



**ASIC**  
Australian Securities &  
Investments Commission

# Proposed changes to the fees and costs disclosure regime for superannuation and managed investment schemes

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# Overview

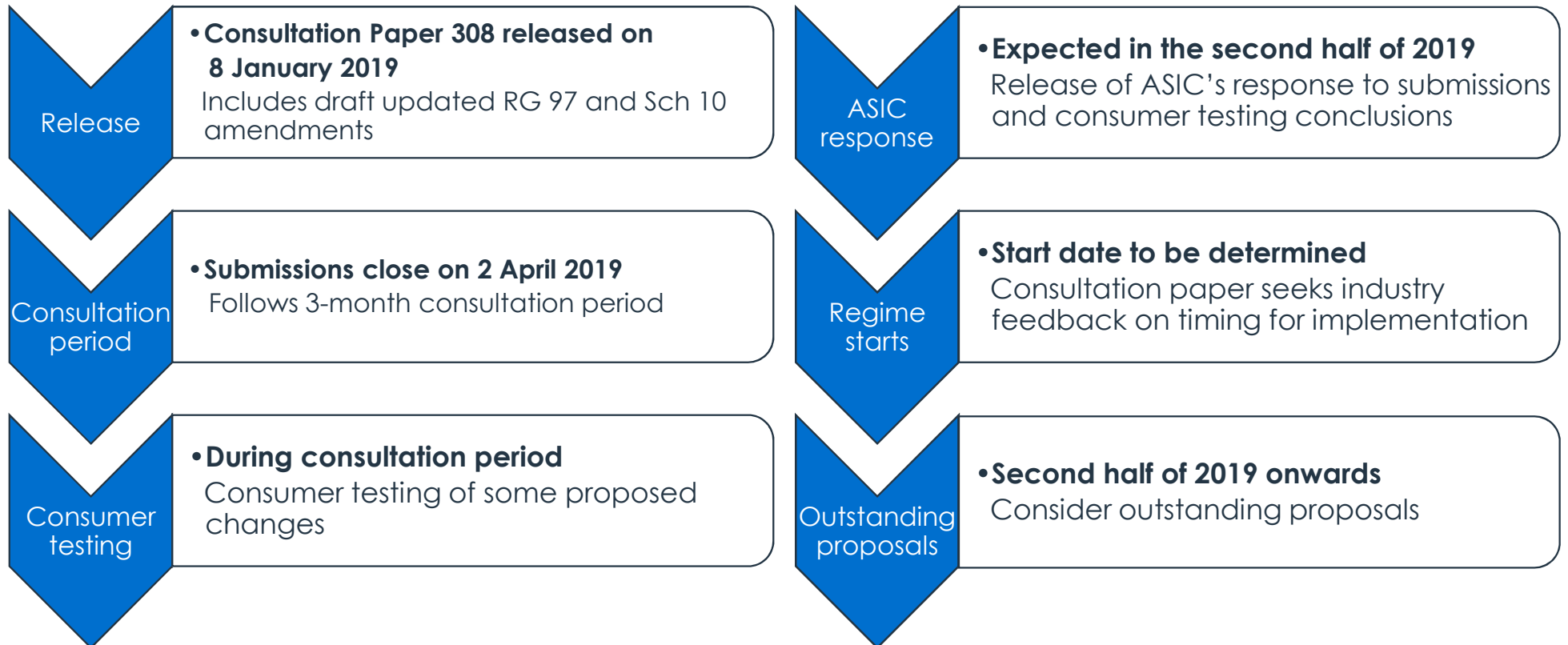




## Policy objectives for fees and costs disclosure regime

- Consumers who actively seek information about fees and costs receive transparent and useable fees and costs information to help them:
  - make confident and informed value-for-money decisions
  - compare products (value of fees and costs information to consumers is lessened if there are significant inconsistencies in the compilation of fees and costs information)
  - understand the fees and costs charged to them.
- The fees and costs disclosure regime is practicable for industry

