



Financial Express Australia's Responses to Consultation Paper 308 - Review of RG 97 Disclosing fees and costs in PDSs and periodic statements.

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We thank ASIC for the opportunity to comment on its Consultation Paper 308.

Financial Express Australia Introduction –

FE is a global specialist in the provision of investment product and performance data and is experienced in working with institutional, government and advisory clients in the context of building web-based and fund factsheet reporting and performance solutions. FE has been active in the Australian market since 2009 and offers Australia's most comprehensive source of managed fund and collective investments data. FE data powers a significant number of wealth platforms, adviser tools, and technology applications throughout the Australian market place. Globally, FE data is trusted by the hundreds of thousands of investors, advisers, asset managers and platforms who use FE data and software throughout the investment process.

Recommendations we propose to adopt that require amendments to Sch 10

B1 We propose to:

- (a) modify the 'Fees and costs template' for superannuation products to:
 - (i) present all administration fees and costs as one line item, by merging administration fees and indirect costs that relate to administration or operation of the superannuation entity;
 - (ii) present all investment fees and costs as one line item, by merging investment fees and indirect costs that relate to investment of the superannuation entity's assets;
 - (iii) remove advice fees (intrafund advice costs) as a line item, and include this cost in the disclosure of administration fees; and
 - (iv) group together the 'Ongoing annual fees and costs' separately from the 'Member activity related fees and costs'; and
- (b) give effect to these proposals by:
 - (i) removing the original 'Fees and costs template' in cl 201 of Sch 10 and replacing it with the 'Fees and costs summary' in Figure 2 of draft updated RG 97 at Attachment 1 to this paper;
 - (ii) inserting definitions of investment fees and costs and administration fees and costs in cl 209A of Sch 10 so they include the relevant indirect costs, and changing all references to investment fees and administration fees in Sch 10 to match these terms;
 - (iii) inserting a definition of intrafund advice costs into cl 101 of Sch 10;
 - (iv) removing the ability of superannuation trustees to elect to treat certain types of costs as indirect costs rather than administration fees or investment fees, because these amounts will now be combined into other line items in the 'Fees and costs template' (now to be called the 'Fees and costs summary'); and
 - (v) making corresponding changes to the 'Example of annual fees and costs' for superannuation products, to reflect the changes made to the 'Fees and costs template' (now to be called the 'Fees and costs summary').

See the draft amendments to Sch 10 at Attachment 2 to this paper. We also propose to update our guidance: see draft updated RG 97 at RG 97.30–RG 97.55, Figure 2 and Figure 3, at Attachment 1 to this paper.

B1Q1 Do you agree with our approach? If not, please explain why.

In Europe, product costs are combined into 3 categories for UCITS (one-off, ongoing and performance fees) and 4 categories for Packaged Retail and Insurance-based Investment Products (PRIIPs) (as above plus transaction costs). Service costs under MiFID II are in 5 categories (one-off, recurring, transaction, incidental and ancillary costs). We believe this is the right level of granularity, as insufficient detail does not provide clarity, but too much detail is off-putting. It is more important that all costs are clear and disclosed than what categories they are placed in.

B1Q2 Although indirect costs will be combined with investment fees into a single line item in the 'Fees and costs template' (to be renamed 'Fees and costs summary'), should issuers be able to include an

additional breakdown of the figure into two separate components in the 'Fees and costs summary' or in another place (such as on the issuer's website)? If yes, how would this help consumers make investment decisions and compare products? Should the same breakdown be permitted in respect of administration fees and indirect costs?

Although most investors may not require further granularity, the issuer's website would be the best place for this, for those who want it, with signposting from the "Fees and costs summary".

B1Q3 What system and process changes would be needed to implement these proposals?

B1Q4 What are the additional costs associated with implementing these proposals? Please provide details of one-off and/or annual costs as applicable.

B1Q5 What would be a reasonable timeframe for issuers to implement these proposals, in light of the other changes proposed in this paper?

B2 We propose to:

- (a) modify the 'Fees and costs templates' for managed investment products to:
 - (i) change management costs to management fees and costs, to match the term used in Figure 9 and Example 1 of draft updated RG 97 at Attachment 1 to this paper, and place this line item at the top of the 'Fees and costs templates'; and
 - (ii) include a line item for buy-sell spread; and
- (b) give effect to these proposals by:
 - (i) removing the original 'Fees and costs templates' in cls 202 and 202A of Sch 10, and replacing them with the 'Fees and costs summaries' in Figure 9 and Example 1 of draft updated RG 97 at Attachment 1 to this paper;
 - (ii) changing all Sch 10 references to management costs to management fees and costs, to match the term used in Figure 9 and Example 1 of draft updated RG 97 at Attachment 1 to this paper; and
 - (iii) making corresponding changes to the 'Example of annual fees and costs' for managed investment products, to reflect the changes made to the 'Fees and costs templates' (now to be called 'Fees and cost summaries').

See the draft amendments to Sch 10 at Attachment 2 to this paper. We also propose to update our guidance: see draft updated RG 97 at RG 97.152–RG 97.167, Figure 9 and Figure 10, at Attachment 1 to this paper.

B2Q1 Do you agree with our approach? If not, please explain why.

We agree with this proposal in principle, but have concerns over the clarity of displaying too many numbers in too many tables.

B2Q2 What system and process changes would be needed to implement these proposals?

B2Q3 What are the additional costs associated with implementing these proposals? Please provide details of one-off and/or annual costs as applicable.

B2Q4 What would be a reasonable timeframe for issuers to implement these proposals, in light of the other changes proposed in this paper?

B2Q5 If a line item for buy–sell spread is included in the ‘Fees and costs summary’, should the ‘Example of annual fees and costs’ for managed investment products also refer to the fact that a member may be charged a buy–sell spread (as in the ‘Example of annual of fees and costs’ for superannuation products, in cl 211 of Sch 10)? If so, should a reference to the buy–sell spread also be included in the preamble text to the ‘Cost of product information’ for managed investment products, in cl 220B of Sch 10 (see proposal B3)?

If the buy-sell spread is considered material, this should be disclosed in the summary and the example; they should both make clear the circumstances in which a buy-sell spread will/could be payable and how it is charged. To be included in the “cost of product information”, an assumption must be made (and stated) in respect of how many times and for what investment amount it will be incurred over the course of a year.

B3 We propose to:

- (a) require ‘Cost of product information’ to be disclosed by:
 - (i) extending the current ‘Example of annual fees and costs’ for superannuation products and managed investment products, to include the calculation and disclosure of abbreviated ‘Cost of product information’ for each MySuper product and each investment option offered by the superannuation entity, and for each investment option offered by the managed investment scheme;
 - (ii) basing the ‘Cost of product information’ on a \$50,000 balance (we do not propose to extend this to other balance amounts);
 - (iii) requiring that the ‘Cost of product information’ for full PDSs be disclosed in the PDS and not be permitted to be incorporated by reference;
 - (iv) not requiring the ‘Cost of product information’ to be included in the body of shorter PDSs, but instead requiring that it be provided as part of the fees and costs information that must be disclosed in accordance with Sch 10, under cl 8(10) of Schs 10D and 10E (issuers are permitted under those provisions to incorporate this information by reference); and
 - (v) incorporating a contribution of \$5,000 on the last day of the year in the ‘Cost of product information’ and the ‘Example of annual fees and costs’ for superannuation products (noting that managed investment products already incorporate a contribution of \$5,000 on the last day of the period); and
- (b) give effect to these proposals by:
 - (i) inserting a new Div 6A into Pt 2 of Sch 10; and
 - (ii) amending cl 211 of Sch 10.

