



ASIC

Australian Securities & Investments Commission

REPORT 398

Fee and cost disclosure: Superannuation and managed investment products

July 2014

About this report

This report examines the industry practices of superannuation and managed investment product issuers in relation to fee and cost disclosure. It also looks at any potential inconsistencies that reduce the benefit of fee and cost disclosure for investors.

About ASIC regulatory documents

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Consultation papers: seek feedback from stakeholders on matters ASIC is considering, such as proposed relief or proposed regulatory guidance.

Regulatory guides: give guidance to regulated entities by:

- explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act)
- explaining how ASIC interprets the law
- describing the principles underlying ASIC's approach
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Information sheets: provide concise guidance on a specific process or compliance issue or an overview of detailed guidance.

Reports: describe ASIC compliance or relief activity or the results of a research project.

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Examples in this report are purely for illustration; they are not exhaustive and are not intended to impose or imply particular rules or requirements.

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Executive summary

- 1 Trustees of most superannuation funds and responsible entities of registered managed investment schemes are required, under the *Corporations Act 2001* (Corporations Act), to disclose fees and costs in a prescribed form in their Product Disclosure Statements (PDSs) and periodic statements.
- 2 This report examines industry practices on disclosure of fees and costs for superannuation and managed investment products. In particular, it looks at:
 - (a) the purpose and background of our fee and cost disclosure project (the project) we undertook in 2013–14 (see Section A);
 - (b) the legal requirements of superannuation and managed investment funds in relation to fee and cost disclosure (see Section B);
 - (c) the industry engagement and analysis we undertook as part of the project, and our key findings from the project (see Section C); and
 - (d) the next steps we are proposing to take to improve the quality and consistency of fee and cost disclosure in the superannuation and managed investment funds industry (see Section D).
- 3 The intention of the fee and cost disclosure requirements is to promote comparability of products. However, our review of industry practices indicates that there is significant variation in the disclosure of fees and costs. A key driver of this variation is the frequent complexity of the operational and investment structures of funds. We understand that, in some cases, data quality and differences in the interpretation of the fee and cost disclosure requirements can also lead to variations in disclosed fees.
- 4 The issues identified as part of this project that cause variation and under-disclosure of fees and costs include the treatment of fees and costs associated with investing through underlying investment vehicles, quality of data used for calculating fees and costs, disclosure of fees net of income tax, the different practices used in estimating performance fees, and incorrect treatment of some management costs as transaction costs. We also identified inconsistency in disclosure relating to insurance and insurance costs.
- 5 In relation to some of these issues, we have already published our view in Regulatory Guide 97 *Disclosing fees and costs in PDSs and periodic statements* (RG 97) and, more recently, in Information Sheet 197 *Fee and cost disclosure requirements for superannuation trustees* (INFO 197) as to the disclosure required. For example, fees and costs associated with investing through underlying investment vehicles should be disclosed; similarly, fees should be disclosed gross of tax, and performance fees should be disclosed based on reasonable estimates: see Section D.

- 6 To help industry understand its fee and cost disclosure requirements, we have issued guidance in the form of frequently asked questions (FAQs) on our website, INFO 197 and RG 97. We encourage industry to develop standards that build on our guidance. We consider the development of industry standards by trustees and responsible entities to be an effective mechanism for reducing inconsistency in fee and cost disclosure and any ‘gaming’ of fees and costs (see paragraph 18) that may be occurring.
- 7 We discussed the development of industry standards at a roundtable held with industry on 6 June 2014. Participants were not unanimously supportive of the proposal to develop standards. Some participants questioned whether the development of standards would lead to improved disclosure. It was suggested that more prescriptive ASIC guidance may be beneficial. Participants recognised the importance of accurate and consistent fee and cost disclosure and expressed a willingness to participate in further discussion with ASIC towards meeting this objective.
- 8 We will review RG 97 and consult with industry about any changes to guidance we propose to make. We will also consult with industry as part of our review of key fee and cost disclosure requirements in the Corporations Regulations 2001 (Corporations Regulations) with a view to modifying the law by way of class order to further clarify some of the requirements and help improve consistency in disclosure. We also expect fee and cost disclosure to be one of the key considerations when conducting surveillance of disclosure practices in the future.

A Background

Key points

In this section, we outline our project to better understand the fee and cost disclosure practices of the superannuation and managed investment funds industry, in response to concerns about the composition of fee structures and the transparency of fees imposed by product issuers.

Fee and cost disclosure requirements for superannuation and managed investment funds are set out in the Corporations Regulations. These requirements seek to ensure that information about funds is effectively communicated to, and compared by, investors.

Purpose of the project undertaken by ASIC

- 9 Consistent and accurate fee and cost disclosure is an important aspect of the disclosure framework. It allows investors to accurately compare the products available to them and determine whether a particular product represents value for money. It can also help them to decide how to use a product. For example, they may choose not to switch between products if it is too expensive to do so.
- 10 Inconsistent and inaccurate fee and cost disclosure makes it difficult for investors to make informed decisions about their investments, and can reduce their confidence in the industry. It can also be harmful to competition between superannuation and managed investment product issuers because it gives issuers that disclose lower fees and costs than are charged a potentially unfair advantage over their competitors.
- 11 In fact, based on our engagement with industry, we understand that competition is one of the drivers for any ‘fee gaming activity’ that may be occurring in the industry. ‘Fee gaming’ refers to issuers taking deliberate actions (e.g. structuring investments, operations or other arrangements with third parties, or adopting a particular interpretation of the requirements that may or may not be correct) with the objective of intentionally disclosing lower fees and costs than would otherwise be required.
- 12 The purpose of the project was to better understand the fee and cost disclosure practices of the industry. We also sought to identify any ‘gaps’ in these practices that undermine the effectiveness of disclosure to investors. We did not seek to identify specific cases of fee gaming by particular trustees or responsible entities as part of this project.
- 13 The project examined (through industry consultation, research, analysis and review of a sample of PDSs) how superannuation and managed investment

funds comply with their fee and cost disclosure requirements under Sch 10 to the Corporations Regulations using various product structures and arrangements.¹

Scope of the project

- 14 The scope of the project included:
- (a) analysis of regulatory requirements in relation to fee and cost disclosure for superannuation and managed investment products;
 - (b) review of commentary about fee and cost disclosure from industry participants and commentators; and
 - (c) industry engagement, including roundtable discussions and meetings with industry consultants.
- 15 We also compared a number of PDSs of products that appeared to have similar investment objectives and strategies, but which had different fees and costs. The intention of the comparison was to determine whether it is reasonably practicable to identify whether fees and costs are being under-disclosed and whether the differences in fees can, in part, be explained by the operational structures of the funds or the investment structures of the products.
- 16 The issues identified in this report are not intended as an observation of any particular trustee or responsible entity. Surveillance of particular trustees or responsible entities may be carried out in the future to assess compliance with the fee and cost disclosure requirements.