# Timeline





## Recommendations ASIC proposes to adopt

- **Presentation:** simplifying and rationalising how fees and costs information is presented (through changes to the fees and costs template and fee example in PDSs and changes to periodic statements)
- **Reducing data inputs:** eliminating the requirement for fee and cost disclosure to include some categories of costs, such as property operating costs, borrowing costs and implicit transaction costs
- **Consistency:** making the fees and costs disclosure for managed investment products more consistent with the fees and cost disclosure for superannuation products

# Specific proposals

## Super fee template

- Single line items for administration fees and costs and investment fees and costs
- Intrafund advice costs to be included in administration fees and costs
- Ongoing and member-initiated fees and costs to be grouped separately

## MIS fee template

- Management costs to become management fees and costs and put at the top of the template
- New line-item for buy-sell spread
- Ongoing and member-initiated fees and costs to be grouped separately

## Cost of product information

- Single cost of product figure to be included in PDSs for each superannuation product or investment option, and each managed investment product investment option
- To be based on a \$50,000 balance

## Transaction costs

- Transaction costs to be a separate line item in the fee template (shown net of amounts recovered by the buy-sell spread)
- Property operating costs, borrowing costs and implicit transaction costs to be excluded
- Counterparty spreads to be included

## Periodic statements

- Periodic statements to be simplified so they contain:
  - "Fees deducted from your account"
  - "Fees and costs deducted from your investment"
  - "Total fees and costs you paid"

## Performance fees

- Performance fees to include all product/option level performance fees and performance fees charged by interposed vehicles
- To be calculated based on a 5 year historical average

# Specific proposals (continued)

## Clarifications

- Costs met through the use of reserves to be included in administration fees and costs or investment fees and costs
- Treatment of amounts paid by third parties or offset against other amounts

## Financial advisers

- Work with industry bodies to clarify how advisers should use fees and costs information when giving advice on choice of products

## Consumer testing

- Some of the proposals will be consumer-tested
- Testing will focus on the proposed changes to the fees and costs templates and changes to tool names
- Will also test whether investment fees and costs, and administration fees and costs should be merged into a single figure

## RG 97

- Re-draft RG 97 so it is easy to follow, logical and clearly explains requirements
- Explain purposes and context of fees and costs disclosure

## Consumer education

- Refine the consumer-facing narrative about the importance and relevance of fees and costs when making decisions
- May include producing information and educational material
- May include working with industry

## Platforms

- Maintain existing RG 97 guidance
- New guidance on statement for fee template
- Currently undertaking work on platforms. Once completed, will reconsider whether regulatory settings for platforms need revision
- Seek preliminary feedback on potential requirements

## No change but clarifications: Indirect costs

### Definition

- Proposed not to be consumer facing
- No indirect cost ratio disclosure

### Calculation

- Further guidance, including on reasonable estimates

### Interposed vehicles

- Guidance presentation updated to assist in application
- Different outcomes due to elimination of property operating costs



## Background: Development of [CO 14/1252] & RG 97

### July 2014:

Report 398 *Fees and costs disclosure: Superannuation and managed investment products* issued.

Found that industry was interpreting the fees and costs requirements differently, especially in relation to disclosing fees in underlying investment vehicles.

### December 2014:

[CO 14/1252] made to clarify the requirements

### November 2015:

Revised RG 97 issued

### November 2015- September 2017:

Four further amendments made to [CO 14/1252] in this period to clarify particular aspects

### 30 September 2017:

[CO 14/1252] and RG 97 come into force


### December 2017 and December 2018:

Two amendments made to extend dates for compliance with certain aspects



## Background: External Expert Review

- **1 November 2017:** Announcement of external expert review
- **28 November 2017:** Darren McShane appointed
- **24 July 2018:** Report 581: *Review of ASIC Regulatory Guide 97: Disclosing fees and costs in PDSs and periodic statements (REP 581)* released with 34 recommendations and observations



**Disclosure  
recommendations  
ASIC proposes to  
adopt**



# Changing superannuation fees and costs template

## Proposals

- Ongoing fees and costs: administration, investment, transaction
- No separate disclosure of indirect costs
- Intrafund advice incorporated into administration fees and costs
- Ongoing fees and costs and member initiated fees and costs grouped

