INVESTMENT & PENSIONS EUROPE

# Swiss ruling to create 'blacklists' for vehicles lacking transparency

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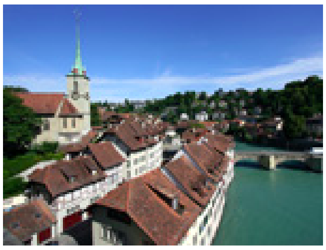

SWITZERLAND – Switzerland's new financial regulator has ordered pension funds to include the cost of all 'collective investment vehicles' in their annual reports, as opposed to simply reporting net returns.

The regulator (OAK) said the structural reform governing investments of Pensionskassen aimed to increase transparency in the reporting of asset management costs in the second pillar.

These costs had been the subject of a study (in German), conducted by Swiss consultancy c-alm in the summer of last year and commissioned by the Social Ministry (BSV).

The OAK, however, did not specify exactly which investment vehicles would be included in the cost reporting, or which cost figure would be applied.

Ueli Mettler, a partner at c-alm, told IPE the BSV had commissioned his consultancy to advise on how to implement the new legal requirements last year, and that the OAK had effectively "followed our recommendations to a large extent".

The regulator currently defines 'collective investment vehicles' as funds, funds-of-funds, Spezialfonds, hedge funds, derivatives on funds, structured products and investment companies such as private market structures and real estate companies.

It also set the total expense ratio (TER) as the default cost figure, while listing other cost-calculation methods it would accept as an equivalent to the TER.

"Most of these vehicles already had a TER they reported themselves in their annual report," Mettler said.

A Pensionskasse now has to look up the TERs of its year-end holdings in collective investment vehicles and report them in its annual accounts.

Collective investment vehicles that do not report a TER must be detailed in the appendix of the annual report – "or, in other words, put on a blacklist", Mettler said.

He added: "Both investors and providers will feel very uncomfortable having to report blacklisted investments – the pressure on the providers to make their costs transparent is increasing.

"Each [institutional] investor with holdings in collective investment vehicles lacks cost transparency in his own annual report, as these costs are netted against the performance of the investment vehicle."

Mettler predicted custodians and consultants would begin to offer services for Pensionskassen to find and report these TERs in their annual accounts.

"So far, Pensionskassen deciding to go for a segregated mandate had much larger costs on their income statements than those investing in fund products," he said.

"But the new regulations make different investment structures more comparable."

However, some figures in the pensions industry are less convinced about the benefits of the new regulations, arguing that they will simply increase administration costs and drive Pensionskassen even further from alternatives.

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