Industry views

- 17 Issuers of most superannuation and managed investment products must meet certain requirements for disclosing fees and costs in PDSs (and periodic statements). These requirements are included in the enhanced fee and cost disclosure regulations in Sch 10 (as modified by Subdivs 4.2–4.2C and Sch 10A–10E).
- 18 We understand that there is a perception among some industry commentators that there is inconsistency in fee and cost disclosure and deliberate fee gaming. However, it should be noted that variances in fee and cost disclosures can be the result of differing (but legitimate) interpretations of the requirements, rather than deliberate under-reporting of fees.

¹ We did not specifically review disclosure in periodic statements as part of the project. However, it is our view that fee and cost disclosure in periodic statements is consistent with PDS disclosure. Therefore, the observations made in this report can also be applied in the context of periodic statements.

- 19 Any undisclosed fee or cost will still reduce the investment return reported to investors. This is because a reduction in disclosed fees and costs is essentially absorbed, in most instances, by investment returns. This may act as a disincentive for funds to disclose fees and costs correctly.
- 20 However, it is possible to under-disclose fees or costs sufficiently for a fund to appear cheaper or better value than its competitors, while still producing an investment return that continues to appear competitive and reasonable to investors. For example, a fund could reduce its disclosed fees by 50–100 basis points for a ‘balanced’ investment option, which may be sufficient to make its fees appear cheaper than its competitors, while still maintaining its net returns within the competitive range of returns for similar options. This problem is further exacerbated by the fact that similarly labelled options—such as ‘balanced’, ‘growth’ and ‘diversified’—do not always have comparable asset allocations and investment strategies, making it more difficult for investors to properly compare investment options.
- 21 As part of the project, we reviewed publicly available industry commentary and met with industry consultants to discuss fee and cost disclosure practices.² Some of these industry consultants have published material that analyses and discusses the distortion and inconsistency in the disclosure of fees in the industry—our research indicates that some of the general observations made in these materials are correct: see Section C, which outlines the main issues identified.
- 22 For example, on its website, Financial Viewpoint refers to a number of different strategies and anomalies that result in varying fee and cost disclosure despite the prescriptive product disclosure requirements. Financial Viewpoint lists a number of examples of these strategies on its website to demonstrate this point, including:
- (a) master custody³ arrangements with the superannuation fund trustee or the responsible entity of the managed investment fund that allow the custodian to earn revenue through explicit fees for services, interest rate spreads on cash management and spreads on foreign exchange transactions. Only the fees for services in a master custody arrangement are included in the indirect cost ratio. Also, revenue earned from securities lending might not in practice be disclosed, but may be used to ‘offset’ other fees, reducing disclosed fees;

² Industry consultants included Rice Warner Pty Ltd (Rice Warner), Chant West Pty Limited (Chant West), Financial Viewpoint and Rainmaker Information Pty Ltd (Rainmaker).

³ ‘Master custody’ refers to the services provided by a custodian to a superannuation fund trustee or responsible entity that include safe custody of fund assets and investment administration services (e.g. unit pricing).

- (b) investment banking arrangements that include swap⁴ structures that ‘bury’ the underlying hedge fund costs, and soft dollar brokerage arrangements; and
 - (c) investment management arrangements that include ‘true index’ products (which provide zero fee indexing), investing in listed real estate investment trusts instead of unlisted property vehicles and directing brokerage to related parties.
- 23 A research paper released by Chant West in March 2013⁵ also discusses the difficulty of making comparisons between funds in the superannuation industry due to incomplete and inconsistent disclosure.
- 24 More recently, Chant West, in its *Super fund fee survey*, released in December 2013, observed that it still finds ‘numerous inconsistencies in the way funds (including MySuper products) disclose fees’. Two examples of inconsistency Chant West cites in its survey are the treatment of income tax and disclosure of performance-based fees: see paragraphs 86–95.
- 25 Some industry participants also raised concerns with ASIC about products that are promoted as low-fee or no-fee products. The rationale for this concern is that all products have some costs and, in the absence of these costs being paid by someone other than the investors, there must a reduction in the benefits or an inclusion of hidden costs that are not being disclosed to investors. We consider the promotion of a product as a low-fee or no-fee product to be misleading if there is a reduction in the benefits received, or if there are undisclosed costs being borne, by the investors. For example, a reduction in benefits would occur where the banking services (or other services the fund uses) available are in some way less favourable than they would otherwise be, to enable the offer of lower fees or costs.
- 26 Some products could have lower fees and costs because some or all of the fees and costs are paid by a promoter or other related party of the product issuer. An arrangement under which costs are paid by a promoter or other related party might need to be disclosed in the PDS. If the lower fees and costs are offered because the product issuer has other business with the promoter or other related party (e.g. the product issuer uses their banking services), then this arrangement would also need to be disclosed: see Regulatory Guide 234 *Advertising financial products and advice services (including credit): Good practice guidance* (RG 234).

⁴ A swap is a type of derivative contract between two counterparties.

⁵ Chant West, *The Russian Dolls are still concealing some fees, but disclosure is getting better*, research paper, March 2013, www.chantwest.com.au/cwPublicNewsRoom.aspx?&MenuItemID=200&NewsItemID=%20%20%20%20%20%20%20%20105.

Other industry commentary on fees and costs in the superannuation industry

- 27 There has been commentary in the industry about the level of fees and costs in the superannuation industry. The main commentary about the level of fees and costs is that it is relatively higher than that of many other countries in the Organisation for Economic Co-operations and Development (OECD).
- 28 This commentary is largely based on the fees and costs that trustees disclose in their PDSs and report to the Australian Prudential Regulation Authority (APRA). We make no comments in this report about the level of fees and costs, only the mechanism for disclosure of fees and costs. However, we consider any comparison of the level of fees and costs in Australia with other countries would be better informed if the disclosed fees and costs were more accurate. In this report we outline a number of steps that we propose to take to address the issues we identified through this project, which will make fee and cost disclosure more accurate: see Section D.

B Fee and cost disclosure requirements

Key points

Fee and cost disclosure requirements are largely governed by Schs 10 and 10D to the Corporations Regulations.

The recent Stronger Super reforms have led to a number of significant changes to fee and cost disclosure for superannuation funds and some minor changes for managed investment funds. This section summarises how the Stronger Super reforms have affected fee and cost disclosure requirements.