## Benefits

- Simplifies disclosure
- Aligns MIS and super disclosure
- Gives prominence to fees consumers pay each year



# Changing managed investment fees and costs template

## Proposals

- Management costs to be known as management fees and costs
- New line item for buy-sell spread
- Rearrange order to group ongoing fees and costs and member initiated fees and costs together

## Benefits

- Gives prominence to fees consumers pay each year
- Aligns MIS and super disclosure
- Better consumer understanding of costs of exiting or switching



# Including cost of product information

## Proposals

- Include abbreviated cost of product information for each product or option offered by the super fund and each investment option offered by the MIS
- Based on \$50k balance and calculated in the same way as the fee example

## Benefits

- Helps consumers understand fees and costs of options/products, make decisions and compare products/options



# Simplifying periodic statements

## Proposals

- Three lines:
  - Fees deducted from your account
  - Fees and costs deducted from your investment
  - Total fees and costs you paid
- Renaming additional explanation of fees and costs section (fees and costs details)

## Benefits

- Simpler, more useable disclosure
- Easier to understand the fees and costs charged
- More practicable for industry
- Align MIS and super disclosure



# Changing treatment of transactional and operational costs

## Proposals

- New line item for explicit transaction costs and counterparty spreads
- Show net of the buy-sell spread
- Property operating costs, borrowing costs and implicit transaction costs excluded
- Other operational costs part of administration fees and costs

## Benefits

- Assist consumers with comparisons and decision making
- Including counterparty spreads may help prevent issuers from restructuring transactions to avoid cost disclosure
- Removal of implicit costs, borrowing costs and property operating costs assists consumers and improves practicability for industry





# Changing treatment of performance fees

## Proposals

- No distinction between performance fees of the product/option and performance fees of underlying investments
- Based on the average of the performance fees accrued in the past 5 years (or formula)
- Amount disclosed as a note in the fee template with further information in the additional explanation of fees and costs

## Benefits

- Simplification for consumers as all fees that relate to performance will be included in the same disclosed amount
- Removes complexity for industry so that all fees relating to performance are calculated on the same basis




# Clarifying treatment of costs paid out of reserves

## Proposals

- Definitions of investment fee and administration fee to be amended to make it clear that these include costs met through the use of reserves

## Benefits

- Members are aware of the full amount of the costs required to operate the superannuation entity
- Members are told what their money is used for
- Assists members to compare products and make decisions



**Consumer  
understanding  
recommendations  
ASIC proposes to  
adopt**



# Consumer testing of some proposed changes

## Proposals

- Consumer testing focusing on:
  - proposed fees and costs summaries for superannuation and MIS
  - merging administration fee with investment fee
  - changing the name of fees and costs template to fees and costs summary
  - changing the name of the additional explanation of fees and costs to fees and costs details

## Further details

- In progress. Small group testing completed. Individual interviews underway
- ASIC may further consider whether to merge administration and investment fees
- Will share results when available
- If results indicate substantial changes required, will seek further industry feedback before finalising requirements



# Developing additional resources and information for consumers

## Proposals

- After regime finalised, work to refine consumer-facing narrative about relevance and importance of fees and costs when making decisions
- May produce information, educational material, consumer tools
- Fees and costs is one factor but not the sole factor for consumers to consider

## Benefits

- Better consumer understanding of importance and relevance of fees and costs may assist in making decisions, product comparisons and understanding amounts charged



