{Average Fund Size}} \times 100$$

5.2 Where a Fund declares after-tax returns, the MER of the Fund for any period shall be calculated in accordance with the following formula:

$$\text{MER} = \frac{\text{NDE} + [\text{DE} \times (1-\text{T})]}{\text{Average Fund Size}} \times 100$$

Where **NDE** is Fees and Recovered Expenses that are non-deductible for tax purposes.

**DE** is Fees and Recovered Expenses that are deductible for tax purposes.

**T** is the rate of income tax applicable to the Fund for the relevant period.

5.3 The MER should reflect the extent to which Fees and Recovered Expenses are tax deductible to the Fund and are represented as such in any disclosure of the return earned by the Fund.

5.3.1 Where Fees and Recovered Expenses are fully deductible for tax purposes and are represented as such in any disclosure of the return earned by the Fund, those Fees and Recovered Expenses are to be multiplied by the applicable after tax rate. [e.g  $1 - 0.33 = 0.67$ ].

5.3.2 Where Fees and Recovered Expenses are non-deductible for tax purposes and are represented as such in any disclosure of the return earned by the Fund, those Fees and Recovered Expenses are to be added to the deductible Fees and Recovered Expenses to give the total Fees and Recovered Expenses (adjusted according to paragraph 5.3.1) for the purpose of calculating the MER.

5.3.3 Fees in relation to a Group Investment Fund are to be ratioed by  $[1 - \text{tax rate}]$  where those Fees are deductible to an investor.

**5.4 Notwithstanding paragraphs 5.1 and 5.2, if a Fund is established outside of New Zealand, the MER of the Fund for any period may be calculated in accordance with an accepted standard for the calculation of management expense ratios issued or approved by any regulatory or financial services industry body in the jurisdiction in which the Fund is established or offered to the public ("alternative standard") provided that:**

**5.4.1 the alternative standard is a reasonable analogue for this Standard in all material respects having regard to the purpose and rules of this Standard; and**

**5.4.2 the statement required by paragraph 4.6 must identify the alternative standard and explain that the MER has been calculated in accordance with the alternative standard.**

## **6.0 INTER-FUND INVESTMENTS**

**6.1 Where the assets of a Fund (the "retail fund") include securities in relation to a Collective Investment Vehicle (a "subordinate fund"), the MER of the retail fund for a financial year shall be the sum of:**

- 6.1.1** the MER of the retail fund for that financial year calculated in accordance with section 5.0; and
- 6.1.2** the weighted average of the MER for each subordinate fund for the financial year of the retail fund calculated in accordance with paragraphs 6.2 and 6.3.

Alternatively, the MER of the retail fund may be expressed as separate components with a full explanation of the nature of inter-fund investments.

- 6.2** The weighted average shall be the average of the percentages of the total assets of the retail fund that comprised securities in relation to the subordinate fund on each date of valuation of the assets of the retail fund (eg. daily, weekly, monthly) during the relevant financial year of the retail fund.

*See Example One in Appendix B.*

- 6.3** The MER of the subordinate fund shall be:

- 6.3.1** the MER for the relevant financial year of the retail fund calculated in accordance with this Standard (including this section 6.0); or

- 6.3.2** if it is not reasonably practicable to calculate the MER for the relevant financial year of the retail fund, a reasonable estimated MER for the relevant financial year of the retail fund determined by the relevant Member after making reasonable inquiries as to the Fees and Recovered Expenses of the subordinate fund and having regard to the purpose and rules of this Standard.

