

MESSAGE

To: consult/SFC@SFC
cc:

CEOO Ext :

From: .
Date: 29/10/2009 11:25 PM

Subject: Charging Mechanism of Mutual Fund Subscription Fee

While the initial subscription fee percentage figures are usually widely published in the fund houses/distributors' materials, the exact mechanism never disclosed in their fact sheets nor prospectuses or any of their materials. As such, the Commission should look into standardizing the charging mechanism for mutual fund subscription fee so that a retail investor can easily compare – very similar to the HKMA mandating the bank to use APR (annualized percentage rate) for their loan products.

To illustrate the case where the bank (or intermediary) will reflect/include the subscription fee based on the Net Asset Value as the Unit Price. For example, if the subscription fee is 1.5%, the logical and common Unit Price calculation would be

$$\text{Unit Price} = \text{NAV} \times (1+1.5\%)$$

However, during my recent subscription, I noticed that there are banks/intermediaries using the following mechanism:

$$\text{Unit Price} = \text{NAV} / (1-1.5\%)$$

Obviously, the differences will be only a few bps but if one aggregates the total mutual fund transactions over the year, it will be a sizable amount. Also, I looked up the prospectus and the fee schedule of the intermediary (for that matter, those in the industry), no where indicated how one will calculate the Subscription Fee as it just stated a percentage figure.

Once again, I feel the Commission should look into

1. standardizing the charging mechanism so that investor can really assess the fee – nowadays is very misleading
2. require the intermediaries / mutual fund companies clearly state their charging mechanisms into their fee schedule and prospectus

Based on my experiences, I've to file a complaint to the HKMA to force the bank/intermediary to disclose such calculation in writing. Should you need further details of my correspondences with the HKMA and the intermediary, please feel free to contact me.

Regards,
Brian