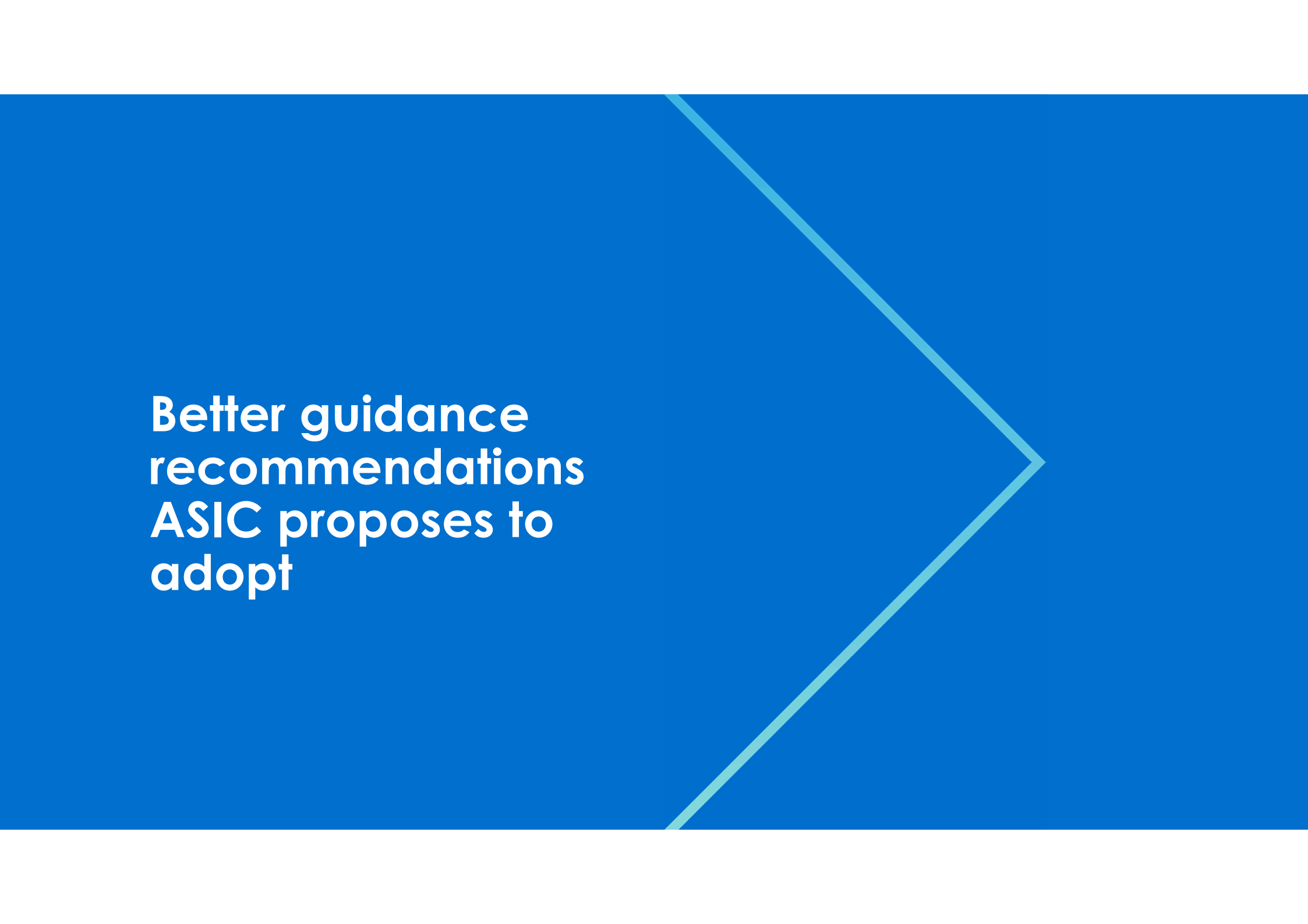
# Financial advisers and choice of product advice

## Proposals

- After regime finalised, work with adviser industry bodies to clarify how fees and costs disclosure should be used when giving advice

## Benefits

- If advisers don't understand how to use fees and cost information, advice may be inaccurate/incomplete
- This may affect consumer ability to compare products and make decisions



**Better guidance  
recommendations  
ASIC proposes to  
adopt**



# Explaining why fees and costs must be disclosed

## Proposals

- RG 97 to explain purposes and context of the fees and costs disclosure regime
- Intent of the regime is clear and the meaning accessible to users of RG 97

## Benefits

- ASIC and industry have a shared understanding of the purposes of fees and costs disclosure
- Purposes and context can guide industry when making decisions/judgements