Summary of the requirements before the Stronger Super reforms

- 29 Fee and cost disclosure requirements for most superannuation products are governed by the shorter PDS regime set out in Sch 10D. The main fee and cost disclosure requirements for shorter PDSs are:
- (a) the inclusion of prescribed sections, section six of which must be titled ‘fees and costs’ (cl 2 of Sch 10D);
 - (b) at the beginning of the ‘fees and costs’ section there must be a ‘consumer advisory warning’ in the form prescribed by the Corporations Regulations (cl 8(2) of Sch 10D); and
 - (c) the ‘fees and costs’ section must:
 - (i) set out the fees and costs, in a prescribed template, of one or more investment options of the superannuation product (cl 8(3) of Sch 10D); and
 - (ii) include a worked example, in the prescribed form, of the annual fees and costs of investing in the superannuation product (cl 8(7) of Sch 10D).
- 30 PDS fee and cost disclosure for superannuation products that cannot use the shorter PDS (e.g. products that are solely a defined benefit interest) must comply with the requirements applicable to long-form PDSs as set out in Sch 10. The fees and costs that must be disclosed in Sch 10 are broadly the same as those in Sch 10D.

Impact of Stronger Super reforms on the requirements

Superannuation funds

- 31 The Superannuation Legislation Amendment (MySuper Measures) Regulation 2013 (MySuper Regulation) updated the PDS fee and cost disclosure requirements in the Corporations Regulations to take into account the MySuper regime.⁶ These changes were made subsequent to the more substantive changes in the *Superannuation Industry (Supervision) Act 1993* (SIS Act) that introduced definitions for a number of fees that can be charged for MySuper products. The changes apply to PDSs for a superannuation product issued on or after 30 June 2014, although issuers may choose to adopt the changes before that time.⁷
- 32 The MySuper Regulation requires fees and costs in relation to MySuper products to be disclosed to investors. The key changes to Sch 10 made by the MySuper Regulation are as set out in Table 1.

Table 1: Changes to Sch 10 to the Corporations Regulations

Changes to Sch 10	Summary of changes
Changes in relation to cost disclosure	A new 'indirect cost' definition replaced the previous 'management costs' definition for superannuation products. A new definition for 'indirect cost ratio' was inserted for superannuation products.
Changes in relation to fee disclosure	New definitions for fees were inserted (e.g. investment fees, lifecycle, MySuper product) and some existing definitions were updated (e.g. performance fees, exit fees, special request fees).
New fee template inserted into Sch 10	A new fee template, specifically for superannuation products, was inserted.
New Div 4A inserted into Sch 10	A new Div 4A was inserted, requiring definitions of various fees (defined fees) to be explicitly set out in long-form PDSs for superannuation products.
New worked example for annual fees and costs inserted into Sch 10	A new worked example showing the annual fees and costs of investing in a superannuation product was inserted to reflect the amended fee and cost disclosure requirements.

- 33 A number of other minor changes to Sch 10 were also inserted to align the MySuper terminology with the changes to fee and cost disclosure requirements in Table 1.

⁶ The PDS fee and cost disclosure requirements in the Corporations Regulations apply to MySuper products and other superannuation products.

⁷ Item 7 of the MySuper Regulation.

- 34 The MySuper Regulation also amended the fee and cost disclosure requirements contained in Sch 10D for shorter PDSs. The key changes to Sch 10D are set out in Table 2.

Table 2: Changes to Sch 10D to the Corporations Regulations

Changes to Sch 10D	Summary of changes
Changes in relation to cost disclosure	<p>A new 'indirect cost' definition replaced the previous 'management costs' definition for superannuation products.</p> <p>A new definition for 'indirect cost ratio' was inserted for superannuation products.</p>
Changes in relation to fee disclosure	<p>Fee disclosure in shorter PDSs must apply the definitions of various fees in s29V (which are consistent with the new definitions introduced for Sch 10).</p> <p>Trustees offering MySuper products are restricted to only charging the fees in s29V.</p> <p>The shorter PDS must include a link to a website that sets out the relevant definitions.</p>
New fee template inserted into Sch 10D	A new fee template, specifically for superannuation products, was inserted.
New worked example for annual fees and costs inserted into Sch 10D	The new worked example showing the annual fees and costs of investing in a superannuation product in Sch 10 will also need to be used in shorter PDSs: see Table 1.

Managed investment funds

- 35 In comparison to the disclosure requirements for superannuation funds, the requirements for managed investment funds have not changed significantly.
- 36 Therefore, to the extent that gaps exist in the pre-Stronger Super fee and cost disclosure regime, these gaps are likely to remain for the managed investment funds industry. However, fee and cost disclosure requirements for managed investment products are materially different from fee and cost disclosure requirements for superannuation funds.
- 37 The key changes made by the MySuper Regulation to fee and cost disclosure requirements for managed investment products include:
- (a) requiring the example of management costs to be disclosed as the highest in the range, if more than one option is available;
 - (b) a revised consumer advisory warning to include a requirement to refer to www.moneySMART.gov.au;
 - (c) disclosure of fee information for multiple investment options;

- (d) additional explanation of fees and costs in PDSs; and
- (e) substitution of terminology and amended definitions.

38 As part of the fee and cost disclosure requirements, the consumer advisory warning for managed investment products includes—‘Your employer may be able to negotiate to pay lower administration fees’—which must be included in PDSs. In June 2014 we issued Media Release (14-132MR) *ASIC releases information sheet on super fee and cost disclosure and defers section 29QC* (17 June 2014), which clarified that issuers of managed investment products do not need to include this statement in their PDSs. This is because this statement is only relevant to superannuation products.

C Industry engagement and observations

Key points

In this section, we outline the steps we took as part of the project to understand industry practices on fee and cost disclosure and to identify any gaps in these practices.

Based on our discussions with industry, our review of publicly available commentary and our analysis of a sample of PDSs, we have identified a number of issues that affect the disclosure of fees and costs. These issues include inconsistency in:

- the reporting of fees in underlying investments (see paragraphs 57–71);
- the quality of data available (see paragraphs 72–77);
- the treatment of management costs as transaction costs (see paragraphs 78–85);
- performance fee reporting (see paragraphs 86–93);
- the tax treatment of fees and costs (see paragraphs 94–95); and
- insurance disclosures (see paragraphs 96–98).

Project methodology

- 39 Fund providers have discretion in how they charge and disclose their fees and costs. A key determinant of how fees and costs are charged is a fund's operational and investment structure. Generally, the more complex the fund's structure, the more likely it is that fees and costs will be disclosed inconsistently (and potentially incorrectly) between funds. Without a consistent fee and cost disclosure framework, investors are unable to make meaningful comparisons between products.
- 40 As part of the initial preparatory work for the project, we identified changes to fee and cost disclosure requirements for superannuation and managed investment products introduced under the Stronger Super reforms. We then examined how these changes align with APRA's data collection requirements under the *Financial Sector (Collection of Data) Act 2001*, as required by s29QC.
- 41 We also analysed our general expectations of fund issuers in relation to compliance with the new requirements, any potential gaps that have been identified to date through Stronger Super consultation and any areas of potential inconsistency industry is concerned about that might be useful to examine. In considering these issues, we also looked at publicly available commentary published by industry participants.