See the draft amendments to Sch 10 at Attachment 2 to this paper. We also propose to update our guidance: see draft updated RG 97 at RG 97.59–RG 97.72 and Figures 3–5 (for superannuation products) and RG 97.182–RG 97.186 and Figures 11–12 (for managed investment products) at Attachment 1 to this paper.

B3Q1 Do you agree with our approach? If not, please explain why.

We agree that a single illustrative amount is better than showing costs for multiple amounts, to keep the proliferation of numbers to a minimum, reducing confusion for consumers.

B3Q2 For the longer term, what alternative methods of providing fee examples may be helpful for consumers and practical to implement?

Consumers must be able to compare different products, so any method to allow variable investment amounts to be shown must be controlled centrally, ie they cannot be hosted on individual providers' websites. A centralised comparison database, to which all providers should supply data that they must keep current, could be maintained, similar to a price comparison site.

B3Q3 Do you believe that incorporating a \$5,000 contribution on the last day of the year in the 'Example of annual fees and costs' and in the 'Cost of product information' for superannuation products will help consumers make investment decisions and compare products, given that:

- (a) contributions are not taken into account when calculating fees and costs for disclosure (see cls 218(1) and (3) of Sch 10); and
- (b) contribution fees are not permitted to be charged in relation to MySuper products under s29V of the Superannuation Industry (Supervision) Act 1993 (SIS Act)?

B3Q4 What system and process changes would be needed to implement these proposals?

B3Q5 What are the additional costs associated with implementing these proposals? Please provide details of one-off and/or annual costs as applicable.

B3Q6 What would be a reasonable timeframe for issuers to implement these proposals, in light of the other changes proposed in this paper?

B4 We propose to:

- (a) amend the requirements for periodic statements for superannuation products and managed investment products, so they contain the following three lines:
 - (i) 'Fees deducted from your account';
 - (ii) 'Fees and costs deducted from your investment'; and
 - (iii) 'Total fees and costs you paid'; and
- (b) give effect to this proposal by amending cls 301–303 of Sch 10.

See the draft amendments to Sch 10 at Attachment 2 to this paper. We also propose to update our guidance: see draft updated RG 97 (Sections C and E) at Attachment 1 to this paper.

B4Q1 Do you agree with our approach? If not, please explain why.

We agree with this proposal. As with any client report, only numbers that are useful and easily understood should be included. These three costs are relevant, important and should be understandable to members.

- B4Q2 What system and process changes would be needed to implement this proposal?
- B4Q3 What are the additional costs associated with implementing this proposal? Please provide details of one-off and/or annual costs as applicable.
- B4Q4 What would be a reasonable timeframe for issuers to implement this proposal, in light of the other changes proposed in this paper?
- B4Q5 We have not inserted a provision in the draft amended Sch 10 or provided guidance to explain how to calculate the approximate amount to be disclosed in 'Fees and costs deducted from your investment' and 'Total fees and costs you paid'. Do you believe a provision and/or guidance is necessary? Would a formula-based approach be necessary? We have included instructions in cl 301(2)(b) of Sch 10 about how to calculate the amount deducted from the investment. We have also included guidance in draft updated RG 97 (at RG 97.132 and RG 97.240 at Attachment 1 to this paper) that the amount to be inserted is the fees and costs for the product or option that are attributed to the particular member.

To make this information useful for comparison, the calculation methodology must be common across all providers and products, either through prescription or by a formula-based approach, but also taking account of proportionality. Ensuring complete accuracy of each member's costs would be ideal, but may be prohibitively expensive to deliver and may not add sufficient value.

- B4Q6 Given that periodic statements provide fees and costs information about what a member has been charged over a past period, and given the proposed amendments to the periodic statement requirements, would it be necessary for an issuer to make reasonable estimates of amounts to be included in periodic statements? Would this be more likely for periodic statements given after the member has exited the product?

We believe proportionality should apply to all reports and reasonable estimates may be an appropriate balance between effort and accuracy.

- B4Q7 We have retained the guidance that appears in the current version of RG 97 (at RG 97.234) that amounts of transactions shown in the transaction list in periodic statements should include GST less reduced input tax credits: see draft updated RG 97 at RG 97.124 and RG 97.232 at Attachment 1 to this paper. Regulation 7.9.60B(3) requires that amounts of transactions must include GST (if applicable) but does not make reference to whether reduced input tax credits should be included or excluded. Should reduced input tax credits be excluded from transaction amounts? Please explain why or why not.

To reflect the actual costs incurred by members, they should take account of the actual tax applied to any costs incurred.

- B4Q8 We have retained the guidance that appears in the current version of RG 97 (at RG 97.234) that if GST or stamp duty is not disclosed as part of the amount in a transaction, they should be reported as separate transactions: see draft updated RG 97 at RG 97.125 and RG 97.233 at Attachment 1 to

this paper. Should GST or stamp duty be permitted to be disclosed separately from the transactions they relate to? Please explain why or why not.

We believe providers should show taxes as separate amounts, as they are not costs incurred by, or on behalf of, the provider. This could avoid complaints about any differences between predicted and actual costs.

B4Q9 We have retained the guidance that appears in the current version of RG 97 (at RG 97.237) that if the payment of a fee or cost results in the superannuation entity or registered scheme becoming entitled to a tax deduction, and the benefit is passed on to a member, the periodic statement must show two transactions—being one for the full amount charged and one for the tax benefit that was passed on to the member: see draft updated RG 97 at RG 97.126 and RG 97.234 at Attachment 1 to this paper. Should this guidance be retained? Please explain why or why not.

We agree with this proposal for the same reason as in B4Q8; if a tax deduction is passed on to a member, this should be made clear in the report.

B4Q10 We have retained the guidance that appears in the current version of RG 97 (at RG 97.235–RG 97.236) that where a transaction creates an income tax liability or a tax deduction is given to the member, the issuer should show this transaction separately and include an explanation of the basis for the transaction and its relationship with other transactions: see draft updated RG 97 at RG 97.127 and RG 97.235 at Attachment 1 to this paper. Should this guidance be retained? Please explain why or why not.

We agree with this proposal for the same reason as in B4Q8 and B4Q9.

B4Q11 Should cls 301(5) and 301(6) of Sch 10 be retained? Please explain why or why not.

We have no opinion on this.

B4Q12 Should 'Total fees and costs you paid' in cl 302(1) of Sch 10 be presented gross of any tax benefit passed on to the member: see RG 97 at RG 97.237? please explain why or why not?

Taxes and tax rebates are beyond the control of providers, so total fees and costs should be shown gross.

B5 We propose to:

- (a) require disclosure of explicit transaction costs and counterparty spreads (see proposal B7) as a separate line item in the 'Fees and costs template' and in the 'Example of annual fees and costs' for managed investment products and superannuation products;
- (b) include explicit transaction costs and counterparty spreads in the calculation of the 'Cost of product information' (see recommendation 13 and proposal B3);
- (c) require that these costs be shown net of any amounts recovered by the buy–sell spread charged by the superannuation trustee or responsible entity. The gross amount of explicit transaction costs and

counterparty spreads will be set out in the 'Additional explanation of fees and costs' (to be renamed 'Fees and costs details') in cl 209(j)(ia) of Sch 10; and

(d) give effect to this proposal by:

- (i) replacing the 'Fees and costs template' for superannuation products in cl 201 of Sch 10 with the 'Fees and costs summary' in Figure 2 of draft updated RG 97 at Attachment 1 to this paper, which includes a transaction costs (net) line item;
- (ii) replacing the 'Fees and costs templates' for managed investment products in cls 202 and 202A of Sch 10 with the 'Fees and costs summaries' proposed in Figure 9 and Example 1 of draft updated RG 97 at Attachment 1 to this paper, which include a transaction costs (net) line item;
- (iii) including a transaction costs (net) line item in the 'Example of annual fees and costs' in cl 211 of Sch 10 (for superannuation products) and cl 212 of Sch 10 (for managed investment products);
- (iv) including instructions for calculating the amount of transaction costs (net) in cls 218(4A)–(4B) and cls 218A(6)–(7) of Sch 10; and
- (v) excluding explicit transaction costs and counterparty spreads from other fees and costs definitions (such as administration fees and costs, and investment fees and costs) to ensure these costs are not disclosed twice.

