



ASIC

Australian Securities & Investments Commission

ASIC Preferred Model
16 June 2004

Our fee disclosure model

Purpose

Our fee disclosure model sets out good practice for the disclosure of fees and costs in a discrete section of a Product Disclosure Statement (PDS). It aims to cover all financial products with an investment component, including managed funds, superannuation funds and investment-linked life policies and bonds (including friendly society products).

Focus

Our model was developed in the context of Professor Ramsay's report on the *Disclosure of Fees and Charges in Managed Funds*. The focus of our model is on:

- Improving disclosure of fees through adopting the good disclosure principles outlined in Policy Statement 168 *Disclosure: Product Disclosure Statements (and other disclosure obligations)* [PS 168].
- Helping product issuers meet the requirements of sections 1013C and 1013D of the *Corporations Act 2001*.
- Improving consumer comprehension of the fees and costs associated with investment products and the services covered by each fee. The use of a common table format should also enhance comparability.

Development of the Model

We published an earlier version of our fee disclosure model prior to transition in our report *A Model for Fee Disclosure in Product Disclosure Statements for Investment Products* (July 2003). That version took into account extensive industry stakeholder feedback received in response to earlier versions of the model. Following early experience with the model and further industry consultation (including feedback from consumer testing conducted by some stakeholders), we now provide a revised version.

This revised version is our preferred model of good practice for fee disclosure going forward. We will continue to monitor its use in practice and consider further revisions in response to ongoing developments relating to improved fee disclosure.

Transition Arrangements

ASIC proposes to undertake consumer testing of this revised version, in conjunction with stakeholders. It is envisaged that stakeholders who are able to contribute to the consumer testing process would form part of a project board.

ASIC intends to allow a transition period of one year for product issuers to move to the revised model. However if a PDS is being prepared for the first time or is being replaced within this one year period, ASIC would encourage product issuers to include the revised model at an earlier date.

Fees and Other Costs

- This table shows fees and other costs that you may be charged. These fees and costs may be deducted from your money or from the returns on your investment or from the fund assets as a whole. Taxes and insurance premiums are set out in another section of this document. *[If relevant]* Fees and costs for particular investment options appear at page X.
- *[If relevant]* You have 2 different fee payment options: (a) to pay contribution fees upfront – at the time when you make each investment into the fund; or (b) to pay contribution fees later (eg on termination of your investment or by way of other increased fees).
- You should read all of the information about fees and costs, as it is important to understand their impact on your investment.

Type of Fee or Cost	Amount		How & when
	Option to pay contribution fees upfront	Option to pay contribution fees later	
Fees when your money moves in or out of the fund <i>You may also incur a buy-sell spread¹ when your money moves in or out of the fund.</i>			
<i>Establishment fee:</i> This is the fee to set up your initial investment.			
<i>Contribution fee:</i> This is the fee for the initial and every subsequent investment you make (or that may be made on your behalf, eg by an employer). ²			
<i>Withdrawal fee:</i> This is the fee for each withdrawal you make (including any instalment payments and your final payment).			
<i>Termination fee:</i> This is the fee when you finally close your investment. ²			
Management Costs			
<i>Administration Costs</i> are the fees and costs for operating the fund. They include administration and other fees charged by the product issuer, distribution costs and other expenses ³ incurred in operating the fund. ²			
<i>Investment Costs</i> are the fees and costs for investing the assets. They include fees charged by the product issuer, fees paid to external investment managers and other expenses ³ incurred in investing the assets (excluding transaction costs ⁴). [The amount you pay for specific investment options is shown at page X].			
Additional Service Fees⁵			
<i>Switching fee:</i> This is the fee for when you switch between investment options. <i>You may also incur a buy-sell spread¹ when switching between investment options.</i>			
<i>Adviser service fee:</i> This is the fee for extra advice from your adviser about your investment. (An adviser may also be paid other amounts as commission out of one or more of the fees listed above.)			

¹ [Where relevant, include this sentence in the table and use this footnote to cross-refer to an explanation of buy/sell spread in Important Additional Information, below.]

² [Where relevant] This fee includes an amount payable to an adviser for advice about this product. See 'adviser remuneration' in the Important Additional Information, below.

³[Specify what expenses are included]

⁴ See 'transaction costs' in the Important Additional Information, below.

⁵ [If there are other minor service fees, such as special request fees, include a cross-reference to the Important Additional Information below]

Important additional information

For the other important information that product issuers should include in the fees section about fees and costs, see explanatory notes 6-9 below.

