

Part 2

Introduction

INTRODUCTION

This report has been prepared at the request of ASIC as part of its ongoing commitment to ensure that the objectives of the Financial Services Reform Act 2001 (“**FSRA**”) are achieved. In November 2001, ASIC released Policy Statement 168, *Disclosure: Product Disclosure Statements (and Other Disclosure Obligations)*. It is stated in this Policy Statement that ASIC would be undertaking further work to achieve the objectives set out in the Statement – those objectives including comparability of fees and returns for investment products. It is stated in PS 168.39 that ASIC anticipates that this further work would include:

- undertaking research projects; and
- undertaking further consultation with industry and consumer representatives about the best way to achieve the disclosure objectives and related outcomes (for example, detailed policy guidance or development of effective industry standards).

As noted below, extensive consultations with key stakeholders were undertaken as part of the preparation of this report. I thank those organisations and individuals who participated in the consultation process.

This report focuses upon one aspect of disclosure under the FSRA – disclosure of fees and charges. The focus of the report is upon disclosure of fees and charges in product disclosure statements (“**PDSs**”) and member or investor periodic statements. The report does not examine disclosure of fees and charges in Financial Services Guides and Statements of Advice. This accords with the initial emphasis of ASIC on disclosure in PDSs as outlined in PS 168. The consultation meetings with stakeholders discussed not only PDSs but also ongoing disclosure to investors. This ongoing disclosure is typically through quarterly, six-monthly or yearly member statements or investor statements.

These statements will be the means by which investors are informed of their actual investment. It may be where they are also informed about the actual fees and charges that have been paid. Yet many of the stakeholders consulted were of the opinion that these statements could be improved in relation to disclosure of fees and charges. Consequently, this report makes recommendations in relation to both PDSs and investor statements.

Part 2 of the report contains the following sections:

- acknowledgments
- overview of the FSRA disclosure principles;
- overview of the consultation process forming part of this project;
- statistics on managed funds; and
- description of typical fees and charges that relate to financial products.

ACKNOWLEDGMENTS

The expert assistance of several people in the preparation of this report is gratefully acknowledged. Joel Vernon, Senior Research Associate, Centre for Corporate Law and Securities Regulation, played an important role by preparing drafts of Parts 4 and 5 of the report. Angela Longo of ASIC arranged and attended all of the consultation meetings with key stakeholders, assisted in obtaining research materials, liaised on behalf of ASIC with international regulators, and was the key liaison person at ASIC in relation to the project. Justin Sam of ASIC attended all of the consultation meetings with key stakeholders and drafted notes of the consultation meetings.

FSRA DISCLOSURE PRINCIPLES

The Collective Investments Scheme Principles which have been promulgated by the International Organisation of Securities Commissions require full, accurate and timely disclosure to investors in order for them to make informed investment decisions. The disclosure must be clear, comprehensible, consistent and not misleading.¹

¹ Technical Committee of the International Organisation of Securities Commissions, *Principles for the Supervision of Operators of Collective Investment Schemes*, September 1997, para 8.1.

The FSRA has, as one of its core objectives, providing such disclosure to investors across a range of financial products. Paragraph 14.28 of the Explanatory Memorandum to the Financial Services Reform Bill 2001 states that:

The broad objective of point of sale obligations is to provide consumers with sufficient information to make informed decisions in relation to the acquisition of financial products, including the ability to compare a range of products.

In PS 168 ASIC outlines six Good Disclosure Principles which it encourages financial product issuers to consider when preparing a PDS. The Good Disclosure Principles are:

- disclosure should be timely;
- disclosure should be relevant and complete;
- disclosure should promote product understanding;
- disclosure should promote comparison;
- disclosure should highlight important information; and
- disclosure should have regard to consumers' needs.

ASIC states that an example of a disclosure issue that may benefit from clarification, particularly if greater comparability of products is to be achieved, is standardised descriptions of like fees and charges (such as commissions), including the basis for showing the future impact of fees and charges [PS 168.30].