# Clarifying amounts paid by third parties/offset amounts

## Proposals

- Clarify guidance in RG 97:
  - fees or costs paid for by a third party does not affect its characterisation as a fee or cost for disclosure
  - fees or costs in PDSs must not be reduced to take into account tax deductions
  - fees and costs cannot be reduced or offset against other income or income-sharing arrangements

## Benefits

- Consumers are informed of the true costs associated with the product/option
- Consumers can better compare products and make decisions



# Periodic statement content for defined benefit members

## Proposals

- Same guidance in RG 97 to apply to periodic statements for all defined benefit members, regardless of whether the fund also has accumulation members

## Benefits

- More relevant, meaningful and appropriate disclosure for defined benefit members



# Consistent presentation of information in the fee template

## Proposals

- Amendments to RG 97 to provide:
  - clarity about when adaptations to the fee example can be made
  - clarity on ASIC's view of the meaning of components in cl 204(6) of Sch 10
  - additional guidance that issuers should consider how easily the components of a fee and cost structure can be described in a line item
- Explore with industry what other steps we can take to improve consistent presentation of fee and cost information

## Benefits

- Consumers can better compare products



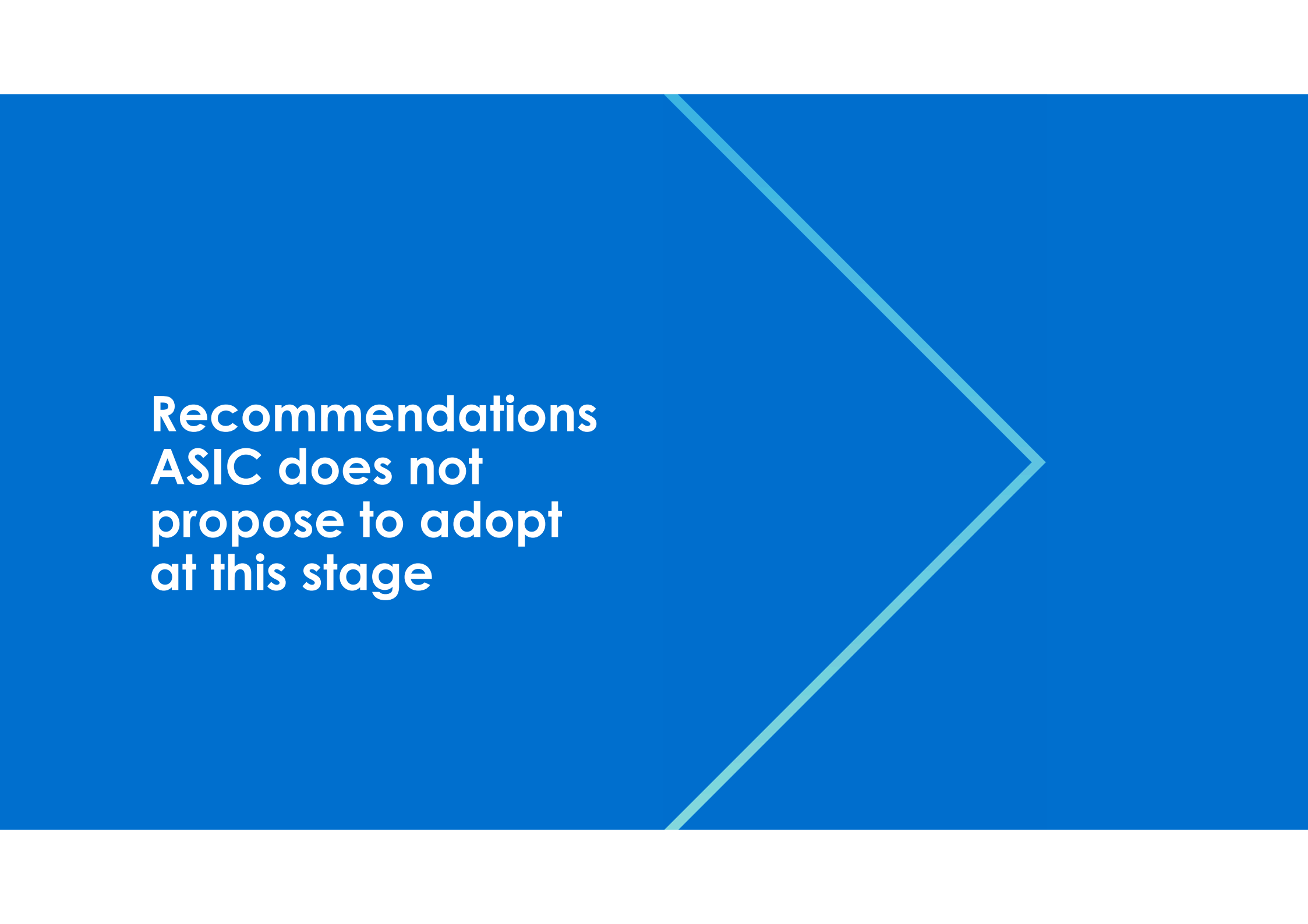
# Consolidated version of Sch 10 on ASIC's website