See the draft amendments to Sch 10 at Attachment 2 to this paper. We also propose to update our guidance: see draft updated RG 97 at RG 97.44–RG 97.45, RG 97.163–RG 97.165, Figures 2–3 and Figures 9–10 at Attachment 1 to this paper.

B5Q1 Do you agree with our approach? If not, please explain why.

We agree with the proposal to disclose transaction costs separately, as they can help explain the difference in overall costs between products with otherwise similar charges, but we do not agree that it is necessary to show the gross costs where they have been reduced through rebates or cost recovery. The important information to show is the actual (or estimated) costs incurred by an investor; breaking that down into a gross amount and any cost recovery does not add clarity for consumers and may actually detract from that.

B5Q2 What system and process changes would be needed to implement these proposals?

B5Q3 What are the additional costs associated with implementing these proposals? Please provide details of one-off and/or annual costs as applicable.

B5Q4 What would be a reasonable timeframe for issuers to implement these proposals, in light of the other changes proposed in this paper?

B6 We propose to:

- (a) not require property operating costs, borrowing costs and implicit transaction costs to be disclosed in PDSs and periodic statements; and
- (b) give effect to this proposal by amending:
 - (i) cls 101 and 103 (to insert the concept of excluded transactional and operational costs) and cl 209A of Sch 10; and

- (ii) cls 301–303; and
- (c) require that any operational costs that are not explicit transaction costs, counterparty spreads, implicit transaction costs, property operating costs or borrowing costs (to the extent that any exist) be treated as a part of administration fees for superannuation products (to be renamed administration fees and costs) or management costs for managed investment products (to be renamed management fees and costs).

Note: We do not propose to make any amendments to Sch 10 to give effect to this proposal, because we consider that the definitions of administration fees and costs in cl 209A of Sch 10 (for superannuation products) and management fees and costs in cl 102(1) of Sch 10 (for managed investment products) are sufficient to capture these types of operational costs.

See the draft amendments to Sch 10 at Attachment 2 to this paper. We also propose to update our guidance: see draft updated RG 97 at RG 97.333–RG 97.344, RG 97.132(a) and RG 97.240(a) at Attachment 1 to this paper.

B6Q1 Do you agree with our approach? If not, please explain why. If you think that some of these costs should be disclosed, where do you think is the best place for disclosure?

We agree with the proposal here and in B7 for the inclusion of counterparty spreads, but no further implicit transaction costs. Paragraph 88 of the CP states that there have been concerns with the implementation of implicit transaction costs in the EU; our European experience has been that these are due to the “slippage cost” methodology used, which has proved to be a contentious element of cost disclosure. This (a) includes the “random” (in the words of the FCA in the UK) market impact between placing the order and execution, and (b) allows reporting of negative transaction costs if prices move in favour of the investment manager. Among practitioners elsewhere in Europe, there has been general agreement that a calculation based on “bid-ask spread / 2” would be valid for calculating implicit transaction costs and would represent the real impact of these costs on an investment fund. While the slippage cost methodology has led to some ex ante cost projections with negative transaction costs, we have been surprised that some groups have also been disclosing negative actual ex post transaction costs, implying a profit made for the fund on every trade, which we believe to be potentially highly misleading.

In respect of property operating costs, the PRIIPs Regulation in the EU requires ongoing cost disclosure to include “all payments to any person providing outsourced services ... including ... providers of property management and similar services”. As property operating costs can have a significant impact on the returns of property funds, we believe they should be included; because they are paid to third parties, reporting them should not add excessively to the reporting burden.

B6Q2 Are cls 103(2)(c)–(d) of the draft amendments to Sch 10 at Attachment 2 to this paper sufficient to exclude all implicit transaction costs? Is a reference to market impact costs or some other type of cost also required?

We do not believe there is a need to refer to market impact costs, as few consumers understand the concept.

B6Q3 What system and process changes would be needed to implement these proposals?

B6Q4 What are the additional costs associated with implementing these proposals? Please provide details of one-off and/or annual costs as applicable. Would these proposals result in any cost savings? Please give details.

B6Q5 What would be a reasonable timeframe for issuers to implement these proposals, in light of the other changes proposed in this paper?

B7 We propose that:

- (a) counterparty spreads be included in the transaction costs that will be disclosed in PDSs and periodic statements; and
- (b) at this stage, not to define counterparty spreads in the draft amendments to Sch 10 at Attachment 2 to this paper, as we would like to seek further information from industry about:
 - (i) how this concept should be defined; and
 - (ii) what kinds of financial products and markets counterparty spreads may apply to.

B7Q1 Do you agree with our approach? If not, please explain why.

We believe that the bid-ask spread can make up a significant portion of total transaction costs and should be included in their disclosure, but not shown separately. Transaction costs can vary significantly and can be a good indicator of the success or otherwise of an investment strategy (high or low portfolio turnover, liquid or illiquid stocks).

B7Q2 Do you have any suggestions on how the concept of counterparty spreads could be defined in cl 101 of Sch 10? Please provide details.

B7Q3 REP 581 (at page 133) notes that counterparty spreads are readily and relatively objectively ascertainable. Do you agree? Please provide details.

We agree with this statement; counterparty spreads are readily available, either at the point of execution or on a daily basis, with the spread percentage changing little over the course of a day.

B7Q4 What types of financial products and markets do you think the concept of counterparty spreads would apply to? Would it be applicable to Australian markets or only to overseas markets? Please provide details.

Experience in Europe has been that reporting the counterparty spread works well in respect of equities listed on regulated markets; fixed interest securities and off-market instruments do not quote such spreads.

B7Q5 What are the additional costs associated with implementing this proposal? Please provide details of one-off and/or annual costs as applicable.

B7Q6 What would be a reasonable timeframe for issuers to implement this proposal, in light of the other changes proposed in this paper?

B8 We propose to:

- (a) remove any distinction between performance fees and performance-related fees, so that performance fees will include amounts calculated by reference to performance of a product, part of a product, an interposed vehicle or part of an interposed vehicle; and
- (b) give effect to this proposal by inserting cl 101C into Sch 10.

See the draft amendments to Sch 10 at Attachment 2 to this paper. We also propose to update our guidance: see draft updated RG 97 at RG 97.360–RG 97.364 at Attachment 1 to this paper.

B8Q1 Do you agree with our approach? If not, please explain why.

We agree with this approach.

B8Q2 What system and process changes would be needed to implement this proposal?

B8Q3 What are the additional costs associated with implementing this proposal? Please provide details of one-off and/or annual costs as applicable.

B8Q4 What would be a reasonable timeframe for issuers to implement this proposal, in light of the other changes proposed in this paper?

B9 We propose to:

- (a) require that:
 - (i) the amount of performance fees to be included in the 'Fees and costs template' as part of investment fees for superannuation products (to be renamed investment fees and costs) and management costs for managed investment products (to be renamed management fees and costs) will be calculated by reference to the average of the performance fees that accrued in the product, option, interposed vehicle or part in each of the previous five financial years;
 - (ii) where a product, option, interposed vehicle or part was not in operation for the previous five financial years, or did not have a performance fee charging mechanism in place for the full five financial years, the average should be calculated by reference to the number of financial years in which it operated or had a performance fee charging mechanism in place; and
 - (iii) where a product, option or interposed vehicle or part was first offered in the current financial year, the performance fee should be calculated by reference to the issuer's reasonable estimate of the performance fee for the current financial year; and
- (b) give effect to these proposals by inserting cl 101C into Sch 10.