Under the heading “Disclosure Should Promote Product Understanding” in PS 168, ASIC provides the following information:

Disclosing fees, charges and returns

[PS 168.58] We believe that the need for clear, concise and effective disclosure is most relevant in relation to the disclosure of fees and charges and, in the case of investment-based products, the disclosure of returns. Information about fees, charges and investment returns is a key consideration for consumers when making decisions about financial products, and research shows that it is often the most difficult information for consumers to understand.

[PS 168.59] The types of product information that a consumer should be able to easily understand and compare include:

- (a) what the fees and charges are (eg fees expressed in dollar amounts may be better understood by consumers), who the fees are paid to, what the fees are paid for, and how fees impact on returns;
- (b) whether fees are variable and, if so, how and when they vary, including through negotiation or the impact of rebates or discounts (eg group life rebates);
- (c) how returns are calculated and whether they are shown on a consistent basis...
- (d) typical and material factors that may affect returns, including risks.

[PS 168.60] If information about fees, charges and returns is not clear, concise and effective, comparability of products is harder to achieve. This has been recognised in the regulations in relation to superannuation and RSA products by the imposition of more detailed PDS requirements: see reg 7.9.11.

[PS 168.61] Issuers of products other than superannuation and RSA products are not prevented from following any of the more detailed relevant PDS requirements for superannuation and RSA products set out in the regulations (see [PS 168.60] above) in order to improve consistency of disclosure. For example, see the more detailed requirements dealing with disclosure of fees and returns in items 5-8 of Schedule 10B in the regulations.

Under the heading “Disclosure Should Promote Product Comparison” in PS 168, ASIC states that:

[PS 168.62] We believe the clarity and effectiveness of PDS disclosure is also improved by being drafted in a way that makes it easier for consumers to make comparisons...about options that may be available to them under the terms of a particular financial product. For example, where a consumer has the option to pay fees in two different ways, a comparison might be given to show the relative charges made for each option after various durations (eg 1, 3, 5 and 10 years).

The regulations to the FSRA which ASIC refers to in PS 168, and which require detailed disclosure of fees and charges for superannuation and RSA products, are outlined in Part 4 of this report.

The issues which ASIC identifies in this extract from PS 168 are further discussed in Part 6 of this report where a number of options for reform are identified.

THE CONSULTATION PROCESS

As noted above, in PS 168 ASIC states that it intends to undertake further consultation with industry and consumer representatives about the best way to ensure that the Good Disclosure Principles are being implemented.

As part of this project, 17 meetings were held with key stakeholders to discuss disclosure of fees and charges in PDSs and investor statements. The stakeholders included industry bodies, financial product producers and consumer associations. Those attending each of the meetings were Professor Ian Ramsay, and, from ASIC, Angela Longo and Justin Sam. Some of the meetings were also attended by other ASIC officers.

The organisations and individuals who were consulted were:

- Australian Consumers Association (ACA)
- Australian Institute of Superannuation Trustees (AIST)
- AMP
- Australian Retirement Fund (ARF)
- Australian Shareholders Association (ASA)
- Australian Superannuation Funds of Australia (ASFA)
- AXA
- BT
- Corporate Super Association (CSA)
- Financial Planning Association (FPA)
- Colin Grenfell – actuary and director of ASFA
- Institute of Actuaries Australia (IAA)
- Investment and Financial Services Association (IFSA)
- MLC
- Sealcorp
- Van Eyk Research
- Westpac

STATISTICS ON MANAGED FUNDS

In order to place the discussion of fees and charges in context, it is important to have insight into the significance of the managed funds industry. Managed funds have grown

substantially in Australia in recent years, both in terms of number and in terms of assets under management. Table 1 is extracted from the Australian Bureau of Statistics publication *Managed Funds – December Quarter 2001* (No 5655.0). As at 31 December 2001, total consolidated assets of managed funds institutions were \$654.4 billion. Of this total amount, consolidated assets of superannuation funds stood at \$303.4 billion; life insurance offices had consolidated assets of \$176.6 billion; public unit trusts \$130.9 billion and cash management trusts \$30.1 billion.² Figure 2.1 graphs the data contained in Table 1.