* * *

Explanatory Notes

1. Table format

All fees and costs must be disclosed in the fees section of the PDS. The fees section comprises both a standard table and an important additional information section.

The table must contain a reference to all fees and costs, whether directly debited to a member's account or indirectly levied from a common fund, eg deducted from reserves or otherwise reflected in the reduction of the value of the investment. Costs include expenses paid by the product issuer from the fund.

The amount of the fee or cost must also be shown in the table. If:

- a particular fee or cost is not charged, state “nil” or “not applicable”;
- it is not possible to include a single amount, a fee range may be provided;
- the exact amount of expenses is not known, an estimated amount (clearly designated as an estimate) should be provided – we consider that it would be more meaningful for this estimate to be provided on a 'per investor' basis;
- a fee or cost has a number of components, the amounts can be listed separately eg \$1 per week + 1% of fund assets. We consider that this may be more meaningful for consumers than a bundled amount or range.

Details of how and when the fee or cost is paid must be included in the final column of the table.

If a buy-sell spreads applies, it should be described in the important additional information section. The description should include its purpose, the amount (this should at least be shown as a percentage and translated into dollar terms but, if not known, can be estimated) and how it is charged. The important additional information section should also state whether any part of the buy-sell spread is paid to the product issuer or an external manager.

For comparability purposes, fees and costs should be shown gross of tax (including GST), but net of any applicable RITC.

For products subject to tax, a footnote should state whether the benefit of any tax deduction is passed onto the investor in the form of a reduced charge. For life products, the actual gross amount should be given, but where this cannot be ascertained a hypothetical gross should be shown, together with the actual charge if the product issuer would like to present the benefit of the tax deduction in this way.

Tax and insurance premiums will require separate disclosure but should be mentioned in the fees section with appropriate cross-referencing to the 'Tax' and 'Insurance' sections of the PDS.

2. Key disclosure items

The table contains three main disclosure items:

- the fee and a brief description of its purpose;
- the amount (to be shown in dollar terms where possible, otherwise as a percentage, taking care to show what the percentage is being charged against, eg the member's investment balance. The percentage should also be translated into dollar terms using a \$1000 example, eg 5% or \$50 per \$1000 invested); and

- how and when the fee is recovered (eg monthly by deduction from the member's investment balance, by deduction from contributions or withdrawals, or annually before returns are credited to the member's account balance).

The model accommodates the fee options: 'option to pay contribution fees upfront' or 'option to pay contribution fees later'. This terminology should be used if these fee options are a feature of the product, eg for "nil entry" fee options. The fee options should be clearly explained before the table, so that the consumer understands how they operate and the implications of choosing each option. In the notes preceding the table, we have included a brief sample description of the contribution options, which can be expanded as appropriate.

3. Description and listing of fees and costs

Fees and costs are described and listed according to their purpose and the stages at which the consumer encounters them. However fees are also grouped broadly according to how they are charged.

The diversity in industry fee structures (including the number of different fee types and the use of descriptions in different ways) makes achieving standard terms difficult. One of the aims of the model is to standardise disclosure so consumers can compare products. Generally, the format and language used in the table must be used, except where the model expressly contemplates the omission of inapplicable information, eg information referred to in the footnotes. Because of the diversity of investment products to which the model applies, use of a term other than "fund" may be adopted if it more closely reflects your particular product or product type (eg. "plan", "scheme" or the product name) as long as it is consistently applied.

Our revised model reflects stakeholder views on terms and definitions for fees and costs and a short description of their purpose. We have simplified some terminology in response to preliminary consumer testing conducted by some stakeholders. In some cases we now use descriptions instead of labels, where a description might be more easily understood.

4. Adviser remuneration

All stakeholders agreed on the need for improved disclosure of adviser remuneration. We consider it important in a good practice model to disclose whether a particular fee or cost includes commission (ie by providing a footnote against the relevant item which states: "This fee includes an amount payable to an adviser for advice about this product" and directs consumers to the "Important Additional Information" section for a more detailed explanation). This should assist investors to understand that adviser's remuneration is payable from their investment in the product (and when it is payable).

The table should also clearly indicate which fees and costs are negotiable (eg by stating in "How and When Paid" column: "The amount of this fee can be negotiated."). This statement should be cross-referenced to an explanation provided outside the table in the "Important Additional Information" section, including with whom and how the fee or cost can be negotiated. This should assist investors to understand when they may have the opportunity to negotiate fees.

The additional important information on adviser remuneration should be confined to adviser remuneration that forms part of the establishment, contribution or management fee. Separate adviser remuneration for additional advice services (by agreement between investor and adviser) should be shown as part of Adviser Service Fee.