**For the purpose of calculating the MER of the subordinate fund under this paragraph 6.3, references in this Standard to "Fund" shall be deemed to be references to the subordinate fund.**

- 6.4 If there are inter-fund investments Fees and Recovered Expenses may be rebated. Where this is the case, only the Fees actually charged and Recovered Expenses actually recovered in all Collective Investment Vehicles in the inter-fund chain down to the underlying asset portfolio should be included in the MER calculation. That is, where Fees or Recovered Expenses of one Collective Investment Vehicle are fully rebated there will be no amount included for that Collective Investment Vehicle in the MER calculation of the retail fund.
- 6.5 Conversely, there may be duplication of Fees or Recovered Expenses, particularly where there is a different trustee or manager of one or more of the Collective Investment Vehicles. In this case, all Fees actually charged and Recovered Expenses actually recovered in each Collective Investment Vehicle should be added together in order to determine the MER of the retail fund.
- 6.6 Securities listed on a stock exchange have their prices adjusted by the market to take account of their costs and performance. Therefore, the expenses relating to the operation of a subordinate fund that is a scheme in relation to securities that are listed should not be taken into account when determining the MER of the retail fund.

*See Example 2 in Appendix B.*

## **7.0 DEFINITIONS**

The following terms are used in this Standard with these meanings:

- 7.1 *Fees*  
Fees that have been or will be deducted from the Fund or directly or indirectly charged to an investor in the Fund in respect of the period

covered by the MER, including all the on-going fees received by the manager, all the fees of the trustee, any other fees such as custodian fees or audit fees, and any trailing commissions paid from the Fund.

7.1.1 Entry and exit fees are not to be included in the computation of Fees.

7.1.2 Any fees that are charged against an asset or a portfolio of assets before a return is allocated to the Fund, are to be included in the computation of Fees.

7.1.3 Any fees (other than flat dollar amounts) that are charged to all investors after a return is allocated from the Fund, are to be included in the computation of Fees.

7.1.4 Any additional fees that may apply in respect of the Fund based on the performance of a manager should not be included in the computation of Fees.

## 7.2 *Recovered Expenses*

All expenses relating to the operation of the Fund that are recovered from or paid out of the Fund.

7.2.1 Expenses ordinarily incurred by a person who directly invests in assets equivalent to the underlying assets of the Fund should not be included in the computation of Recovered Expenses (i.e. transaction costs and brokerage in connection with the purchase or sale of an asset, and repair, maintenance and refurbishment costs).

7.2.2 Any expenses that are charged against an asset or a portfolio of assets before a return is allocated to the Fund, are to be included in the computation of Recovered Expenses.

7.2.3 Any expenses (other than flat dollar amounts) that are charged to all investors in the Fund after a return is allocated from the Fund, are to be included in the computation of Recovered Expenses.

7.2.4 Any additional expenses that may apply in respect of the Fund based on the performance of a manager should not be included in the computation of Recovered Expenses.

7.2.5 Non-recoverable Goods and Services Tax charged to the Fund should be included in the computation of Recovered Expenses. Income tax expense charged to the Fund should be excluded.

### 7.3 *Average Fund Size*

(i) The sum of the Net Asset Values of the Fund, including net income less expenses on an accrued basis, on each date of valuation of the assets of the Fund (eg. daily, weekly, monthly) during the relevant period

divided by:

(ii) the number of days, weeks or months (as appropriate) in the relevant period.

### 7.4 *Member*

A member of the ISI and includes an associated person (within the meaning of the Securities Act 1978) of that member.

### 7.5 *Fund*

A scheme or investment fund to which this Standard applies in accordance with paragraph 2.1 or, in the case of any such scheme or investment fund

where the returns to investors are calculated by reference to particular portfolios of assets or sub-funds, each such portfolio of assets or sub-fund.

7.6 *Occupational Superannuation Scheme*

A superannuation scheme established principally for the purpose of providing benefits solely to persons who work under a contract of service or contract for services with a Member and dependants of such persons.

7.7 *Collective Investment Vehicle*

7.7.1 a scheme in relation to participatory securities, units in a unit trust or interests in a superannuation scheme; or

7.7.2 an investment fund in relation to an investment-linked life insurance policy;

but excluding any scheme in relation to securities that are listed on any stock exchange.

## Appendix A

### *Sample statement for the purpose of paragraph 4.6*

1. The management expense ratio does not show the actual on-going fees and other expenses of the fund or of any individual investor in the fund. It shows the maximum rate of on-going fees and other expenses of the fund as a percentage of the average size of the fund over the relevant financial year.