## Proposals

- Amend [CO 14/1252] so that Sch 10 (as modified by [CO 14/1252]) is set out in a single document
- Make available on fees and costs section of ASIC website

## Benefits/further details

- Easier for industry to identify and understand requirements
- *Should Sch 10 be divided into two separate parts (one for super and one for MIS)?*



**Recommendations  
ASIC does not  
propose to adopt  
at this stage**



## Feasibility study – consumer comparison tool

- Support development of publicly accessible, consumer-facing comparison tool
- Not the appropriate time to undertake study – may be affected by government response to Productivity Commission and Royal Commission
- Consumers need to be better supported in making decisions about fees and costs. We are working on this and anticipate doing further work on comparison tools in the future



## Platform disclosure

- Potential for consumer confusion about fees and costs when investing in platforms
- Not consulting fully on recs 17-21 as would delay other proposals but seeking preliminary feedback on whether these should be made legal obligations
- New guidance in RG 97 that platforms operators should include prominent statement in fee template: *fees and costs charged by the platform relate to the platform only and not any accessible financial products selected*
- Retain current guidance to include:
  - prominent statement after fee example
  - examples that illustrate combined effect of the fees and costs for the platform and accessible financial products



## Consistency in the way fees and costs information is incorporated by reference

- Do not propose to introduce additional guidance at this time
- Would like to work further with industry on consistency issues in the future
- Want feedback on whether industry could develop standards/guidelines to improve consistency
- If industry standards/guidelines are not possible, may consider legal requirements or further guidance in RG 97 and/or RG 168





## Observations for the future

- REP 581 noted possible future directions:
  - more layering of information to address different levels of interest or need
  - more modular and tailored presentation
  - less segregated presentation
  - more accessible delivery of information
- Encourage issuers to consider what types of consumers invest in their products and think about how they could change fees and costs disclosure to help it better meet consumer needs



# ASIC's additional proposals



## Treatment of derivatives

- Propose that current treatment as indirect costs or transaction costs be maintained
- *Should the requirements be aligned between MIS and super?*

# Drafting amendments/restructuring

## RG 97

- Restructure RG 97 so it is logical and easy to follow
- Redraft so it clearly explains the requirements
- Remove unhelpful/superfluous content
- Incorporate website Q&As where helpful and then remove separate Q&A section from website. *Are there any Q&As that are not included in the draft RG 97 that should be included?*

## Schedule 10

- Number of minor amendments to Sch 10 to improve clarity of requirements
- Amendments to the definitions of activity fee, advice fee, buy-sell spread, exit fee, insurance fee and switching fee to remove cross-references to s 29V of the *Superannuation Industry (Supervision) Act 1993* to make Sch 10 self-contained
- Also asks a number of feedback questions about whether other drafting amendments should be made

**Next steps**

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# Surveillance strategy

## Proposals

- Develop and implement surveillance strategy to assess compliance with requirements
- To occur after requirements are finalised and in force

## Benefits/further details

- Identify non-compliance
- Determine if there is uncertainty about requirements. Further guidance may be required to ensure regime is practicable for industry



## Submissions

- Closing 2 April 2019
- [Feeandcostdisclosure@asic.gov.au](mailto:Feeandcostdisclosure@asic.gov.au)



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