強制性公積金計劃管理局
MANDATORY PROVIDENT FUND SCHEMES AUTHORITY

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By Email

1 November 2019

Circular Letter: PR/CTR/2019/002

To All Approved Trustees

Dear Sirs,

Calculation of fund expense ratio (FER)

Pursuant to Chapter E2 of the Code on Disclosure for MPF Investment Funds (Disclosure Code), the FER calculation for a constituent fund (CF) that invests through a fund requires the costs incurred at lower level collective investment schemes (CISs), such as real estate investment trusts (REITs), to be included. This FER calculation methodology is also applicable to approved pooled investment funds (APIFs).

The Hong Kong Trustees' Association (HKTA) has recently provided its views on treating the expenses of REITs for the purposes of FER calculation; that a REIT listed on a stock exchange (listed REIT) is not a traditional CIS is a point that is widely recognized by European jurisdictions and by Hong Kong’s Securities and Futures Commission, and that the inclusion of non-fund-like expenses in the calculation of FER would give rise to inconsistency.

For this matter, the Authority has conducted a review of the FER calculation. The review has taken into account a number of factors, including the views of the industry on issues regarding the nature of a listed REIT and regarding the consistency of the basis on which FER is calculated.

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Further to consideration of the views of the HKTA and our review on the matter, the Authority hereby issues the following clarification which shall be effective for financial periods of MPF Schemes and APIFs ending on or after the issue date of this circular letter.

Treatment of listed REITs for the purposes of FER calculation

The conclusion has been drawn that, for the purposes of calculating FER, a listed REIT is more akin in nature to a listed company than a traditional CIS. Thus, for such purposes, an investment in a listed REIT may be treated in the same way as an investment in shares of a listed company, and the fees and charges of such a REIT need not be regarded as "underlying fund costs" (as defined under E3.9 of the Disclosure Code) of a CF or an APIF. For the avoidance of doubt, such treatment of a listed REIT for the purposes of FER calculation is not required to be applied retrospectively. However, trustees of MPF schemes are required to add a note in the annual statements of their MPF schemes to explain the change in the treatment of REIT expenses when the FER of CFs calculated under the new treatment is disclosed in the materials for the first time.

If you have any questions on the above, please contact Mr Henry Leung on 2292 1380.

Yours faithfully,

Joseph Lee
Director
Product Regulation Division