See the draft amendments to Sch 10 at Attachment 2 to this paper. We also propose to update our guidance: see draft updated RG 97 at RG 97.385–RG 97.390 at Attachment 1 to this paper.

B9Q1 Do you agree with our approach? If not, please explain why.

We agree with this approach. It should be made clear that, if a product historically applied a performance fee, but no longer applies one, the “Fees and costs summary” shows no performance fee (as in Proposal B10(e)). This clarification was originally absent from EU Regulation 1286/2014 (PRIIPs), but the obligation to report has led to a number of products removing the performance fee, so it is not relevant to a forward-looking document.

B9Q2 Are any transitional arrangements required to accommodate data availability, particularly for interposed vehicles? Please give details.

There was no transitional period ahead of disclosing future performance fees on PRIIPs KIDs and under MiFID II; this caused no particular issues.

B9Q3 Should we provide any further guidance on how to calculate performance fees? Please give details.

For consistency and comparison purposes, it should be clear how each annual percentage is calculated (as a percentage of the average net assets over the year) and how these are combined to show a single future projection of percentage fees.

B9Q4 Should carried interest charged by general partners in private equity funds be included in the definition of performance fee in cl 101C of Sch 10? Please give details.

In respect of PRIIPs in Europe, carried interest is treated in the same way as fund performance fees, as an incidental cost, which we agree is a sensible way to go.

B9Q5 What system and process changes would be needed to implement these proposals?

B9Q6 What are the additional costs associated with implementing these proposals? Please provide details of one-off and/or annual costs as applicable.

B9Q7 What would be a reasonable timeframe for issuers to implement these proposals, in light of the other changes proposed in this paper?

B10 We propose to:

- (a) require the ‘Fees and costs templates’ (now to be called the ‘Fees and costs summaries’) for both superannuation products and managed investment products to contain an additional footnote referring to performance fees in the form illustrated by footnote 1 of Figure 2, Figure 9 and Example 1 in draft updated RG 97 at Attachment 1 to this paper;
- (b) maintain the requirements for the ‘Additional explanation of fees and costs’ (to be renamed ‘Fees and costs details’) as set out in cls 209(b)(i) and (ii) of Sch 10, but with some amendments to clarify the operation of cl 209(b)(ii) of Sch 10;
- (c) amend cl 209(b)(iii) of Sch 10 to require the ‘Additional explanation of fees and costs’ (to be renamed ‘Fees and costs details’) to set out the calculated average performance fees for each product, option, interposed vehicle or part under cl 101C(3)(a) of Sch 10;
- (d) allow issuers to set out related performance information in the ‘Additional explanation of fees and costs’ (to be renamed ‘Fees and costs details’) if they choose to do so; and

- (e) allow issuers to set out a further explanation in the 'Additional explanation of fees and costs' (to be renamed 'Fees and costs details'), in circumstances where the issuer believes that the average figure based on the previous five financial years is not representative for the coming period.

See the draft amendments to Sch 10 at Attachment 2 to this paper. We also propose to update our guidance: see draft updated RG 97 at RG 97.391–RG 97.395 at Attachment 1 to this paper.

B10Q1 Do you agree with our approach? If not, please explain why.

When an important change was proposed to PRIIPs KIDs in Europe by adding a footnote to a table, the overwhelming feedback was that consumers do not read footnotes but focus on figures in a table. Our suggestion, therefore, would be to show performance fees/carried interest as a separate number in the table, with the note 'The calculation basis for this amount is set out under "Fees and Costs Details" ' in the 'How and when paid' column. Performance fees are conditional on delivery of strong relative or actual performance so consumers may be deterred from investing in a product by apparently high costs which would only apply if performance is strong enough to charge them.

B10Q2 Given that cl 209A of Sch 10 requires performance fees to be included in investment fees (to be renamed investment fees and costs) for superannuation products rather than in administration fees (to be renamed administration fees and costs), should the reference to administration fees and costs in cl 209(b)(i) of Sch 10 be retained? If you believe the reference to administration fees should be retained, please explain why.

B10Q3 We have drafted cl 209(b)(iii) of Sch 10 so that it requires disclosure of the five-year average for each performance fee for each product, option, interposed vehicle or part that makes up the total performance fees. Do you believe this provides consumers with sufficient information? Should it also require disclosure of the performance fee for each year that is included in the five-year average? Please explain why or why not.

We do not believe that showing the performance fees for each of the last five years adds to the clarity of the disclosure. The description of the calculation basis for performance fees should be sufficient for those wishing to understand their possible long-term impact.

B10Q4 What system and process changes would be needed to implement these proposals?

B10Q5 What are the additional costs associated with implementing these proposals? Please provide details of one-off and/or annual costs as applicable.

B10Q6 What would be a reasonable timeframe for issuers to implement these proposals, in light of the other changes proposed in this paper?

B11 We propose to:

- (a) amend cl 209A of Sch 10 to clarify the position on costs paid out of reserves; and

- (b) give effect to this proposal by amending the definitions of investment fee (to be renamed investment fees and costs) and administration fee (to be renamed administration fees and costs) in cl 209A of Sch 10, to make it clear that these fees and costs include costs met through the use of reserves.

See the draft amendments to Sch 10 at Attachment 2 to this paper. We also propose to update our guidance: see draft updated RG 97 at RG 97.97–RG 97.101 at Attachment 1 to this paper.

B11Q1 Do you agree with our approach? If not, please explain why.

Cost disclosure shows investors the total costs deducted from their investment and which affect their returns. Costs paid into reserves reduce the amount available to investors and amounts paid out of reserves contribute to returns. We therefore propose that, similar to performance fees, the average net impact of amounts paid into and from reserves over the last five years (or as long as the typical “cycle” for such transfers, if applicable) are shown as part of the relevant costs (administrative or investment).

B11Q2 How should amounts that are transferred into reserves (as opposed to amounts transferred out to meet costs) be treated for the purposes of fees and costs disclosure? Please provide details, including whether the treatment should be different for amounts transferred into an operational risk reserve.

See B11Q1, above.

B11Q3 What system and process changes would be needed to implement this proposal?

B11Q4 What are the additional costs associated with implementing this proposal? Please provide details of one-off and/or annual costs as applicable.

B11Q5 What would be a reasonable timeframe for issuers to implement this proposal, in light of the other changes proposed in this paper?

B12 We propose to:

- (a) make minor amendments to the structure of cl 301 of Sch 10 to realign cl 301(2) with cl 301(1); and
- (b) give effect to this proposal by:
 - (i) moving cl 301(1B) down to become a new cl 301(3A); and
 - (ii) deleting cl 301(1E) and inserting the content requirements it imposes into the new cl 301(3A).

See the draft amendments to Sch 10 included at Attachment 2 to this paper.

B12Q1 Do you agree with our approach? If not, please explain why.

We agree with this proposal.

Recommendations we propose to adopt that do not require amendments to Sch 10

C1 We are conducting consumer testing in relation to some of the proposals in this consultation paper. The consumer testing will focus on:

- (a) the proposed 'Fees and costs summaries' for superannuation products and managed investment products in Figure 2, Figure 9 and Example 1 of draft updated RG 97 at Attachment 1 to this paper, which we propose will replace the 'Fees and costs templates';
- (b) merging administration fee (to be renamed administration fees and costs) with investment fee (to be renamed investment fees and costs) in the superannuation 'Fees and costs template' (now to be called the 'Fees and costs summary');
- (c) changing the name of the 'Fees and costs template' to the 'Fees and costs summary'; and
- (d) changing the name of the 'Additional explanation of fees and costs' to the 'Fees and costs details'.

We do not propose to engage in broader consumer testing regarding the legislative framework for fees and costs disclosure, as we need to work within the existing legislative framework and focus on implementing a consistent regime for consumers.