Further evidence of the growth in consolidated assets of managed funds is provided in Table 2 which is also extracted from the same Australian Bureau of Statistics publication. It can be seen that between June 1998 and December 2001, the consolidated assets of managed funds grew from \$453.9 billion to \$654.4 billion, an increase of 44 per cent.

In terms of the type of asset held by the managed funds, Table 2 indicates that of the \$654.4 billion in total assets, the largest three categories as at December 2001 were equities and units in trusts (\$237.7 billion); assets overseas (\$126.7 billion); and land and buildings (\$68 billion). Figure 2.2 graphs the data contained in Table 2.

How do these statistics for Australian managed funds compare to other countries? Table 3 provides some statistics on the characteristics of US and European major mutual fund markets. As at December 1997, total assets of mutual funds in the United States were US\$4.465 trillion while at the same time, total assets in European mutual funds totalled US\$1.36 trillion. By 1999 total assets of US mutual funds reached US\$6.8 trillion.

² Some other sources identify more assets in superannuation funds. For example, in its recent report on superannuation, the Productivity Commission states that as of June 2001, there was \$527 billion in assets in superannuation funds: Productivity Commission, *Review of the Superannuation Industry (Supervision) Act 1993 and Certain Other Superannuation Legislation*, Report No 18, December 2001, p xvi and chapter 2. A reason for the difference is the method of classification employed. In the Australian Bureau of Statistics managed funds data, superannuation funds held in the statutory funds of life insurance offices are classified under the life insurance offices category and not the superannuation funds category. In addition, the Australian Bureau of Statistics excludes investments by superannuation funds in public unit trusts from the assets of superannuation funds in its consolidated presentation.

In the United States, ownership of stock, bond and money market mutual funds rose from 6 per cent of US households in 1980 to 45 per cent in 1999. Over the same period, total assets held by US mutual funds increased by 5,000 per cent, rising from US\$135 billion to US\$6.8 trillion. Between 1980 and 1999, the number of US mutual funds increased by nearly 1,300 per cent, from 564 to 7,791.³

TABLE 1

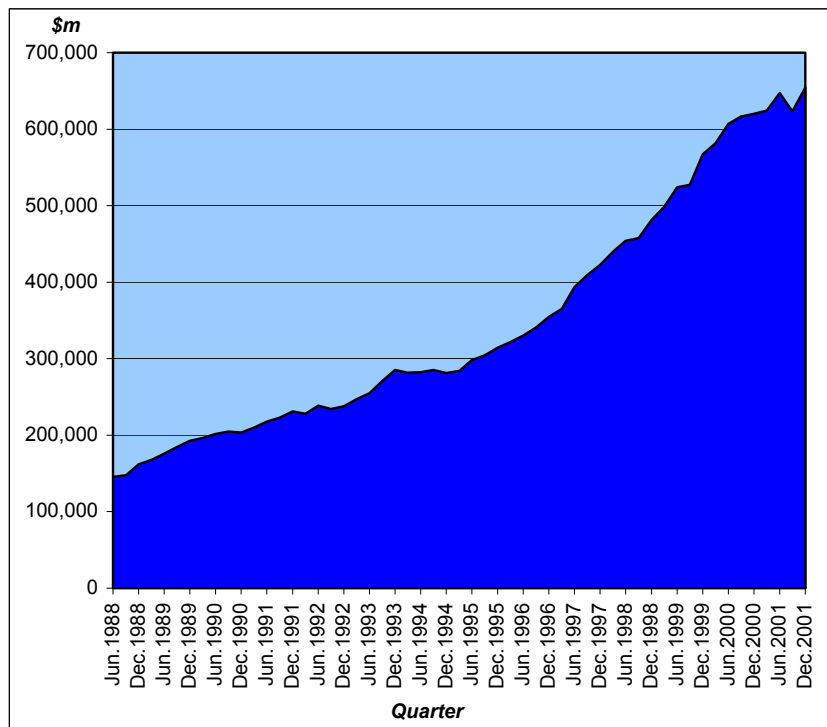
Consolidated Assets of Australian Managed Funds