5. Breakdown of management costs

The second table (which contained a breakdown of ongoing management fees) has been removed in this version of the model. Instead the one table should include all fees and costs that are charged for administration and investment under the heading 'management costs'. Individual fees and costs should be split between administration and investment categories so that consumers can make informed decisions based on the administration and investment services provided under the product. In the case of bundled fees, the product issuer should make a reasonable allocation. If it is unclear into which category a fee or cost should be placed, it can be placed in either category or apportioned on a consistent basis from year to year, as long as the total amount of all management fees and costs (however designated) is disclosed.

The **administration costs** include, in a stand-alone fund, the fee payable to the trustee, responsible entity or product issuer for managing the operations of the fund and/or, in a master trust or wrap arrangement, the platform fee payable to the platform provider in connection with the administration of the platform. This item should include distribution costs and other operational expenses and reimbursements. A footnote should specify the services covered by the expense items, such as auditing fees and accounting fees.

The **investment costs** include the fee for managing the fund's investments, including any estimated investment performance fees. This would include any amounts taken out of the returns before allocation to the fund, by way of fees, costs, charges or expenses retrieved by the external fund manager. Estimated investment performance fees should be shown as a separate amount from any investment costs that are not contingent on investment performance. How and when they are paid should be shown separately in last column of the table

We appreciate that it may be difficult to include a single investment management fee for investment products with a large number of investment choices, each with different fee structures. In this case a fee range may be included, with appropriate cross-referencing to the fee structures for the various options. However if the number of investment choices is small (say, less than 5) we would expect the fee information to be included in the table, so that the table achieves a 'see at a glance' snapshot of all fees and costs.

Investment-related expenses payable from the fund should also be included under this item except for transaction costs, which are to be described and estimated under Important Additional Information. For platform providers we suggest that it may be appropriate to include here the component of the platform fee attributable to the offer of underlying investment products. A footnote should specify the services covered by investment-related expenses.

6. Important additional information items

Items that should be included in the "important additional information" are:

- Worked examples, showing the effect of a range of fees on different investment amounts and, if relevant, different fee options. Examples are an important tool to help consumers digest complex fee information. We do not prescribe the form of example but suggest that the examples should show the effect of the full range of fees and fee options, including fees that investor may have difficulty understanding. For example, if investment performance fees are charged, we suggest an example that includes an

investment performance fee. It may be helpful to also briefly explain here the criteria for payment of this fee.

- Any incidental fees, such as cheque dishonour fees or special request fees.
- Transaction costs, such as brokerage and buy-sell spreads, including a description, amounts (or estimates, if amounts are not known) and how and when they are recovered. We recommend the development of standard industry descriptions. The table indicates where the cross-reference to these descriptions should be located. It should be made clear that these are an additional cost to the investor.
- Adviser remuneration, including commission amounts or ranges and whether (and how) they are negotiable or rebatable. A worked example should be given. This will assist the investor to make the appropriate link with the amounts disclosed by the adviser in the Financial Services Guide or Statement of Advice document.
- Where applicable, with whom and how the amount of any other fees may be negotiated.

Other relevant items that should be included in the important additional information are listed below.

7. Fee changes

It is important that consumers understand the risk of fees changing, including the likelihood of this occurring. We consider that the following should be disclosed:

- the issuer's right to change fees without the investor's consent (if the issuer reserves this right) including any indexation arrangements which may be in place;
- factors influencing fee changes (if actually known);
- the period of advance notice;
- any change in fee structure that is dependent on a person's employment status.

8. Maximums and waivers

It is important that consumers know precisely what fees are payable. This is particularly the case where the issuer claims the right to charge a maximum or where the issuer has waived a fee. We consider that the following should be disclosed if the issuer reserves to itself a flexible charging structure:

- when any maximum would apply (if actually known); and
- when any waiver would not apply (if actually known).

These figures should be given for each applicable fee.

9. Protection of small accounts

Member protection rules may be relevant for superannuation funds. Disclosure of the impact of these rules should be given under Important Additional Information.

10. Additional comparability and comprehension tools

We believe that the table format, if consistently used, enhances comparability and understanding. The table format is also consistent with the legislative mandate to disclose costs in a clear, concise and effective manner. However the onus remains with the product issuer to ensure that its disclosure complies with the law. Use of table does not of itself ensure compliance with the law.

The table and important additional information items should be viewed as a package, which can be supplemented by other comparability and comprehension tools. For example, ASIC has a managed fund calculator and a superannuation calculator on our website to help consumers understand the impact of fees on their retirement savings.