C1Q1 Is it helpful for consumers to see administration fees and costs and investment fees and costs disclosed separately? If so, why?

As administration costs and investment costs all reduce the return on an investment, we believe there is little or nothing to be gained by showing them separately, as investors would need to add them together to work out total ongoing costs.

C1Q2 Do you believe the names 'Fees and costs summary' and 'Fees and costs details' (instead of 'Fees and costs template' and 'Additional explanation of fees and costs') will better help consumers understand information relating to fees and costs?

We agree that these are more accurate and consumer-friendly names, but consumer testing should be used to confirm this.

C2 After the amendments to the fees and costs disclosure regime have been finalised, we propose to undertake further work to refine the consumer-facing narrative about the importance and relevance of fees and costs when making decisions about superannuation products and managed investment products. This may include producing information and educational material (including for MoneySmart) and working with industry (e.g. to develop consumer tools). It is important that any narrative and related information and resources focus not just on fees and costs but identify fees and costs as one factor but not the sole consideration in choosing a product.

C2Q1 Do you have any suggestions about how the importance and relevance of fees and costs can best be explained to consumers? Please provide details.

C2Q2 Do you have any suggestions about the types of tools that may help explain the relevance of fees and costs to consumers? Please provide details.

C3 After the amendments to the fees and costs disclosure regime have been finalised, we propose to work with the industry bodies that represent advisers to clarify how fees and costs disclosure should be used when giving advice about choice of products.

C3Q1 Are you aware of any particular topics within fees and costs disclosure that advisers need guidance on? Please provide details.

C3Q2 Do you have any suggestions on what resources about fees and costs disclosure may be useful to advisers?

C4 We propose to explain the purposes and context of the fees and costs disclosure regime, so the intent of the regime is clear and the meaning is more accessible to users: see draft updated RG 97 at RG 97.6–RG 97.12 at Attachment 1 to this paper, which sets out our views on why fees and costs must be disclosed in PDSs and periodic statements.

C4Q1 Do you agree with our approach? If not, please explain why.

We believe it is important to ensure consumers are aware that costs are one important element – but not the only one – of the investment selection process, as explained in RG 97.12.

C4Q2 Are there any other purposes of fees and costs disclosure that you believe should be included in our guidance?

C5 To help platform operators ensure that a PDS (or IDPS Guide) is not misleading, we propose to:

- (a) include guidance in draft updated RG 97 that platform operators should include a prominent statement in the 'Fees and costs template' indicating that the fees and costs charged by the platform relate only to gaining access to the accessible financial products, and do not include the fees and costs that may be charged by the issuers of accessible financial products; and
- (b) retain the guidance in the current version of RG 97 (at RG 97.72–RG 97.74) regarding prominent statements that should be included after the 'Example of annual fees and costs', and including other examples that illustrate the combined effect of the fees and costs of the platform and accessible financial products.

C5Q1 Do you agree with our approach? If not, please explain why.

We agree with this proposal.

C5Q2 What system and process changes would be needed to implement this guidance?

C5Q3 What are the additional costs associated with implementing this guidance? Please provide details of one-off and/or annual costs as applicable.

C5Q4 What would be a reasonable timeframe for issuers to implement this guidance, in light of the other changes proposed in this paper?

C6 We propose to include guidance to clarify the principles for and the treatment of fees, costs and other amounts paid by third parties or offset against other amounts: see draft updated RG 97 at RG 97.276–RG 97.279, and RG 97.407–RG 97.411, at Attachment 1 to this paper.

C6Q1 Do you agree with our approach? If not, please explain why.

We believe that the purpose of cost disclosure is to inform investors about amounts that reduce their returns, in line with RG 97.7(c) and RG 97.11. For this reason, any amounts paid by third parties on behalf of the product provider should be included if they affect investor returns. This includes items such as income generated by stock lending if this is not passed on for the benefit of investors, as in RG 97.279.

C6Q2 Is there any further guidance we should provide? Please give details.

We believe that guidance should be issued to confirm that any amounts paid to product providers or their associates, or paid by providers to third parties, from the assets of the fund or product should be included in the disclosure, even if those amounts are used to increase returns, such as payments linked to stock lending or borrowing costs linked to gearing, where available. Experience in Europe has shown that, unless such guidance is provided, it is difficult to obtain consensus on whether any costs not specifically itemised should be included.

C6Q3 What system and process changes would be needed to implement this guidance?

C6Q4 What are the additional costs associated with implementing this guidance? Please provide details of one-off and/or annual costs as applicable.

C7 We propose to update our guidance on periodic statements for defined benefit superannuation entities, so that this guidance applies to any defined benefit member in a superannuation entity, instead of only to superannuation entities where all members are defined benefit members: see draft updated RG 97 at RG 97.139–RG 97.141 at Attachment 1 to this paper.

C7Q1 Do you agree with our approach? If not, please explain why.

We agree with the statement in RG 97.141 that costs that do not affect a member's return should be shown as 0.

C7Q2 What system and process changes would be needed to implement this guidance?

C7Q3 What are the additional costs associated with implementing this guidance? Please provide details of one-off and/or annual costs as applicable.

C7Q4 What would be a reasonable timeframe for issuers to implement this guidance, in light of the other changes proposed in this paper?

C8 We propose making specific amendments to our guidance, to help improve consistency in the way fees and costs information is set out in the 'Fees and costs template', by:

- (a) removing some existing guidance in RG 97 (at RG 97.137) and being clearer about the circumstances in which adaptations to the 'Example of annual fees and costs' can be made (see draft updated RG 97 at RG 97.174–RG 97.175 at Attachment 1 to this paper);
- (b) removing some existing guidance in RG 97 (at RG 97.150–RG 97.151) and being clearer about our view on the meaning of 'components' in cl 204(6) of Sch 10 (see draft updated RG 97 at RG 97.370 at Attachment 1 to this paper);
- (c) including some additional guidance in draft updated RG 97 at RG 97.371 at Attachment 1 to this paper stating that when considering fees and costs structures, issuers should also consider how easily the components of the structure can be described in the line item of the 'Fees and costs template', and whether consumers will easily understand this; and
- (d) exploring with industry what other steps we can take together to ensure fees and costs information is presented more consistently.

C8Q1 Do you agree with our approach? If not, please explain why.

We agree that helping consumers to compare products is one of the key reasons for cost disclosure, so greater standardisation around how costs are disclosed is welcomed.

C8Q2 Do you believe further guidance is required?

We believe that, as is the case in Europe, both the content and display of costs in pre-sale and ongoing reports needs to be standardised and prescribed.

C8Q3 Do you believe industry standards could be developed to improve levels of consistency?

Yes

C8Q4 What system and process changes would be needed to implement this guidance?

C8Q5 What are the additional costs associated with implementing this guidance? Please provide details of one-off and/or annual costs as applicable.

C8Q6 What would be a reasonable timeframe for issuers to implement this guidance, in light of the other changes that are proposed in this paper?

C8Q7 How could we best work with industry to ensure fees and costs information is presented more consistently in the future?

One suggestion would be to establish industry working groups (through the trade associations?) to allow those industry participants who wish to be involved in delivering agreed templates. ASIC could either partake in these working groups or rely on feedback from the trade associations to arrive at a final version that is acceptable to all.

C9 We believe that implementing the proposals in this paper will significantly reduce or eliminate the differences between fees and costs disclosure appearing in PDSs and periodic statements of managed investment products and those of superannuation products. We do not have any separate proposals to progress at this time regarding this recommendation.

C9Q1 Do you believe further changes are needed to reduce the differences in the fees and costs disclosure requirements for managed investment products and superannuation products? If so, please give details.