Roundtable discussions

- 42 A key objective of the project was to better understand industry practices on fee and cost disclosure. This was largely carried out through industry engagement. The purpose of engaging industry was to get direct feedback from industry participants about the difficulties they face in meeting the fee and cost disclosure requirements and any concerns about fee gaming.
- 43 Our main form of engagement with industry participants was through three roundtable discussions held on 8 October 2013, 12 December 2013 and 6 June 2014. The attendees of the roundtable discussions were industry associations representing various parts of the industry, including the Financial Services Council, the Association of Superannuation Funds of Australia, the Australian Institute of Superannuation Trustees and Industry Super Australia. Also present at the roundtable discussions were some of the major superannuation and managed investment fund issuers.
- 44 At the first roundtable discussion, chaired by ASIC Commissioner Greg Tanzer, we asked participants to discuss:
- (a) gaps in the fee and cost disclosure requirements that may lead to under-reporting of fees and costs; and
 - (b) particular issues arising from the changes to requirements, including:
 - (i) aligning fee and cost disclosure and APRA's data collection requirements;
 - (ii) changes to fee and cost disclosure definitions; and
 - (iii) enhanced ability to compare funds' fees on a like-for-like basis.
- 45 Based on these roundtable discussions, we developed a list of confirmed industry practices that could lead to under-reporting. We asked a selection of industry participants at the second roundtable discussion to consider this list, including:
- (a) how significant each practice might be to under-reporting; and
 - (b) what guidance we could give to improve consistency in fee and cost disclosure and reduce under-reporting of fees and costs.
- 46 In addition to the roundtable discussions, we met with key staff of a number of industry participants, including Chant West, Rainmaker, Rice Warner and Financial Viewpoint, to get their feedback on fee and cost disclosure practices and potential gaps in these practices. We also received copies of relevant analyses and reports completed by some of these participants, which have been helpful in informing our understanding of industry practices.

Analysis of PDSs

- 47 We selected a number of superannuation and managed investment fund product PDSs and compared fee and cost disclosure across them. One of the

key criteria for the selection of PDSs was that they had similar investment strategies and product objectives. This allowed us to compare PDS fee and cost disclosure for pairs of products across a range of investment types (e.g. ‘superannuation multi-sector growth’ and ‘managed investment funds large value Australian equity’), where the products in each pair were of similar investment types but had different issuers and investment structures.

- 48 The fee structures between issuers with similar objectives and strategies indicated some similarity in the type of fees charged; however, the range of fees imposed varied considerably. For example, for one of the pairs we compared (two superannuation funds), the fee and cost differences were virtually negligible, but we could not account for the large variation in the actual fees and costs charged in other pairs.
- 49 We recognise that higher fees and costs could occur for a number of reasons—for example, different cost structures between funds, different target audiences (e.g. high net worth investors), fund features, product issuer structure or the ability to extract higher profits through marketing.
- 50 We found it difficult to draw conclusions to explain the differences in fee structures without undertaking a complete analysis of the fees and costs charged (and supporting documentation) to determine whether they were properly disclosed and accurate.
- 51 Investors take these fees and costs at face value and do not have access to underlying documentation to assess the accuracy of the disclosed amounts. It is important that the industry applies consistent practices when disclosing fees and costs in their PDSs to ensure investors can accurately compare products.
- 52 Before the last roundtable discussion, held on 6 June 2014, we shared a draft copy of this report with participants on a confidential basis. We asked participants to consider the report and our key findings during the roundtable discussion. Another key purpose of the final roundtable discussion was to seek industry’s interest in developing industry standards for fee and cost disclosure. These standards would complement our guidance and help reduce the risk of inconsistent and inaccurate disclosure of fees and costs.
- 53 Participants at the last roundtable agreed that we have identified the key issues with fee and cost disclosure. Participants also raised concerns about insurance disclosure and strongly suggested we focus more on this area, including setting up a workshop to discuss this issue in more detail.
- 54 Industry participants at the roundtable were not unanimously supportive of the proposal to develop standards. Some participants questioned whether the development of standards would lead to improved disclosure. It was suggested that more prescriptive ASIC guidance may be beneficial. Apart from improving consistency in disclosure, prescriptive guidance may help

reduce the compliance costs of meeting disclosure requirements by making it clearer how these requirements should be met.

- 55 Industry participants agreed with the view expressed in the report about the importance of accurate and consistent fee and cost disclosure, and expressed willingness to engage further with ASIC, APRA and Treasury towards meeting this objective. We will be undertaking further industry consultation about fee and cost disclosure as part of our continued focus on this area: see Section D.

Key disclosure issues identified

- 56 While a larger number of issues that affect fee and cost disclosure were identified as part of this project, we have chosen to only consider those issues that, based on the industry feedback we received, appear to be more common and/or have a bigger impact on disclosure.

Reporting of fees in underlying investments

- 57 There is inconsistency in the superannuation and managed investment funds industry in the treatment of management costs associated with investing funds through external investment structures (e.g. where funds are invested into a fund-of-fund structure that has its own fees and costs mechanism). We understand some funds do not look beyond the first layer of fees in the underlying investment vehicle they invest through. As a result, funds may be materially understating the fee structure of the product, making any comparison of funds ineffective.
- 58 Arrangements where underlying fees and costs may not be fully disclosed include:
- (a) the underlying manager fees, performance fees and operating expenses of fund-of-funds;
 - (b) hedge funds, where strategies are implemented through swap arrangements;
 - (c) private equity funds;
 - (d) listed property and infrastructure trusts; and
 - (e) life companies that declare returns after fees and costs.
- 59 Where fee and cost information is not easily available from external parties, such as external fund managers (e.g. fee and cost information from funds that are domiciled offshore can be difficult to acquire), some funds use a 'best endeavour' approach to provide a reasonable estimate, while other funds choose not to include fee and cost information at all.

- 60 According to Chant West's *Super fund fee survey*, the fees and costs that are generally disclosed in a fund-of-funds arrangement are the fees and costs of the fund-of-funds manager, and not the fees and costs associated with the underlying funds. As a result, fees and costs may be understated by as much as 0.20%–0.40% annually.
- 61 The Explanatory Statement to the Corporations Amendment Regulations 2005 (No. 1) defines 'management costs' (cl 102 of Sch 10) as:
- ... where an investor invests in a superannuation fund or managed investment product which itself has made an investment through a trust or other structure which holds the underlying investment assets, the costs of investing through the interposed entity must be captured as they are not costs which an investor would necessarily incur if they invested directly in the underlying investment assets. This was to ensure that layers of 'management costs' are captured where there [is] a chain of entities involved.
- In defining 'management costs' in this way, management costs only comprise the additional fees or costs that a member or product holder incurs by investing in a superannuation fund or managed investment product rather than investing directly in the underlying assets.
- 62 We are aware that because cl 102 does not explicitly provide for the disclosure of costs of 'other vehicles' beyond the immediate underlying product, the definition of management cost has sometimes been interpreted as not including the fees and expenses of the underlying investment vehicle in which the superannuation or management investment fund invests. This interpretation takes the view that the definition of management costs relates to amounts incurred by the issuer for an investment in the immediate underlying investment vehicle.
- 63 Our guidance in RG 97 takes an alternative view, which is supported by the excerpt from the Explanatory Statement set out at paragraph 61. See RG 97.77, which indicates that management cost information needs to take into account the costs of direct investments and the costs of investments made by the underlying entity and, if there are other entities in the chain of investments, their costs should be included to the extent those costs are known to the product issuer.
- 64 Amendments made by the MySuper Regulation have updated the fee and cost disclosure requirements to take account of the MySuper regime. As noted in Section B of the report, fee and cost disclosure for superannuation products is now prescribed to include 'indirect costs', which replace the previous 'management costs'. Indirect costs are any amount that the superannuation fund trustee knows, or ought to know, will reduce the return on investment of an investor, and which are not charged to the investor as a fee.
- 65 Despite the recent changes to legislation as part of the Stronger Super reforms, the requirement to include the costs of the underlying investment

