



FINANCIAL REGULATOR  
*Rialtóir Airgeadais*

# Annual management fee's within authorised collective investment schemes

23 June 2006

# Consultation Document

## Annual management fees within authorised collective investment schemes

Collective investment schemes (CIS) are permitted to charge annual management fees provided that the constitutional document prescribes the method of calculation of such remuneration. Generally these fees are calculated as a percentage of the net asset value of the CIS.

The Financial Regulator has been asked to permit annual management fees where these fees are calculated based on the initial issue price of units. The Financial Regulator is reluctant to permit this type of charge on the basis that a decrease in the value of the units could result in a disproportionate charge for investors. Management fees should be based on the amount of assets under management. While the Financial Regulator does not seek to impose conditions on the level of fees charged to CIS, we have concerns regarding fee structures which may not be appropriate in the context of retail<sup>1</sup> investors.

Advocates of the proposal have noted that investors in structured products<sup>2</sup> may have a preference for this type of fee arrangement because the fixed charge introduces an element of certainty in relation to costs. They argue that Regulators should focus solely on the transparency of fee arrangements and also, in the event of increasing net asset values, managers will not receive a corresponding increase in fees. The Financial Regulator has authorised structured products as closed-end CIS where a

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<sup>1</sup> The Financial Regulator does not have similar concerns in the case of CIS which market solely to professional or qualifying investors and in general will focus solely on disclosure.

<sup>2</sup> CIS which, through investment in a financial derivative instrument, provide for a specific return based on the performance of a particular index or underlying basket of assets.

substantial fee was charged at the outset, primarily to reflect the set-up costs incurred by the structure. Thereafter the annual fees related to the administration of the CIS to reflect the fact that, once the strategy was in place, there was little active asset management throughout the life of the CIS.

The Financial Regulator invites all interested parties to provide comments or make a submission on this subject. Comments are particularly welcome in relation to the following:

- Global trends in relation to annual management fees of CIS.
- The extent to which retail investors will understand the implications of a fixed management fee and the impact on investors ability to compare charging structures across CIS.
- The criteria that might be applied in relation to fixed management fees. In particular views would be welcome on criteria which might be necessary to avoid circumstances where disproportionate charges would be placed on investors.

Comments should be submitted no later than 28 July 2006 to:

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**Financial Institutions and Funds Authorisation**  
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