In Europe, differences between the cost disclosure regimes for UCITS and PRIIPs mean that not only can consumers not easily compare these products but, in a similar way to paragraph 143 of the Consultation Paper, UCITS managers need to deliver data in a format that allows providers of PRIIPs investing in them to incorporate the data in their own disclosures. We believe, therefore, that disclosure should be standardised as far as is feasible.

C10 After the amendments to the fees and costs disclosure regime are finalised, we propose to:

- (a) amend [CO 14/1252] to repeal and replace Sch 10 in its entirety, so that Sch 10 (as modified by [CO 14/1252]) is set out in a single document; and
- (b) include a link to [CO 14/1252] on the fees and costs section of our website.

C10Q1 Do you agree with our approach? If not, please explain why.

We agree with this approach, as we believe that anything that reduces the risk of misunderstanding the reporting requirements is a positive move.

C11 After the amendments to the fees and costs disclosure regime have been finalised and are in force, we propose to develop and implement a surveillance strategy to assess compliance with the fees and costs disclosure requirements.

C11Q1 Do you have any suggestions on what areas the surveillance should focus on? Please provide details.

We believe that surveillance should focus on both the accuracy of the fees and costs data submitted and the rate of compliance, particularly in the period immediately following implementation.

The former could be achieved through the use of a data template with validation ranges for numerical data and the use of mandatory, optional and conditional fields, as agreed with the industry and ASIC.

The rate of compliance could be monitored through submission of the data templates to data aggregators, who would report completion rates on a monthly or quarterly basis. Added benefits of this would be consistent data supplied to all platforms, advisers and industry bodies through those aggregators and the possible provision of (anonymised) reports of fields or sections causing confusion or difficulties among any segments of the industry.

Recommendations that we do not propose to adopt at this stage

D1 We support the development of a publicly accessible, consumer-facing comparison tool. This task would require significant resources, so at this stage we do not propose to undertake a feasibility study into whether ASIC or another government agency could provide this tool. In addition, the Productivity Commission's Superannuation: Assessing Efficiency and Competitiveness inquiry may affect these recommendations. We may reconsider these recommendations at a later date.

D1Q1 Do you agree with our approach? If not, please explain why.

We support the development of a publicly accessible, consumer-facing comparison tool. A centralised comparison tool would undoubtedly be the most efficient way for consumers to compare fees and costs across the large superannuation and managed investment product universes. As an Australian data vendor, FE provides many clients, including the department of human services with all of market data feeds. FE provides whole of market data feeds across the Australian managed investment, superannuation, retirement income and managed account universes. FE also collects and distributes RG97 data. We would welcome involvement in any future feasibility studies or working groups regarding the creation of a comparison tool.

D1Q2 What elements would be included in a good consumer-facing comparison tool? Please provide details.

Our response to D1Q3 outlines both elements and functionality of a good consumer-facing comparison tool.

D1Q3 What other functionalities would a good consumer-facing comparison tool have? Please provide details.

A good consumer-facing comparison tool should comprise two levels of details. At the highest level, it should be possible to compare investment options within subsectors or peer groups. This can either be based on asset class or risk profiles within superannuation and managed investment products respectively. Investment options can then be easily filtered and compared at a single point in time based on published fees and costs.

At a lower level, consumers should be able to analyse the impact of fees and costs over the term of their investments. This can be modelled based on investment details (initial investment, contributions/regular investments and the investment term) and expected investment growth rates. This allows consumers to compare the effect (hard dollar and yield reduction) that different fees and costs create.

D1Q4 Have you seen any examples of what you believe is a good consumer-facing comparison tool, in Australia or internationally? Please provide details.

FE recently released the FE Analytics+ Ex Ante costs and charges calculator. The tool prepopulates ex ante investment product charges (One-Off, Ongoing, Transaction and Incidental costs) for all

funds in a portfolio and sums the weighted holdings to provide aggregate costs as required by the European MiFID II client disclosure requirements.

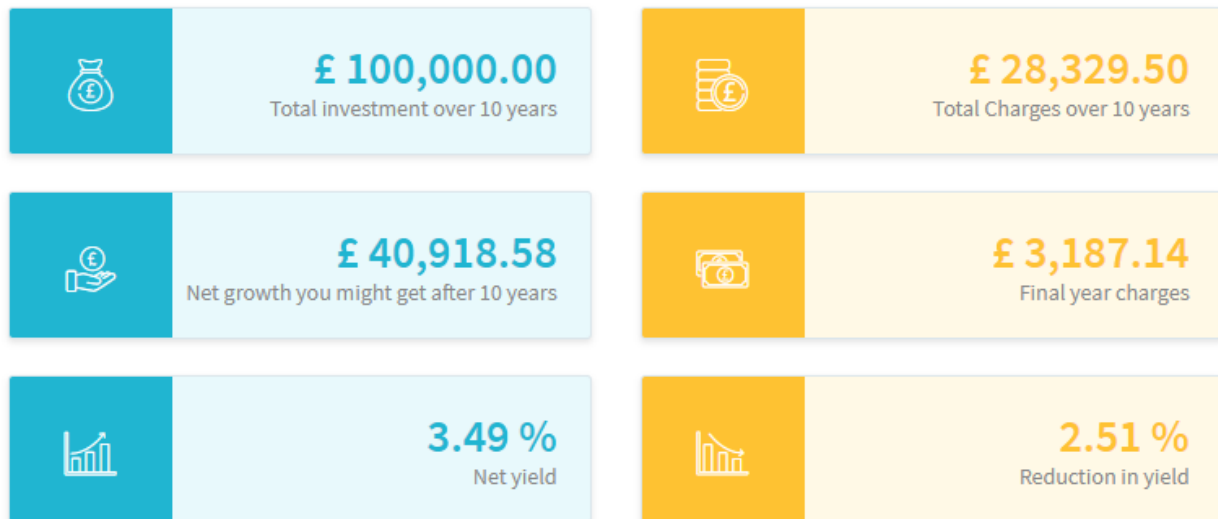
The tool allows users to select –

- **Investment details, initial investment/regular contributions and the investment term**
- **Assumed growth rate for the investment**
- **Investment product charges**
- **Service charges**

The calculation results in a detailed breakdown of all costs and charges as prescribed by MiFID II over the investment term. The tool also details hard dollar and yield reductions attributed to the costs and charges applied. Screen shots of the calculator output are below -