Consolidated Assets (a)	Dec Qtr 2000 \$m	Dec Qtr 2001 \$m
Superannuation funds	294,186	303,353
Life insurance offices (b)	170,873	176,579
Other managed funds	155,045	174,487
Total	620,104	654,420

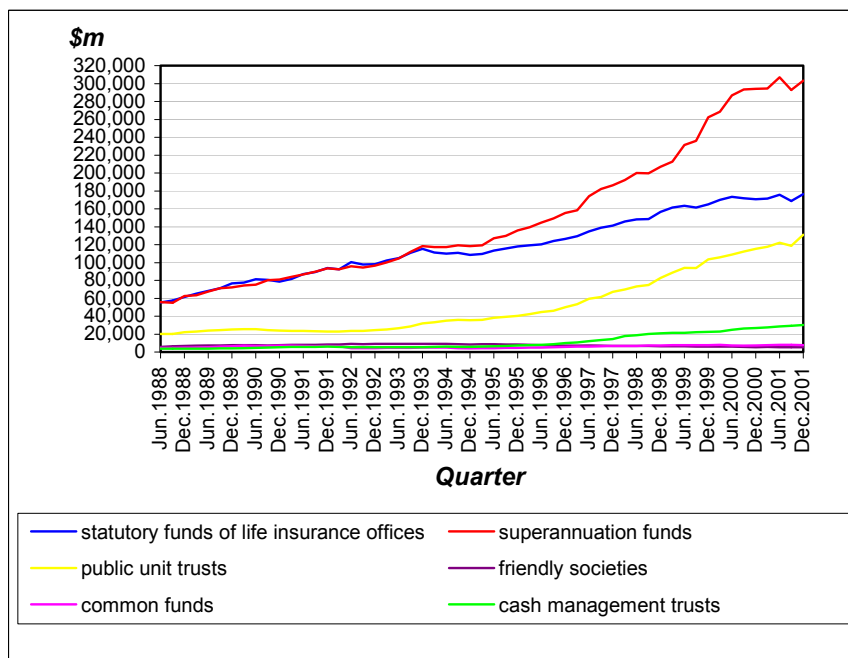
- (a) Estimates of the consolidated assets of managed funds are derived by eliminating any cross-investments that take place between the various types of funds. For example, investments by superannuation funds in public unit trusts are excluded from assets of superannuation funds in a consolidated presentation.
- (b) Investments by superannuation funds which are held and administered by life insurance offices are included under life insurance offices.

Source: Australian Bureau of Statistics, *Managed Funds - December Quarter 2001* (No. 5655.0).

³ The statistics in this paragraph are extracted from G Alexander, J Jones and P Nigro, "Does Mutual Fund Disclosure at Banks Matter? Evidence from a Survey of Investors" (2001) 41 *Quarterly Review of Economics and Finance* 387 at 388.

FIGURE 2.1: TOTAL CONSOLIDATED ASSETS OF MANAGED FUNDS


*Source: Derived from Australian Bureau of Statistics, Managed Funds - December Quarter 2001 (No. 5655.0)

FIGURE 2.2: CONSOLIDATED ASSETS OF MANAGED FUNDS BY INSTITUTION


*Source: Derived from Australian Bureau of Statistics, Managed Funds - December Quarter 2001 (No. 5655.0)