2. *option A*

The table shows the management expense ratio for [each of the last 3 completed financial years *or* each completed financial year since the commencement of the fund]. The management expense ratio for the current financial year or any future period is not guaranteed. For example, if the average size of the fund reduces, generally the management expense ratio will increase.

*option B*

At the date of this document the fund has not yet completed a financial year. The management expense ratio of the fund shown is an estimate for this financial year. It [represents the annual equivalent of the management expense ratio for the fund for the period from commencement of the fund to the date of calculation.] *or* [is calculated by reference to the average size of the fund and on-going fees and other expenses reasonably expected to apply for the period from commencement of the fund to the last day of the first financial year of the fund.]

3. The management expense ratio does not take into account non-recurring fees such as entry or exit fees. The actual management expense ratio may be lower than that shown if a rebate is applied to

fees or other expenses. [For illustration purposes the table includes [the management expense ratio for each completed financial year] *or* [the estimated management expense ratio] assuming an  $x$  percent rebate of fees.]

4. The management expense ratio is calculated in accordance with the following formula [*then set out the formula under paragraph 5.1 or paragraph 5.2 as is applicable*].

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## Appendix B

### *Example 1*

Fund A makes inter-fund investments in underlying Funds B, C and D.

It is assumed that:

- Fund A revalues every three months; and
- the "base" MER of Fund A is 1.5%.

Fund A's total MER is calculated as follows:

#### *Fund A's Asset Allocation (\$M)*

	<i>Fund B</i>	<i>Fund C</i>	<i>Fund D</i>	<i>Total Fund</i>
Jun-0X	10	15	20	45
Sep-0X	10	25	15	50
Dec-0X	30	15	10	55
Mar-0Y	35	20	5	60
	(40.5%)	(35.7%)	(23.8%)	210

#### *MER of Underlying Funds (%)*

	<i>Fund B</i>	<i>Fund C</i>	<i>Fund D</i>
Mar-0Y	1.30	1.50	2.00

#### *Fund A's Weighted MER (%)*

	<i>Fund B</i>	<i>Fund C</i>	<i>Fund D</i>	<i>Total</i>
Mar-0Y	0.53	0.54	0.48	1.55

Fund A should disclose an MER of 3.05% (ie 1.55 + 1.5)

***Example 2***

Fund F invests 50% of its portfolio in Fund G, and 25% each in Funds H and I, all of which are listed property trusts.

The "base" MER of Fund F is 2.0%. For this purpose the MERs of funds G, H and I are zero because they are listed.

Fund F should disclose an MER of 2.0%.

However, if Fund I was an unlisted trust with an MER of 2.0% then the total MER of Fund F would be 2.5%, i.e.  $2.0\% + (2.0\% \times .25)$ .

# STANDARD FOR THE MEASUREMENT OF INVESTMENT RETURNS

## 1.0 INTRODUCTION

- 1.1 This Standard deals with the measurement of investment returns for the purpose of disclosure to investors in unlisted collective investments.
- 1.2 The obligation to comply applies to members of the Investment Savings and Insurance Association ("Members") which offer investment products to the public.
- 1.3 The law will prevail in any situation where there is conflict between the rules in this Standard and the law.
- 1.4 The rules in this Standard appear in bold type, with explanatory or interpretative paragraphs in standard type.
- 1.5 Some of the terms used in this Standard are given specific meanings in section 6.

## 2.0 APPLICATION

- 2.1 This Standard applies to the historical investment returns of:
  - 2.1.1 **participatory securities, units in a unit trust or interests in a superannuation scheme of which a Member is the issuer or a promoter and that are or at any time have been offered to the public in New Zealand for subscription; and**
  - 2.1.3 **investment-linked life insurance policies of which a Member is the issuer or a promoter and that are or at any time have been offered to the public in New Zealand for subscription;**

**but excluding any scheme in relation to securities that are listed on any stock exchange and any Occupational Superannuation Scheme.**

2.2 This Standard does not apply to conventional, investment account or other 'bundled' life insurance policies.

**2.3 This Standard does not apply to "wrap" accounts or other custodial services that are not securities in their own right.**

### **3.0 PURPOSE**

3.1 The purpose of this Standard is to specify the principles to be applied when calculating returns, ensuring consistency in their calculation and enabling comparison of product performance after payment of fees and taxation.