vehicle has not changed for superannuation and managed investment funds. Therefore, the guidance in RG 97 is still current and reflects our policy on this matter.

- 66 Amendments made by the *Financial Sector (Collection of Data) Act 2001* require superannuation funds to provide data to APRA from 1 July 2013. The data is described in a new set of reporting standards forms and instructions.
- 67 APRA's new data collection requirements mean that superannuation trustees must consider their fee and cost disclosure requirements in light of their requirements under s29QC. It is our understanding, based on information received from APRA, that when completing certain forms (Form SRF 702.0 *Investment performance* and Form SRF 703.0 *Fees disclosed*), trustees must report fees and costs on a 'look-through' basis.
- 68 The 'look-through' basis requires trustees that invest through interposing entities (e.g. a unit trust, life company or other structure) to report the costs associated with investing through these interposing entities to APRA. This involves looking through cascading entities to the first non-connected entity and reporting the ultimate asset allocation in which the investment is held, in addition to the investment performance of each investment vehicle (including any associated fees, costs, taxes and other deductions).
- 69 We consider that trustees must disclose indirect costs on a 'look-through' basis to ensure inclusion of the costs and fees incurred by the underlying investment vehicle. For example, where a fund invests through investment vehicles, the reporting of costs on a 'look-through' basis requires trustees to report (as part of the indirect cost) the cost of investing in those investment vehicles.
- 70 The definition of 'management cost' for managed investment products has been amended by the MySuper Regulation. However, these changes are not significant and do not fundamentally alter the manner in which fee and cost disclosure must be prepared by managed investment funds.
- 71 Under-reporting of fees and costs associated with interposing entities is potentially the largest contributor to the under-reporting of fees and costs. According to APRA's *Annual superannuation bulletin*, released in June 2013, approximately \$620 billion in APRA-regulated fund assets are invested through an investment vehicle, including pooled superannuation trusts, wholesale funds, life offices or unlisted unit trusts.

Data quality

- 72 The quality of data provided by investment managers that feeds into the reporting and disclosure framework for trustees of superannuation funds and

responsible entities of registered managed investment schemes varies significantly. This affects disclosure of fees and costs and the ability of investors to compare superannuation and managed investment products.

- 73 Product issuers generally have little control over the data provided by investment managers when those investment managers do not work in-house. Additionally, data might not be provided in a time-sensitive manner—this issue is magnified where investments are placed with offshore investment managers.
- 74 The trustee or responsible entity is reliant on the issuer of the underlying investment vehicle to provide data on the underlying fees and costs. We understand that some issuers apply a ‘reasonable basis’ approach to data. That is, they use their working knowledge of the composition of fee and cost structures and engage in dialogue with investment managers to further their knowledge of these structures. Some issuers will make assumptions (but will ultimately rely on their own judgement) in considering the reliability of the data—despite having no control over the issuer for the underlying vehicle.
- 75 It is our understanding that APRA encourages trustees to make all reasonable efforts to obtain information about their investments beyond the first non-connected entity. APRA is of the view that obtaining this information reflects sound investment governance. If a trustee already receives this information in relation to its investments, it should make all reasonable efforts to continue to receive the same level of information in the future. Where this information is available to trustees, it should be reported to APRA. It is also our understanding that trustees and responsible entities may be able to insert provisions in any contractual arrangements they enter into with investment managers in relation to the quality of the data.
- 76 Industry feedback has suggested that we should consider developing broad principle-based guidance on data quality, which industry could refine and apply over time to improve transparency of data and comparability of products.
- 77 We understand that apart from some transitional teething problems with the provision of accurate and timely data by fund managers, APRA expects that the new data collection requirements will help trustees ensure improvement of reporting by fund managers over time. For example, under Prudential Standard SPS 530 *Investment governance*, a trustee must determine appropriate measures to monitor the performance of each investment in each investment option and MySuper product on an ongoing basis.

Treating management costs as transaction costs

- 78 The disclosure of management costs includes the disclosure of fees and other costs, excluding transactional and operational costs: cl 102 of Sch 10.

- 79 Under cl 103 of Sch 10, transactional and operational costs include:
- (a) brokerage costs;
 - (b) the buy–sell spread;
 - (c) settlement costs (including custody costs);
 - (d) clearing costs; and
 - (e) stamp duty on an investment transaction.
- 80 Management costs feed into the calculation of the indirect cost ratio under the enhanced fee and cost disclosure regulations. The purpose of the indirect cost ratio is to provide a consistent methodology for the calculation of management costs that are not deducted directly from an investor’s account.
- 81 The indirect cost ratio is meant to capture all relevant costs involved in managing the fund and deriving the investment return. If the management costs definition is incorrectly applied, the indirect cost ratio will not be correctly calculated. It is important to ensure that all components of the indirect cost ratio are transparent and consistently applied because the indirect cost ratio is used by investors to compare investments.
- 82 For example, swap agreements are used by funds to gain exposure to other asset types in a similar way to other forms of investment in external funds. However, the cost of maintaining a swap agreement is disclosed as a transaction cost, which is not included in the calculation of management costs or the indirect cost ratio. As transaction costs are often not quantified and disclosed in a PDS, the exclusion of swap agreement costs will mean that investors may be given the impression that the total costs are lower than they really are.
- 83 We understand that funds can also make arrangements to try to avoid management costs by trading-off investment managers’ fees. For example, instead of being paid a fee for services, an investment manager or custodian is remunerated using alternative arrangements, such as splitting dividend income or offsetting costs using securities lending revenue. We note that there is no provision that allows for splitting dividend income to reduce management costs. If such an arrangement is in place, trustees and responsible entities need to continue to account for the entire dividend income in the fund’s gross investment return, and the shared portion of the dividend income is to be considered and disclosed as a management cost. Similar reporting requirements apply to income generated through securities lending income.
- 84 We understand under-reporting of management costs is a significant issue in the industry that has developed over time as industry innovation and product complexity have increased. In Section D we outline the next steps for

improving fee and cost disclosure, including the disclosure of management costs.