Cost & Charges Illustration Result

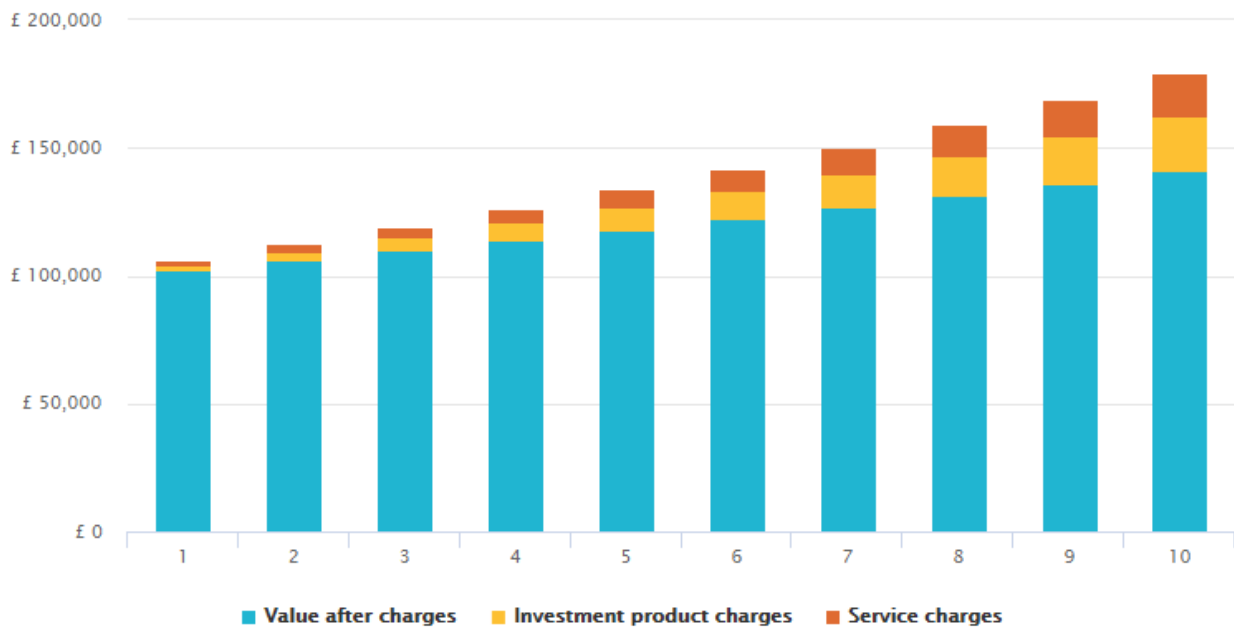
6% Growth Rate



Charges have the effect of reducing the investment growth. The effect of deduction is the same as reducing the growth rate from 6% to 3.49%, a reduction of 2.51%.

Charges Type	Investment Product Charges			Service Charges		
	%	£	Total *	%	£	Total *
One-Off Charges	0.50 %	-	£ 500.00	0.50 %	-	£ 500.00
Adviser Fees	n/a	n/a	n/a	-	-	£ 0.00
Platform Fees	n/a	n/a	n/a	-	-	£ 0.00
Ongoing Charges	0.80 %	-	£ 9,495.71	0.50 %	-	£ 5,942.94
Adviser Fees	n/a	n/a	n/a	-	-	£ 0.00
Platform Fees	n/a	n/a	n/a	-	-	£ 0.00
Investment Management Fees	n/a	n/a	n/a	-	-	£ 0.00
Transaction Costs	0.38 %	-	£ 4,519.11	0.50 %	-	£ 5,942.94
Ancillary Costs	n/a	n/a	n/a	-	-	£ 0.00
Incidental Costs	0.12 %	-	£ 1,428.79	-	-	£ 0.00
Total Charges	Product charges : £ 15,943.61			Service charges : £ 12,385.89		

Impact of Fees over 10 years



We believe that we can reproduce a similar calculator using RG97 specific data to allow consumers to compare the effect of fees and costs across large groups of funds or an aggregated multi-option portfolio level.

D2 We propose:

- (a) at this stage, not to consult fully about adopting recommendations 17–21 on platform disclosure because this is a significant undertaking that would delay the implementation of the other proposals in this paper. We are currently undertaking a project on platforms so we can better understand their operations. Once we have obtained further information from that project, we will consider if the regulatory settings for platforms need revision and may revisit these recommendations at that time. However, at this time we would like to seek industry’s preliminary feedback as to whether recommendations 17–20 should be made legal obligations;
- (b) at this stage, in relation to recommendation 19 (showing the cost impacts of accessible financial products in periodic statements for platforms), to include the guidance from question 6 of the ASIC Q&As in RG 97 (see draft updated RG 97 at RG 97.260–RG 97.266 at Attachment 1 to this paper); and
- (c) at this stage, in relation to recommendation 20 (positioning of a prominent statement in the ‘Fees and costs template’ for platforms), to include guidance in draft updated RG 97 at Attachment 1 to this paper (see proposal C5).

D2Q1 Do you agree with our approach? If not, please explain why.

We believe that, for consumers to have an accurate picture of the total costs of their investment, this must include every tier – fund, product and platforms, as applicable. We do not believe it would be difficult to combine the platform costs and product costs into a single disclosure.

As mentioned in C11Q1, data aggregators could be used to collect, calculate and disseminate the necessary fees and costs data in a standardised format. They could also help to set the standards, including the use of metadata to ensure proper identification, version control and archiving.

D2Q2 What system and process changes would be needed to implement the guidance in relation to showing the cost impacts of accessible financial products in periodic statements for platforms? (See draft updated RG 97 at RG 97.260–RG 97.266 at Attachment 1 to this paper.)

Product costs data need to be provided to platforms for them to incorporate in their statements. This is provided in Europe through MiFID II disclosures using a standardised template, allowing platforms to include client-specific product costs into their statements. Provided platforms have their own client cost data and individual transaction details (which they do), adding product costs has not proved to be a huge technological challenge.

D2Q3 What are the additional costs associated with implementing the guidance in relation to showing the cost impacts of including accessible financial products in periodic statements for platforms? Please provide details of one-off and/or annual costs as applicable. (See draft updated RG 97 at RG 97.260–RG 97.266 at Attachment 1 to this paper.)

One-off costs to develop a reporting tool incorporating both platform and product costs. Ongoing costs for collecting the product cost data to include in the reports.

D2Q4 What would be a reasonable timeframe for issuers to implement the guidance in relation to showing the cost impacts of accessible financial products in periodic statements for platforms, in light of the other changes proposed in this paper? (See draft updated RG 97 at RG 97.260–RG 97.266 at Attachment 1 to this paper.)

D2Q5 Should recommendation 17 (showing fees and costs of accessible financial products available through a platform within the platform’s investment menu documents) be made a legal obligation? Please provide details.

In Europe, a projection of costs and charges for both products and services (advice, platforms, etc) must be provided to potential clients in good time before they invest. The greatest resistance to this has been to the calculation methodology and the need to collect data that was not collected before MiFID II, rather than to the technology necessary to combine the costs of products and services. We do not believe, therefore, that there is a good reason for not making this mandatory.

D2Q6 Should recommendation 18 (including abbreviated ‘Cost of product’ information—calculated, to the extent possible, consistently with the ‘Cost of product information’ figure in proposal B3—in platforms’ investment menu documents, which include the fees and costs for both the platform and the accessible financial products) be made a legal obligation? Please provide details.

As per our responses to other questions in D2, we do not believe that the task of including some cost disclosure combining products and platforms would be difficult or expensive enough to justify not being mandatory.

D2Q7 Should recommendation 19 (that periodic statements should explicitly include the cost impacts of accessible financial products in platforms) be made a legal obligation? Please provide details.

For the same reason as in D2Q5, we believe that this recommendation should be adopted.

D2Q8 Should recommendation 20 (positioning a prominent statement in the ‘Fees and costs template’ for platforms to indicate that the fees and costs charged by the platform relate only to gaining access to the accessible financial products and do not include the fees and costs that may be charged by the issuers of accessible financial products, and including a cross-reference to the ‘Cost of product information’ described in recommendation 18) be made a legal requirement? Please provide details. Should this statement be positioned in the management costs line (for managed investment products) or the investment fee line (for superannuation products)?

D2Q9 Is it practical for a paper-based point-of-sale document—which covers a large number of options permitting the acquisition of accessible financial products—to practically present aggregated fees and costs for a platform and each available accessible financial product, or is a technological solution required? Please provide details.

The pre-sale costs and charges projection under MiFID II in Europe is presented to clients when the investment choice is known and incorporates costs for all products and services provided in a single document.

D3 At this stage we do not propose to introduce legal requirements or include additional guidance dealing with consistency in the way fees and costs information is incorporated by reference in PDSs. However, we would, in the future, like to work further with industry on consistency issues. We would like to seek feedback on whether industry could develop standards or best practice guidelines to improve consistency, and how we might contribute to this process.

D3Q1 Do you agree with our approach? If not, please explain why.

D3Q2 Do you think industry standards or best practice guidelines could improve the consistency with which fees and costs information is incorporated by reference?