TABLE 2
AUSTRALIAN MANAGED FUNDS
CONSOLIDATED ASSETS

Institution/asset	Jun Qtr	Jun Qtr	Mar Qtr	Jun Qtr	Sep Qtr	Dec Qtr	Mar Qtr	June Qtr	Sep Qtr	Dec Qtr		
	\$m	1999	2000	2000	2000	2001	2001	2001	2001	2001		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m		
				Type of institution								
Life insurance offices(a)	148 170	163 384	170 152	173 522	171 755	170 873	171 495	175 789	168 763	176 579		
Superannuation funds	199 969	231 205	268 450	286 673	293 344	294 186	294 355	306 957	292 739	303 353		
Public unit trusts	73 435	93 968	106 018	108 750	112 360	115 432	117 564	121 953	118 698	130 939		
Friendly societies	6 769	6 415	5 910	5 895	5 697	5 543	5 555	5 523	5 477	5 510		
Common funds	6 845	7 568	7 940	7 434	7 058	7 242	7 734	8 126	8 138	7 897		
Cash management trusts	18 676	21 531	22 794	24 776	26 102	26 828	27 490	28 693	29 138	30 141		
Total	453 865	524 070	581 264	607 050	616 315	620 104	624 193	647 041	622 952	654 420		
				Type of asset								
Cash and deposits(b)	32 681	35 192	36 833	39 721	40 449	39 766	42 168	46 234	44 789	44 779		
Loans and placements	24 025	27 714	31 661	32 390	31 902	28 883	28 968	30 484	28 229	28 387		
Short term securities(b)	54 498	67 627	59 461	63 752	62 564	63 311	61 525	62 775	58 541	62 502		
Long term securities	66 059	70 319	72 643	72 729	69 394	69 768	68 521	66 313	64 246	63 192		
Equities and units in trusts	133 703	154 798	181 508	197 712	208 217	216 284	216 177	232 313	214 761	237 668		
Land and buildings	47 867	56 708	62 875	64 258	64 527	64 336	65 970	67 053	65 843	68 018		
Assets overseas	77 785	90 876	117 202	115 267	120 476	116 776	120 112	119 513	122 419	126 668		
Other assets	17 248	20 837	19 081	21 221	18 787	20 980	20 752	22 356	24 124	23 207		
Total	453 865	524 070	581 264	607 050	616 315	620 104	624 193	647 041	622 952	654 420		

(a) Figures include superannuation funds held in the statutory funds of life insurance offices.

(b) Bank certificates of deposit held by public unit trusts are included in 'Cash and deposits' at banks.

Source: Australian Bureau of Statistics, *Managed Funds – December Quarter 2001* (No. 5655.0).

TABLE 3
CHARACTERISTICS OF UNITED STATES AND EUROPEAN MAJOR
MUTUAL FUND MARKETS

DECEMBER 1997

	Total assets (US billion \$)	Number of Funds	Average Size (US million \$)	Asset allocation (in %)				
				Equity	Bond	Balanced	Money	Others
United States	4,465	6,900	647	53.0	19.5	2.8	24.1	0.6
Europe	1,360	10,269	226	31.8	30.4	11.3	25.7	0.8
France	505	5,836	87	13.6	27.2	18.7	40.4	0.1
United Kingdom	237	1,455	163	85.8	6.1	7.6	0.5	0.0
Italy	210	626	337	20.4	44.0	6.3	25.0	4.3
Spain	179	1,456	123	10.5	40.9	11.1	37.5	0.0
German	148	717	207	37.9	48.2	2.8	11.1	0.0
Netherlands	78	179	440	53.8	30.2	5.7	10.1	0.2

This table presents the characteristics of the major European mutual fund markets and the United States. All figures are at 31 December 1997. The first column presents the total market value (billion US dollar), the second column the number of funds, the third column the average size (million US dollar) and the last five columns the asset allocation of all mutual funds.

Source: R Otten and M Schweitzer, *A Comparison Between the European and US Mutual Fund Industry*, Limburg Institute of Financial Economics, Maastricht University, Working Paper, December 1998.

Table 4 shows assets (in millions of US dollars) for open-end mutual funds for 37 countries, where data is available, as of September 30, 2001.