- 85 We regard the promotion of a product based on management costs, without reference to other costs that may be paid by investors, to be potentially misleading. Where we have identified practices of this nature, we have asked the entity to correct its promotion.

Performance fee reporting

- 86 It is common practice for issuers to pay performance fees to their investment managers when agreed performance targets are exceeded.

- 87 When disclosing performance fees in disclosure documents, cl 209(b) of Sch 10 requires performance fees to include the method of calculation and the amount of the fee (or an estimate if the amount is not known).

- 88 The amendments made by the Stronger Super reforms have slightly modified cl 209(b) to require a statement about how performance fees affect administration fees and investment fees for a superannuation product (or management costs for a managed investment product). Performance fees are also defined in s29VD. Section 29VD sets out how and when performance fees can be charged within MySuper products.

- 89 RG 97 states that when estimating performance fees, product issuers will be able to satisfy the performance fee and cost disclosure requirement by basing their assessment of the performance fee on reasonable assumptions consistent with Regulatory Guide 170 *Prospective financial information* (RG 170).

- 90 We understand that there are different practices used in the industry to disclose performance fees. This makes it difficult for investors to effectively compare products. The following examples demonstrate various practices used to disclose performance fees, which may be inconsistent with cl 209(b) and our existing guidance:

- (a) disclosing performance fees in the PDS based on the fees actually paid in the last financial or calendar year (i.e. on a historical basis)—this method does not consider whether future performance of the fund or particular investment option could be different from performance in previous years;
- (b) disclosing the range of performance fees that may be paid depending on the performance outcome of the fund or particular investment option;
- (c) making forward-looking estimates for the current year based on unrealistic expectations set for the investment manager when the investment mandate is put in place;

- (d) estimating performance fees based on the expected level of fees in an average year; and
 - (e) not disclosing performance fees separately because performance fees are paid to investment managers out of the trustee's fees instead of as an additional charge to investors.
- 91 Timing of performance fees is also an issue that causes some difficulty with disclosure. Often, performance fees are measured over different timeframes and it may be difficult to assess performance part-way through a performance cycle.
- 92 Treatment of 'clawbacks' for performance fees also varies between funds. Clawbacks occur where the investment manager repays all or part of a performance fee previously received due to underperformance. We understand funds can treat clawbacks in a number of ways—either by disclosing the full performance fee when it is paid and recognising the clawback as a negative performance fee, or by not disclosing the performance fee until the fund is certain no clawbacks will occur.
- 93 As noted in RG 97 product issuers should provide an estimate based on reasonable assumptions of the performance fee that is payable for the relevant time period: see paragraphs 115.

Tax treatment of fees and costs

- 94 The introduction of enhanced fee and cost disclosure regulations was intended to provide certainty in relation to the presentation of fees and costs in PDSs and periodic statements by indicating how taxes are to be treated. In particular, fees and costs in a PDS must be shown gross of income tax (but must include goods and services tax (GST) and any applicable stamp duty) and net of any applicable reduced input tax credits.
- 95 For a fair comparison to be made between products, the same tax treatment for fees and costs must be applied. We recognise that there is, at present, inconsistency in the tax treatment of these costs, causing fees to be understated for some products, particularly when comparing fees between superannuation funds.

Example: Tax treatment of fees

Two funds both charge an administration fee of \$1 per week. Fund A discloses correctly its administration fee in the PDS as \$1, gross of tax. Fund A passes on the benefits it receives from the 15% reduction in its income tax due to administration costs directly to the investor's account.

Fund B discloses incorrectly its administration fee in the PDS as \$0.85, net of tax (assuming a 15% tax rate). It discloses the fee in this manner because rather than deducting a \$1 fee per week and passing on the 15%

reduction in income tax to the investor, it simply uses the reduction to pay some of the administration costs.

The net effect of the two arrangements is identical. However, the fee structure in the disclosure document shows Fund A as having a higher fee structure (being the gross fee), while Fund B shows the lower fee (being the net amount of the fee).

Insurance disclosures

- 96 While disclosure of insurance information was not a key focus of the project, we recognise that disclosure practices for superannuation funds offering insurance vary significantly. This makes it difficult for investors to make informed assessments of, and comparisons between, funds where insurance is a key factor in their consideration of superannuation products.
- 97 Chant West has observed that disclosure about the following issues was either non-existent or inconsistently applied between superannuation funds:
- (a) the level of cover;
 - (b) age conventions;
 - (c) commissions to advisers where the premium incorporates an adviser's commission;
 - (d) tax deduction rebates (calculated on the contributions less the premium);
 - (e) premiums based on annual upfront payments (most investors with an insurance component in their superannuation pay the premium on a monthly basis and are unaware of the loading imposed when paying premiums monthly);
 - (f) policy or insurance administration fees payable in addition to the premium;
 - (g) exclusion of stamp duty in the published premium; and
 - (h) occupation classifications.
- 98 Insurance premiums may represent a significant proportion of the costs that are deducted from an investor's superannuation account. It is important for industry to have consistent insurance disclosure practices so that investors can compare their coverage and premium payments across superannuation funds. We consider that the development and implementation of industry standards for insurance disclosures would assist in improving consistency in this area.

D Next steps in improving fee and cost disclosure

Key points

A key objective of the Stronger Super reforms was to create a consistent framework to allow for meaningful comparison between products.

In this section, we outline our view on proper disclosure in regards to the key issues identified in Section C and consider how industry can develop standards to address these issues to improve fee and cost disclosure and reduce inconsistency. We also discuss the interaction of APRA reporting standards with the fee and cost disclosure requirements and outline our guidance on fee and cost disclosure.

Addressing key issues

- 99 One of the key objectives of the Stronger Super reforms was to create a consistent disclosure regime that allows investors to easily and accurately compare fees between superannuation funds. The failure to achieve this poses significant risk to investors and undermines the rationale of the Stronger Super reforms.
- 100 The purpose of the project was to identify areas of concern in relation to fee and cost disclosure and formulate strategies to help industry apply a consistent regulatory framework.
- 101 After consulting with industry, we identified a number of areas of concern: see Section C. These concerns have been the subject of significant discussion both within ASIC and externally. Based on these discussions, we have begun working with industry to clarify relevant fee and cost disclosure requirements and practices.

Reporting of fees and costs in underlying investments

- 102 The reporting of fees and costs in underlying investment vehicles has been an area of significant concern. As a result, we have previously published a number of FAQs, as well as INFO 197, on our website; these provide guidance to industry on the reporting and disclosure of fees in underlying investment vehicles. Inconsistency will be substantially reduced if all product issuers disclosed all fees and costs payable in underlying investment vehicles as indirect costs.
- 103 Any fee or cost from an underlying investment vehicle that a trustee knows or ought to know about, which is not charged to the investor as a fee and will

reduce the return on investment to the investor, is an indirect cost. Under the Stronger Super reforms, indirect costs must be disclosed.

