



2 December 2011

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Dear Gavin

**CONSULTATION: REQUEST FOR COMMENT ON PROPOSED KIWISAVER PERFORMANCE FEES
GUIDANCE NOTE**

Thank you for the opportunity for the Investment Savings and Insurance Association (“ISI”) to comment on your draft KiwiSaver Performance Fees Guidance Note.

ISI supports the general objectives and underlying principles in your draft guidance note. In consultation within ISI, one member expressed the view that KiwiSaver managers should not be permitted to charge performance fees to KiwiSaver members. The only other area of concern expressed by members was in respect of the section headed ‘Performance fee at asset class or sub-manager level within KiwiSaver funds’.

The view was that the guidance note appears to be dictating the level of performance fee that may be paid to a third party investment manager, which could have a direct impact on the range of managers that might be selected, particularly international managers. It would be seen as an undue restraint on selection if a high-performing manager could not be selected simply because it had a fee structure which fell outside FMA guidelines.

The small scale of the New Zealand market means NZ fund managers may need to invest totally via an overseas fund to get the necessary specialist exposure. In high performance years the fees may well be in excess of 10% of the total fees.

We consider that, provided the KiwiSaver manager complies with the KiwiSaver Act “not unreasonable” test in respect of the fee charged to members, detailed disclosure of any performance fee paid to a third party manager should not be required. The draft ISI Standard for Calculation and Disclosure of Fees and Expenses set out a calculation methodology for ‘synthetic TERS’ (where a fund is invested into another fund) and we believe that to be sufficient.

Yours sincerely

Deborah Keating
EXECUTIVE OFFICER