TABLE 4
Assets of Open-end Mutual Funds
September 2001

(in millions of US dollars)

Argentina	7,357
Australia	304,145
Austria	53,927
Belgium	64,449
Brazil	126,833
Canada	244,025
Chile	4,743
Costa Rica	1,428
Czech Republic	1,644
Denmark	30,462
Finland	12,131
France	700,944
Germany	192,617
Greece	21,885
Hong Kong	183,030
Hungary	2,202
India	13,490
Ireland ¹	166,979
Italy	352,415
Japan	465,962
Korea	137,056
Luxembourg	694,183

Mexico	27,608
New Zealand	6,796
Norway	13,861
Philippines	170
Poland	1,317
Portugal	15,840
Romania	11
Russia	249
South Africa	15,557
Spain	154,670
Sweden	56,157
Switzerland	72,556
Taiwan	43,641
United Kingdom	333,887
United States	6,414,505
Total²	\$10,938,731

¹Figures are as of 8/31/2001.

²Figures may not sum to total due to rounding.

Source: Investment Company Institute, *International Mutual Funds Survey, Third Quarter 2001*. The Institute notes that reporting coverage, periods covered and definitions are not consistent across countries.

DESCRIPTION OF FEES AND CHARGES

The following section is a description of the typical fees and charges applicable to financial products. It is extracted from Phillips Fox, *Financial Services Reform Act: Product Disclosure of Fees, Charges and Commissions*, Report Prepared for ASIC, November 2000, pp 10-15.

An analysis of the law governing the disclosure of fees and charges following the commencement of the FSRA is contained in Part 4 of this report.

DESCRIPTION OF FEES AND CHARGES

Fees and charges on investment products can be allocated to the following broad groups:

- Items related to investment management;
- Items related to financial advice;
- Items related to administration of the investment product;
- Items related to administration of the fund;
- Taxes and government charges.

A table showing the typical fees that apply to each product type is set out in the Appendix.

Definitions and Standard Terms

We have endeavoured to use standardised terminology and maintain a consistency in our fee disclosure across the breadth of financial products reported. This is a challenging task as the terminology used and the classifications of fees are various and often ‘bundled’. For example the use of the term “administration charge” may or may not be inter-changeable with terms such as “ongoing management charge” or “MER” depending on the situation.

We have included a brief definition of the terms used and described the range of charging terminology that is used within the financial products industry.

Investment Management Charges

These charges are made to recover the costs of investment management.

Investment Management Charges

This charge is levied on the total assets under management in order to recover the costs of providing the investment management service. That is, this fee is the charge made by the investment manager for providing these services.

The rationale for charging in this manner is that many investment costs are crudely related to the funds under management (FUM). In practice, trading costs (brokerage and stamp duty) are minor compared to salaries and rent, so costs fall significantly as FUM increases. Accordingly, fees charged to master trusts, superannuation funds or Wrap accounts by wholesale managers are far lower than retail charges. This reflects the expectation of higher volumes of business.

Where the fee is disclosed, it is sometimes combined with other asset-based fees such as trail commission and asset-based administration charges. This makes it difficult to evaluate the actual cost of providing the investment service.

The investment fee charged is sometimes deducted from the calculation of the unit price and expressed as a lower earning rate. In these cases, it does not appear as an explicit charge. Many prospectus-based funds have undisclosed charges arising from this practice – typically between 0.2% to 0.9% or more of assets under management. Sometimes, the charges are hidden as details on the investment options are set out in a separate document.

Switching Charges

Charges are usually imposed for switching between investment portfolios within the product. Some companies vary the charge for each portfolio. The charge is usually expressed either as a percentage of the amount switched (to cover trading costs) or as a fixed dollar amount which is indexed to CPI annually (to cover administration costs).

Buy/Sell Margins

Many products have separate unit prices for purchases (buy price) and redemption (sell price). Buy/sell margins provide a spread between the quoted buy and sell unit prices. This is imposed to recover the notional trading costs (brokerage and stamp duty) of buying and selling the underlying assets of the fund whenever an investment transaction is made.

Contribution charges (see below) are sometimes recovered by widening the gap between buy and sell prices. The cost is then hidden in the unit price, rather than shown as an explicit fee.

Financial Advice

Almost all advisers are remunerated from commission paid by financial institutions. Even those advisers who charge fees usually keep the renewal commissions (also called trail or ongoing commissions).

