



2 April 2019

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Dear Ms Neilson

Vanguard welcomes the opportunity to comment on Consultation Paper 308: Review of RG97 Disclosing fees and costs in PDSs and periodic statements.

With more than AUD \$6.9 trillion in assets under management as of 31 December 2018, including more than AUD \$1.2 trillion in ETFs, Vanguard is one of the world's largest global investment management companies. In Australia, Vanguard has been serving financial advisers, retail clients and institutional investors for more than 20 years.

Vanguard has an unwavering focus on investor value. The Vanguard Group is owned by our US domiciled mutual funds, which in turn are owned by the investors in these funds. This means that the funds are managed at cost, which keeps expenses low, maximising investor returns. Vanguard in Australia operates with the same intention and focus which is reflected in our philosophy, policies and practices.

General comments

Vanguard supports ASIC's overall intent for RG 97 and as a broad principle supports transparent fees and costs disclosure. Consistent with our previous submissions to ASIC and Darren McShane and echoing the comments made by the Financial Services Council, Vanguard's key views are:

- We caution against transaction costs disclosure generally as it has the potential to be misleading and not helpful to investors. Including transaction costs in the fees and costs table and 'total cost of product' calculation could have adverse consequences if investors put too much onus on transaction costs when choosing a product, noting that transaction costs are incurred whether you invest directly or through a fund. Consistent with the approach taken in the United States, we consider disclosure of portfolio turnover rates as a more objective and comparable data point for investors.
- However, if transaction cost disclosure is required, we consider that:
 - o It should be disclosed as additional information and not be part of the primary fees and costs table. For investment funds, management costs should be the primary fee comparison point for investors, as this represents the costs of investing through a

- fund vehicle. Transaction costs are difficult to take into account in a decision to purchase a fund as they are highly subjective and are variable year to year;
- Transaction costs should only be disclosed net of the buy-sell spreads paid by transacting investors. Gross transaction costs are not actually incurred by continuing investors and results in an element of double counting to the cost incurred when an investor acquires fund units at a price inclusive of a buy-sell spread.
 - Implicit costs such as counterparty spreads should not be included in the calculation of transaction costs. Measuring this is highly subjective and is heavily influenced by factors outside the control of the manager, such as the market conditions of the relevant asset class.
- There are inconsistencies of the labelling of line items between PDSs and periodic statements, which may have the potential to be misleading and confusing to consumers. For example, “management costs” are disclosed in the PDS and “indirect costs” in the periodic statements. This should be made consistent across both documents.

We would appreciate the opportunity to discuss this issue further with ASIC.

Please do not hesitate to contact Sara Dix on (02) 8019 1131 if you have any further questions.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'Robin Bowerman', written in a cursive style.

Robin Bowerman
Head of Corporate Affairs and Market Strategy