- 104 The disclosure of indirect costs provides investors with a more accurate representation of the overall fee burden associated with each product and allows for increased comparability across funds.
- 105 The level of information that a trustee needs to have to be able to provide fee data to APRA on a ‘look-through’ basis may be relevant in determining what information a trustee ought to know for the purpose of calculating indirect costs. From 1 July 2015, superannuation fund trustees must also comply with s29QC when calculating indirect costs and consider the costs of interposing entities to meet the ‘look-through’ requirement.
- 106 As part of our continuing focus on fee and cost disclosure in 2014–15, we will be consulting with industry further on the definition of ‘indirect costs’ for superannuation funds and ‘management costs’ for managed investment products, in addition to other matters, with a view to modifying the law by issuing a class order to clarify the definition. We consider that the clarification of the definition of these costs will help improve consistency in disclosure and potentially reduce compliance costs for industry resulting from any present lack of clarity.

Data quality

- 107 We acknowledge that collating data can be difficult, particularly when relying on third parties that are not under a regulatory obligation to provide information to trustees and responsible entities that facilitates compliance with disclosure requirements. This is particularly difficult when the data needed to calculate fees and costs must be collected from offshore fund managers or other offshore issuers of data. However, we also note that, as a matter of sound investment governance, APRA expects trustees to make all reasonable efforts to obtain information about their investments beyond the first non-connected entity: see paragraph 75.
- 108 The manner in which each component of a disclosed fee and cost should be determined or assessed will vary. The lack of data quality means that achieving consistency in the calculation and disclosure of fees and costs is difficult. However, a ‘best endeavour’ approach should assist in ensuring that fees and costs are comparable across superannuation and managed investment funds. We also consider that the development of industry standards for fee and cost disclosure would assist in improving consistency of data quality.

Treating management costs as transaction costs

- 109 The disclosure of management costs is an area of significant concern for ASIC. Anecdotally, it has been alleged that there are instances of costs being manipulated to present investors with a product that appears to be more financially attractive than it really is.
- 110 These disclosure practices can be fundamentally misleading because they reduce the amount disclosed as management costs and do not accurately portray the cost of individual products. They also prevent investors from being able to accurately compare superannuation or managed investment products against each other.
- 111 The purpose of disclosing management costs and indirect costs is to capture the costs of maintaining exposure to an asset or a particular investment—whether the exposure is achieved by investing through an investment vehicle or by maintaining a derivatives position. It is our view that the transaction cost of maintaining a derivatives position would be more appropriately treated as a management cost or an indirect cost.
- 112 This report does not identify all of the scenarios where a transaction cost would be better treated as a management cost or an indirect cost. We consider industry better placed to address this issue as part of the development of industry standards for fee and cost disclosure.

Performance fee reporting

- 113 There is also a lack of clarity in the industry regarding how future performance fees should be determined and disclosed. Currently, a number of alternative methods are used to determine future performance fees, and this can result in significantly different projections across superannuation funds.
- 114 One common practice is for superannuation funds to disclose the previous year's performance fees as a reflection of what will occur in the current year. We consider the adoption of this practice may lead to misleading results because it implies that past performance fees are indicative of future performance fees.
- 115 However, we recognise that past performance fees can be used as an estimate of future performance fees if the assessment is based on 'reasonable assumptions' consistent with RG 170: see RG 97.79. Using assumption-based estimates of future performance fees will facilitate meaningful comparison between superannuation funds and managed investment funds.

Tax treatment of fees and costs

- 116 Inconsistency in the disclosure of fees in relation to the treatment of tax undermines the purpose of the Stronger Super reforms because it prevents investors from accurately and confidently comparing fee structures between superannuation funds.
- 117 We have previously issued guidance stating that the Stronger Super reforms require a cost or amount paid (or payable) to include, if applicable, GST (less any reduced input tax credits) and stamp duty. We have also provided this guidance in INFO 197, and stated that trustees must disclose fees gross of income tax. The fee the trustee discloses must not be reduced by any income tax deduction the trustee may be able to claim against costs. For example, if the gross fee is \$100 (ignoring GST for illustrative purposes only), the amount the trustee must disclose is \$100, rather than \$85 (assuming the fund's income tax of 15%). Any benefit of an income tax deduction relating to a fee should be received by the member through the deduction of a lower fee than is disclosed, or as lower tax on contributions or income.
- 118 The disclosure of fees net of income tax assumes that all investors receiving the PDS will be entitled to a share of the reduction in income tax resulting from the costs that the fees pay for. However, only investors who have received taxable income during the year into their superannuation account—such as positive investment returns or taxable contributions (e.g. employer contributions)—are entitled to a reduction in income tax. We consider the disclosure of fees net of income tax to be misleading to investors who are not entitled to a reduction in income tax.

Insurance disclosures

- 119 The disclosure of insurance information is prescribed for shorter PDSs; however, there is still inconsistency in the insurance disclosure practices of superannuation funds. The disclosure of some of this information is beyond the scope of this project.
- 120 Trustees should be mindful of our guidance on the disclosure of fees inclusive of their total tax implications, particularly in respect of stamp duty and tax rebates. Our view is that, in addition to our guidance in this area, 'good practice' industry standards for fee and cost disclosure could include disclosure of insurance costs. As part of our continued engagement with industry on fees, we will also consult with industry on ways of improving disclosure about insurance offered through superannuation funds.

APRA reporting standards and fee and cost disclosure

- 121 Under s29QC,⁸ which has been deferred to 1 July 2015, if a trustee provides APRA with information calculated in a particular way under a reporting standard and the trustee gives the same or equivalent information to another person, including on a website, then the trustee must ensure that this information is calculated in the same way as the information given to APRA.
- 122 We do not consider there to be a conflict between APRA's data collection requirements and the disclosure requirements as a result of s29QC. Section 29QC requires consistency in the calculation methodology of the ultimate fee or cost. The calculation methodology for the disclosed fee or cost should be the same as the calculation methodology for its equivalent component reported to APRA.
- 123 However, this does not mean that the fees most recently reported to APRA must be used in disclosure materials. Additionally, s29QC does not impose a requirement on trustees to include a detailed breakdown of fees, as required by APRA.

Our guidance

- 124 In our consultation with industry, carried out as part of this project and our other work, we have identified numerous issues and concerns in relation to fee and cost disclosure. In response, we have tried to provide timely feedback to assist industry. The most efficient means to date of achieving this has been to publish a series of FAQs on our website. These FAQs allow ASIC to quickly respond to the issues most frequently identified by industry, as well as those issues that pose the most immediate disclosure risk.
- 125 The FAQs provide guidance to industry on a number of disclosure issues; however, we recognise that further guidance is required. In response to this need, and in consideration of the 1 July 2014 start date for the new fee and cost disclosure regime, we provided additional assistance by issuing INFO 197 on fee and cost disclosure, which incorporates FAQs previously published on our website and addresses a number of other issues and concerns identified by industry.
- 126 In March 2014, we also issued a joint letter with APRA to trustees about the impact of the consistency requirements in s29QC of the SIS Act, which addresses fee and cost disclosure.