3.2 This Standard also endeavours to achieve comparability with investment returns calculated and disclosed in accordance with the Australian IFSA Standard No. 6.00

### **4.0 DISCLOSURE**

**4.1 Members must comply with the rules relating to disclosure of information on investment returns in the ISI Standard for Promotional Statements.**

**4.2 The terminology used by Members in the disclosure of investment returns must be consistent with the experience of the prudent but non-expert investor and with generally accepted usage in financial markets.**

Appropriate terminology would be:

Total Return: Returns to investors from the investment performance of the Fund assuming the reinvestment of all distributions back into the Fund.

Growth Return: Returns to investors from changes in the value of initial capital

Distribution Return: Returns to investors from distributions paid by the Fund.  
'Hypothetical' Return: Returns that would have been received if the Fund had been invested in another specified fund or index that was in existence over that period, with the same attributes as the Fund in question.

Appropriate terminology must be used to distinguish between return of capital and income. For example, a distribution return may include some capital as well as income, making both "yield" and "income return" inappropriate terms to use. This Standard requires "distribution return" to be used in that situation. Where there is any accrued but unpaid distributable income it should notionally be added to the exit price and included in the growth return until the distribution is actually paid, as this reflects the actual experience of continuing investors and allows comparison of products.

- 4.3 The minimum level of disclosure is the total return but growth and/or distribution returns may be disclosed as well.**
- 4.4 Where growth and/or distribution are disclosed they must be referred to as Growth return and Distribution return respectively.**
- 4.5 If one of the components of a distribution is a partial return of capital, the amount of the partial return of capital must not be included in the quoted return. The Member must disclose the amount of capital included in the distribution.**
- 4.6 The total return from an unlisted collective investment fund shall be expressed as an annual rate of return, calculated by compounding distributions, based on a specified period which may be less than twelve months. Subject to paragraph 4.8, if the specified period is less than twelve months, returns for the year ending at the end of that period must also be shown, with equal prominence.  
The specified period will typically finish on the last date of a month, but another date may be used if it is the reporting date.**

- 4.7** The date of the most recent return shown in promotional material must not pre-date the latest Prospectus. Subject to 4.6, a different period, eg quarterly, may be used as long as the calculation methodology is consistent with the Prospectus.
- 4.8** Notwithstanding paragraph 4.6, where the Fund has been in existence for less than twelve months, the total return and the distribution return shall be measured solely on the specified period since inception and not annualised.
- 4.9** A unitised fund may include 'hypothetical' returns in its promotional material, but this is permitted only for the purpose of illustrating the returns that would have been earned for a period prior to inception of the fund ('the hypothetical period') had the fund been in existence, and invested into the fund or index into which it is now invested, and on the basis that the same fees and taxes as apply to the fund, applied over the hypothetical period.

## **5.0** CALCULATION

### *Investment Returns from Unlisted Collective Investment Funds*

- 5.1** The total investment return from an unlisted collective investment fund shall assume:
- a purchase at the beginning of the period at the exit price and a sale at the end of the period on the same basis, and
  - that income distributions are reinvested in the Fund up to the amount of cash that can be paid out on a distribution. Reinvestment is assumed to occur on the date of distribution at the reinvestment price. Any up-front fees incurred must be ignored.

- **for a pre-tax return, the starting point remains the exit to exit price and adding back:**

⇒ **for unit trusts and retail Group Investment Funds, available tax credits including any provisions;**

⇒ **for superannuation or insurance funds, the per unit tax liability of the fund.**

**5.2 The Distribution Return for a distribution period is to be calculated by dividing the per unit amount of the distribution by the exit price for the last date of the previous distribution.**

**Net distribution returns are based on the amount that can be paid out on a distribution and gross distribution returns are based on net distributions plus imputation credits attached to the net distribution.**

**5.3** For Group Investment Funds where a management fee is deducted outside the Fund but before distribution to unit holders, i.e. the management fee is not tax deductible to the Fund but is typically tax deductible to the investor, then the management fee should be adjusted to reflect the after tax equivalent. The management fee component is calculated by multiplying the management fee amount by  $(1 - \text{tax rate of the Fund})$ .