We believe that disclosure can only be effective and allow comparison if there is a high degree of standardisation of both calculation and presentation. The work to deliver this in the UK has been carried out by the funds industry, through trade bodies that have delivered best practice guides, which have been adopted as the common standards.

D4 We do not propose to change indirect cost ratio to indirect costs in the 'Fees and costs template' for superannuation products, as we propose to adopt recommendation 11: see proposal B1.

D4Q1 Do you agree with our approach? If not, please explain why.

We agree that, by adopting recommendation 11, this recommendation is no longer necessary.

D5 At this stage, we do not propose to consider whether and how transactional and operational costs could be better explained to consumers within the context of information about returns.

D5Q1 Do you agree with our approach? If not, please explain why.

We do not believe it is necessary to consider this until at least a time when most consumers would understand these and include them as criteria in their investment decision.

D5Q2 Do you believe explaining transactional and operational costs within the context of information about returns would help consumers compare products and make informed value for money decisions?

No

D5Q3 Do you have any suggestions on the best method to give effect to this recommendation?

D6 We do not propose to adopt this recommendation on calculating and disclosing performance fees because we are proposing to insert new provisions into Sch 10, and guidance in draft updated RG 97, on performance fees: see proposals B8–B10.

D6Q1 Do you agree with our approach? If not, please explain why.

We believe that this is an unnecessary level of detail that adds little or no benefit to consumers.

D7 We do not propose to adopt this recommendation to clarify the drafting in cl 303(2) of Sch 10 because we consider this recommendation is now not necessary.

D7Q1 Do you agree with our approach? If not, please explain why.

As we agree with proposal B4, we agree that is recommendation is unnecessary.

D8 At this stage, we do not propose to address or consider the observations for the future discussed at pages 157–158 of REP 581.

D8Q1 Do you agree with our approach? If not, please explain why.

We believe that, taking account of the practicalities of disclosing all relevant costs at/before the point of sale, this is close to the best solution. As stated in our response to B1Q1, costs are aggregated into fairly high-level categories to make them useful without overloading or confusing consumers with too many numbers.

D8Q2 Do you have any other comments or observations you would like to make regarding the observations for the future discussed at pages 157–158 of REP 581?

Additional proposals

E1 If recommendation 11 (proposal B1) is implemented, we propose to remove the concept of indirect cost ratio from Sch 10: see the draft amendments to Sch 10 at Attachment 2 to this paper.

E1Q1 Do you agree with our approach? If not, please explain why.

As per our response to D4Q1, we agree with this proposal.

E1Q2 Do you believe the indirect cost ratio concept is still required so that issuers can calculate fees and costs, given that issuers must already identify and total their indirect costs as part of calculating the indirect cost ratio? (See cls 104(1) and (1A) of Sch 10.) Please provide details and indicate where in Sch 10 you believe the indirect cost ratio concept is required.

E1Q3 Are there any other reasons why the indirect cost ratio concept should be retained? Please provide details.

E1Q4 If the indirect cost ratio concept was retained, what amendments would be required to enable indirect costs to be assigned to administration fees (to be renamed administration fees and costs), or investment fees (to be renamed investment fees and costs), as proposed by recommendation 11, proposal B1? Please provide details.

E1Q5 Do you believe that some other calculation method is required to:

(a) effectively allocate indirect costs into investment fees and costs or administration fees and costs, depending on whether they relate to investment of the superannuation entity's assets or the administration or operation of the superannuation entity (as proposed by recommendation 11, proposal B1)? Please provide details; or

(b) combine indirect costs into management fees and costs? Please provide details.

E1Q6 Do you believe that an indirect cost ratio calculation method is required to provide a figure for the 'Fees and costs deducted from your investment' for periodic statements? (See cl 301(2)(b) of the draft amendments to Sch 10 at Attachment 2 to this paper.) Please provide details.

E1Q7 What system and process changes would be needed to implement this proposal?

E1Q8 What are the additional costs associated with implementing this proposal? Please provide details of one-off and/or annual costs as applicable.

E1Q9 What would be a reasonable timeframe for issuers to implement this proposal, in light of the other changes proposed in this paper?

E2 We propose to:

(a) maintain the current requirements for the treatment of costs associated with derivative financial products as indirect costs, in cls 101A(3) and (4) of Sch 10; and

- (b) include certain costs as transaction costs (see proposal B5 in relation to disclosing transaction costs as a line item in the 'Fees and costs template'); and
- (c) give effect to this proposal by:
 - (i) amending cl 101A(4)(b) of Sch 10 to maintain the extent of the exclusion from indirect costs; and
 - (ii) amending cl 103 of Sch 10 to insert a new cl 103(1)(fa), to maintain the inclusion of costs in cl 101A(4) as transaction costs.

E2Q1 Do you agree with our approach? If not, please explain why.

E2Q2 Have we succeeded in maintaining the status quo for the treatment of derivative financial products?

E2Q3 Is any further guidance in relation to derivative financial products required in draft updated RG 97 at Attachment 1 to this paper?

E2Q4 Should the requirements around disclosing costs of derivative financial products be aligned so they are the same for managed investment products and superannuation products? Please provide details.

E3 We propose to:

- (a) restructure RG 97 so that it is logical and easy to follow;
- (b) redraft RG 97 to more clearly explain the fees and costs disclosure requirements;
- (c) remove content in RG 97 that we consider does not help industry clearly understand its obligations, or where we consider the guidance in other sections of RG 97 is sufficient; and
- (d) incorporate the ASIC Q&As on our website into RG 97 where we believe the guidance will be helpful, and remove the ASIC Q&As from our website.

E3Q1 Do you agree with our approach? If not, please explain why.

Provided it is obvious that the Q&As form part of RG97, we see no issue with this approach. However, our experience is that affected companies refer to Q&As whenever they are uncertain about the application of any rules, so it must still be easy to search for the latest version.

E3Q2 Is there any guidance that no longer appears in draft updated RG97 that appears in the current RG97 and that you believe should be included in the updated RG97? Please provide details.

E3Q3 Do you have any other comments on our proposed guidance in draft updated RG97?

E4 In the course of reviewing the recommendations made in REP 581, we identified:

- (a) some other provisions of Sch 10 that could be amended to improve the clarity of the fees and costs disclosure requirements; and
- (b) potential amendments to the definitions of activity fee, advice fee, buy–sell spread, exit fee, insurance fee and switching fee for superannuation products in cl 101 of Sch 10, to remove the cross-references to s29V of the SIS Act and make them stand-alone definitions.

- E4Q1 Do you agree with our proposal to remove the SIS Act cross-references in the definitions of activity fee, advice fee, buy–sell spread, exit fee, insurance fee and switching fee in cl 101 of Sch 10? If not, please explain why.
- E4Q2 Do you agree with our proposed amendments to cl 206 of Sch 10? If not, please explain why.
- E4Q3 Should the definition of advice fee for managed investment products (in cl 101(b)(ii) of Sch 10) include a reference to switching fee? Please provide details.
- E4Q4 Should cl 102(2)(c) of Sch 10 refer to additional service fee, given that only service fee is defined in cl 101 of Sch 10? Please provide details.
- E4Q5 In the final line of the ‘Example of annual fees and costs’ for managed investment products (in cl 212 of Sch 10), should the word ‘from’ be removed? Please provide details.
- E4Q6 Given that the definitions in cl 209A of Sch 10 must be included in the PDS for a superannuation product or incorporated by reference, should we move the current fee definitions from cl 209A of Sch 10 to cl 101 of Sch 10, then draft new definitions for cl 209A of Sch 10 that are easier for consumers to understand and use?
- E4Q7 We have not changed all the fees defined in cls 101 and 209A of Sch 10 so they are called ‘fees and costs’ (as has been done for administration fees and costs, investment fees and costs, and management fees and costs). Should we do this to improve uniformity?