⁸ Under s29QC, if a trustee provides APRA with information calculated in a particular way under a reporting standard and the trustee gives the same or equivalent information to another person, including on a website, then the trustee must ensure that this information is calculated in the same way as the information given to APRA.

- 127 In June 2014 we issued Class Order [CO 14/541] *RSE licensee s29QC SIS Act disclosure exemption*, deferring s29QC(1) until 1 July 2015. This deferral was in response to industry concern about the impact of s29QC as outlined in the joint letter. We will be consulting further with industry on the application of this section during the deferral period. During this period trustees are not required to comply with this section. We do not consider that the temporary deferral of s29QC will affect fee and cost disclosure. Trustees will still need to comply with the fee and cost disclosure requirements in the Corporations Act during the deferral period.
- 128 RG 97 contains our guidance on fee and cost disclosure requirements that applied before the commencement of the Stronger Super reforms. RG 97 provides general guidance on disclosing fees and costs (including guidance on calculating management costs and the indirect cost ratio) in PDSs and periodic statements for superannuation and managed investment products under both the enhanced fee and cost disclosure regulations and the shorter PDS regime.
- 129 We are also mindful of the fact that RG 97 requires updating to reflect recent regulatory changes. We expect to update RG 97 in the 2014–15 financial year, following industry consultation on our proposed revisions. We will update our existing guidance in RG 97 to reflect any changes to legislation that have occurred since RG 97 was last updated.
- 130 We may also consult on the need to modify the application of certain provisions of the Corporations Regulations to give effect to their intent and to provide certainty as to their interpretation. Any modification of the Corporations Regulations will be made by issuing a class order.
- 131 In addition to our regulatory guidance, we consider that industry standards should be developed to help reduce the risk of different interpretations of the requirements by superannuation and managed investment funds, and the resulting inconsistency in disclosure of fees and costs.
- 132 In Media Release (13-328MR) *ASIC issues further super reforms guidance* (6 December 2013), we set out our facilitative approach to compliance with the fee and cost disclosure requirements. This facilitative approach was extended to 30 June 2015 for both superannuation funds and managed investment products: see 14-132MR. During this period we will continue to adopt a measured approach where inadvertent breaches arise or system changes are undertaken, provided industry participants make reasonable efforts to comply with fee and cost disclosure requirements.

Industry standards

- 133 We encourage industry to develop industry standards for good practice in fee and cost disclosure for superannuation funds and managed investment products. We discussed the development of these standards with industry during the final roundtable held as part of this project. Industry participants acknowledged that there would be some benefit to the development of industry standards for disclosure practices.
- 134 We will continue our engagement with industry with the view of further exploring the idea of developing industry standards or other ways of improving fee and cost disclosure in the industry.

Key terms

Term	Meaning in this document
APRA	Australian Prudential Regulatory Authority
cl 2 (for example)	A clause of the Corporations Regulations (in this example numbered 2)
Corporations Act	<i>Corporations Act 2001</i> , including regulations made for the purposes of that Act
Corporations Regulations	Corporations Regulations 2001
enhanced fee and cost disclosure regulations	Sch 10 to the Corporations Regulations, as inserted by the Corporations Amendment Regulations 2005 (No. 1)
FAQs	Frequently asked questions
fee and cost disclosure requirements	The requirements set out in Schs 10 and 10D to the Corporations Regulations
fee gaming	Actions taken by issuers to reduce the disclosed amount of fees and costs
fund-of-fund	Investing in an investment fund which invests directly or through another investment fund
GST	Goods and services tax
indirect cost ratio	The ratio of the total indirect costs for a MySuper or investment option, to the total average net assets of the superannuation entity attributed to the MySuper product or investment option
investment vehicle	An investment structure, such as a unit trust, pooled superannuation trust, life company, managed fund or another structure, which a superannuation trustee or a responsible entity invests in for the purpose of gaining exposure to another asset (e.g. shares, cash or property)
MySuper	A low-cost default superannuation product provided under Pt 2C of the SIS Act
MySuper Regulation	Superannuation Legislation Amendment (MySuper Measures) Regulation 2013
OECD	Organisation for Economic Co-operation and Development
PDS	Product Disclosure Statement

Term	Meaning in this document
Product Disclosure Statement	<p>A document that must be given to a retail client in relation to the offer or issue of a financial product in accordance with Div 2 of Pt 7.9 of the Corporations Act</p> <p>Note: See s761A of the Corporations Act for the exact definition.</p>
RG 97 (for example)	An ASIC regulatory guide (in this example numbered 97)
s29QC (for example)	A section of the SIS Act (in this example numbered 29QC), unless otherwise specified
Sch 10 (for example)	A schedule to the Corporations Regulations (in this example numbered 10)
shorter PDS regime	<p>The requirements set out in Div 3A of Pt 7.9 of the Corporations Act as modified by Subdivs 4.2–4.2C and Schs 10B, 10C, 10D and 10E to the Corporations Regulations, which prescribe the content and length of the PDS for first home saver accounts, margin loans, superannuation products and simple managed investment schemes</p>
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
Stronger Super reforms	<p>Reforms aimed at improving the operation of Australia's superannuation system</p> <p>Note: See http://strongersuper.treasury.gov.au for more information about these reforms.</p>

Related information

Headnotes

data quality, enhanced fee and cost disclosure regulations, fees and costs, fee and cost disclosure requirements, fee gaming, insurance, managed investment funds, managed investment products, management costs, MySuper, performance fee, responsible entities, Stronger Super reforms, superannuation, transaction costs, trustees

Regulatory guides

RG 97 Disclosing fees and costs in PDSs and periodic statements

RG 170 Prospective financial information

RG 234 Advertising financial products and advice services (including credit): Good practice guidance

Information sheet

INFO 197 Fee and cost disclosure requirements for superannuation trustees

Forms

SRF 702.0 Investment performance

SRF 703.0 Fees disclosed

Class order

[CO 14/541] RSE licensee s29QC SIS Act disclosure exemption

Legislation

Corporations Act

Corporations Regulations, Schs 10, 10B, 10C, 10D and 10E,
Subdivs 4.2–4.2C

Financial Sector (Collection of Data) Act 2001

MySuper Regulation, item 7

SIS Act, s29QC, 29V, 29VD

Media releases

13-328MR ASIC issues further super reforms guidance

14-132MR ASIC releases information sheet on super fee and cost disclosure and defers section 29QC

Standards

SPS 530 Prudential governance

Other publications

APRA, *Annual superannuation bulletin*

Chant West, *The Russian Dolls are still concealing some fees, but disclosure is getting better*