#### *Investment Returns from Cash Funds*

**5.4 The total returns from a cash fund may be based on a specified seven-day period and expressed as an annual simple rate of return.**

**5.5 The distribution return from a cash fund for a distribution period less than twelve months may be calculated as an annual simple rate of return. If returns are shown for a period less than twelve months they must also be shown for the year ending at the end of that period.**

**5.6** Alternatively, the simple rates of return referred to in paragraphs 5.4 and 5.5 may be compounded to produce an annual compound rate of return with the compounding interval determined by the frequency of income distributions made by the Fund.

**Calculation methodology must be disclosed to make it clear whether the rate of return is simple or compounded.**

### **Investment Returns from Mortgage Funds**

**5.7** The total investment returns from a mortgage fund may be based on a period consistent with the distribution frequency of the fund and expressed as an annual rate of return.

**5.8** The distribution return from a mortgage fund for a distribution period less than twelve months may be calculated as an annual simple rate of return.

**5.9** Compounding of the simple rate of return to produce an annual compound rate of return will be allowed with the compounding interval determined by the frequency of income distributions made by the Fund.

**5.10** **Calculation methodology must be disclosed to make it clear whether the rate of return is simple or compounded.**

## **6.0. DEFINITIONS**

**The following terms are used in this Standard with these meanings:**

### **Cash fund**

A fund whose assets are invested [predominantly] in money market securities with an effective duration generally less than 180 days.

**Exit price**

The price per unit that is applied for the purpose of ascertaining the withdrawal value payable to an investor, and is net of tax paid or payable in respect of the fund.

**Fixed interest fund**

A fund whose assets are invested [predominantly] in fixed interest securities and money market securities.

**Gross distribution return**

The per unit amount of the net distribution plus imputation credits attached to the net distribution divided by the exit price for the last date of the previous distribution expressed as a percentage.

**Mortgage fund**

A unitised fund whose assets are invested [predominantly] in mortgages and money market securities.

**Net distribution return**

The per unit amount that can be paid out on a distribution, after adjusting for any fees not deducted within the fund, divided by the exit price for the last date of the previous distribution expressed as a percentage.

**Total return**

Includes both income and capital gains or losses from a fund.

## STANDARD FOR POLICY ILLUSTRATIONS

**1.1** Provision of a policy illustration shall be at the option of the seller but where one is given the following information must be given in the following format, quoting figures for one, two, three, five, and ten years only, from the effective date or, for Para 1.1.2, from either the effective date or the next, or last anniversary date:

**1.1.1** for new policies other than single premium unbundled policies:

Termination After	Premiums Paid	Projected Surrender Value
1 year	\$	\$
2 years		
3 years		
5 years		
10 years		

**1.1.2** for alterations to existing policies where the regular premium is being increased by more than 10% or a single premium added, but excluding

increases resulting from reasonable indexation related to increases in the Consumer Price Index and excluding lump sum additions to single premium unbundled policies:

Termination After Years from Increase*	Extra Premiums Paid	Projection of Extra Surrender Value
1 year	\$	\$
2 years		
3 years		
5 years		
10 years		

(\* Note: amend to “Next Anniversary Date” or “Last Anniversary Date” as necessary.)

using in both cases a basis which is clearly stated and which is not more optimistic than the basis laid down for higher projection rates described in the Standard for Benefit Projections. For unbundled policies, the interest rate quoted must be before any company or external fund manager charges.

- 2.1** The policy illustration must include qualifying notes as approved by the life company.

**3.1** Companies that wish to show projected surrender values for durations in addition to those at one, two, three, five and ten years may do so providing that this information is provided in a table which is separate from that prescribed in Para 1.1, and complies with the Standard for Benefit Projections.

# STANDARD FOR PROMOTIONAL STATEMENTS

## 1.0 GENERAL

1.1 Members are reminded that all promotional statements must comply with the requirements of the Securities Act 1978 and the Securities Regulations 1983 and any subsequent amendments, as well as with the requirements of this standard.

## 2.0 INVESTMENT RETURNS

2.1 Investment returns quoted in any promotional statement must comply with the Measurement of Investment Returns Standard.

2.2 Any promotional statement which quotes an investment return must, where applicable, include footnotes or provisions which provide the following information:

- a warning that past performance is not necessarily indicative of future performance;
- the nature of any guarantee of the future performance of the fund;
- the period for which any minimum or total earning rate is guaranteed or underwritten;
- the period for which the investment returns relate and the date of the end of the measurement period;

- a statement directing the investor to the prospectus or investment statement for the qualifications on any projection of investment returns;
- a statement that the investment return quoted does not include front-end or withdrawal fees if any;
- a simple treatment of withdrawal penalties if any.

**2.3** Where any investment return is quoted, the promotional statement must make it clear whether the return is pre-tax or after tax.

**2.4** Total investment returns and gross distribution yields may be expressed and promoted as an equivalent pre-tax return provided:

- the fund is resident in the New Zealand tax jurisdiction and
- the promotional statement clearly states that the investment returns quoted are pre-tax equivalents on the basis of the tax rate applicable to the fund concerned.

### **3.0 FOREIGN DOMICILED FUNDS**

**3.1** Where a foreign domiciled fund is promoting investment returns, such returns must be expressed in base currency, and the following must be clearly stated in any promotional statement used in the New Zealand market:

This fund is denominated in [state currency] and returns are quoted in this currency. Investors should therefore be aware that exchange rate fluctuations between the [currency] and the New Zealand dollar will have an effect on the value of returns for New Zealand investors.

- 3.2** The returns referred to in para 3.1 above may also be expressed in NZ\$ equivalent for promotion in the NZ market, provided that where the promotional statement contains a direct comparison with any other fund, a NZ\$ equivalent return must be stated for both funds, in addition to returns stated in any other currency.
- 3.3** For the purposes of para 3.2 above, the dates of conversion shall be the same as the start and finish dates of the period being measured and the rates of conversion must be taken from a recognised source such as the Reserve Bank of New Zealand.
- 3.4** The requirements of paras 3.1 to 3.3 above shall not apply to any prospectus or investment statement relating to a foreign domiciled fund, provided that such documents have made an appropriate disclosure of currency effect.

## **4.0 TAXATION**

- 4.1** A promotional statement which refers to taxation should state:
- the assumed rate used in the statement;
  - that the rate and basis of taxation may change and
  - that any taxation relief referred to in the statement is based on current policy and may depend on the individual circumstances of the investor.
- 4.2** A promotional statement referring to an investment return from a fund which is taxed to the fund before it is received by the investor may not describe the investment return as tax free.
- 4.3** A promotional statement referring to an investment return from a fund which is partly or wholly taxable to the investor in some later period may not

describe the return as tax-free or tax-paid unless the basis on which the investor is not then or later liable for tax is explained with equal prominence.

## **5.0 UNUSUAL CONDITIONS**

**5.1** Where the fund differs in any important respect from other funds of its type in respect of:

- any divergence from normal buy-back or redemption obligations or
- charges which are levied on a non-uniform basis throughout the life of the fund.

The promotional statement should contain a statement directing investors to the investment statement or prospectus for details.

**5.2** Separate investment returns for specific classes of units or unit holders may not be shown unless such units are or were available on a stand-alone basis, or there is a particular feature (such as different tax rates) about a class of persons which would mean that members of that class would derive a different return because of their particular circumstances.

## **6.0 PICTORIAL STATEMENTS**

**6.1** Where any building or property is depicted in a promotional statement for a fund, whether in a photograph or a drawing, the statement must also indicate whether or not the asset in question is an asset of the fund.

**6.2** Where a fund property or its planned location is illustrated as part of a panoramic illustration, the property or its planned location must be clearly identified or highlighted in the illustration.

# **STANDARD FOR THE SALE OF TERM LIFE AND/OR DISABILITY INSURANCE**

## **1.0 INTRODUCTION**

- 1.1** This standard has been prepared to present the minimum information requirements which both member companies and intermediaries with whom they deal should meet during the selling process for term life insurance and disability insurance.
- 1.2** It does not replace any obligations which such member companies or intermediaries might have under legislation such as the Life Insurance Act 1908, the Securities Act 1978 and Regulations, the Fair Trading Act 1986, the Privacy Act 1993, the Human Rights Act 1993, the Insurance Intermediaries Act 1994 and the Consumer Guarantees Act 1993.
- 1.3** A member company shall take all reasonable steps to ensure that any intermediary through whom its term life or disability products are sold to the public, complies fully with the relevant parts of this standard.

## **2.0 PURPOSE**

- 2.1** The purpose of this standard is to meet the reasonable information needs of those members of the public who seek to buy term life or disability insurance from a member and to ensure that persons promoting, marketing or selling such products do so in a responsible manner.
- 2.2** This standard will apply to any term life insurance policy as defined in the Securities Amendment Regulations 1997 and to any other risk product which is not a life insurance policy as defined in those regulations.

## **3.0 GENERAL REQUIREMENTS**

**3.1** A member selling term life or disability insurance shall:

**3.1.1** make available to the client on request:

- a specimen of the appropriate policy;

**3.1.2** make available to the client on completion of the contract:

- a copy of the completed policy;

**3.1.3** make available generally:

- information on the procedure for handling any inquiries or complaints, and
- details of the client's rights under any dispute resolution service such as that provided by the Insurance and Savings Ombudsman, the Banking Ombudsman or any similar scheme available to clients of insurers.

## **4.0 THE SELLING PROCESS**

**4.1** The selling process for term life and/or disability insurance shall include the following items:

- an application form;
- a policy description;
- a statement of policyholder rights offered as part of the contract between insurer and insured including:
  - ⇒ whether or not a free look period is offered and if so, how long this period will be;
  - ⇒ the right to receive a “Replacement of Business” advice when changing from one policy to another;

⇒ whether the insured can request financial information about the insurer.

**4.2** Where a free look period is offered, it shall be a minimum of 5 business days for a single premium policy and ten business days for periodic premiums, commencing from the later of confirmation of the proposal by the client or receipt by the client of the policy description and statement of policyholder rights.

## **5.0 POLICY DESCRIPTION**

**5.1** The policy description provided as part of the selling process shall include:

- the name and New Zealand address of the insurer;
- a clear description of the nature of the product;
- a statement as to whether any person associated with the selling process will receive remuneration either directly or indirectly from the company offering the product;
- a statement of premiums payable and in particular:
  - ⇒ the frequency of such payments;
  - ⇒ the recipient of such payments;
  - ⇒ the circumstances in which the premium may be altered;
  - ⇒ a statement of the circumstances in which the policy may terminate.

## **6.0 REQUIREMENTS FOR INTERMEDIARIES**

**6.1** The following requirements for intermediaries shall be incorporated into agreements established between member companies and their intermediaries:

- compliance with all relevant legal obligations, as well as with the appropriate points of this Standard;

- acting with care, diligence and honesty in all dealings with clients or prospective clients;
- ensuring as far as possible that the policy proposed is suitable to the needs of the prospective client;
- giving advice only on those matters in which they are competent;
- treating all information supplied by a client or prospective client as confidential to themselves and the member company to which the business is being offered;
- completing an “Advice on Replacement Business” form whenever an existing policy is being replaced or is expected to be replaced. Included in this obligation is the advice to the client of any costs or loss or modification of any rights under the existing policy as a result of the replacement;
- providing the client with a full explanation of the policy being recommended;
- advising the client of the importance of full and accurate disclosure and the consequences which could flow from failure to make full disclosure.