Product fees need to be loaded to cover the costs of paying commission. It is common to set the fee at a level that will allow recovery of the full commission. If an adviser agrees with the investor to take a reduced commission, the fee may be reduced or the foregone commission could be rebated to the client.

Both initial and ongoing commissions can be flexible. Initial commission is expressed as a percentage of the deposit (normally up to 5%) of the deposit (establishment charge), or, more commonly, of all contributions received. Ongoing commission is expressed *as a percentage of assets*, typically between 0.25% to 1.0% p.a.

Contribution Charges

In recent years, there has been a shift from contribution-based charges to asset-related charges. Prior to this, up-front charges (used to pay initial commission) on life policies were often disguised as a contribution charge for the term of the contract. On termination, the “outstanding payments” were deducted as a surrender penalty.

For most products, a significant portion (perhaps all) of a contribution charge is passed onto the intermediary. Many products now offer variable contribution charge facilities so that the intermediary can reduce the level of charges imposed when in competition with other products. The average charge is now about 2% of deposits, which is half the level of 5 years ago (though average deposits are also bigger).

Contribution charges are sometimes disguised by issuing a no-entry fee contract. This terminology is very misleading as there is an entry fee, but it is deducted differently. For example, a product with an entry fee of 5% of the deposit (contribution) might have an alternate fee structure for its no-entry fee product. This alternative could have an additional asset fee of 1.25% p.a. for the first four years, coupled with a termination fee to recover the residual establishment charge. Hence, termination after two years might attract a fee of 2.5% of the account balance.

Generally, no-entry fee products are dearer, which has the opposite effect to that implied by the terminology. They are dearer partly because the administrative cost of deducting the entry fee is increased when it is disguised as the combination of an additional asset fee and a termination fee.

Asset Commission

Most advisers take asset-based commissions as this provides a regular income stream. Not only does this help pay the fixed costs of running their business, it is also a tradeable asset. Other advisers will buy a portfolio of clients based on a multiple of the renewal commissions.

Adviser Service Fee

A number of institutions now allow an adviser to include an explicit fee for their services as negotiated between the adviser and the client. The administrator deducts this fee from the account and remits it to the adviser.

These charges were introduced to cater for fee-based advisers. However, the charges are made in addition to any other commissions taken by the adviser. Few funds that offer this facility place any upper limit on the adviser service fee that may be paid. To some extent this facility represents an open-ended adviser-driven commission scale.

Terminating Member Charge

Commission-related early termination charges and withdrawal charges are now rare for new products (other than as part of a disguised entry fee).

Administration Charges - Investments

These are deducted to cover the administration costs and reporting expenses of the product or fund.

Establishment Charges

These charges fall into two types, those that are imposed to cover payment to the adviser as described above and those that cover the administrative cost of setting up a contract such as an employer-sponsored superannuation fund. Most superannuation funds now absorb all these costs and market the facility as having no entry fees.

Member Fee

Most superannuation funds have a member fee, which is a fixed dollar amount deducted from investors' accounts to cover the maintenance of member records. Stand-alone contracts will also have a policy fee (life) or administration fee (unit trust).

Terminating Plan Charge

Charges imposed on plan termination are usually made to recover initial expenses (commission) not yet recovered. These are becoming less frequent.

However, it is becoming common for public-offer superannuation funds to charge fees where a fund is transferred to a new trustee. There are significant costs involved in liquidating assets and transferring member records. Some companies treat these transfers as benefit payments and then charge the fee that would then apply. This might only be \$60 per member, but the total can be a sizeable amount on a large fund.

Trustee Fee

Most products (apart from life policies) still have a separate trustee fee even if the manager is the single responsible entity. This charge is usually expressed as a percentage of assets and amalgamated with any other asset-based fee.

Custodian Fee

Under the single responsible entity regime, an increasing number of financial institutions now use a custodial trustee for their products. These fees are usually asset-based (but are much lower than trustee fees).

Administration Charges - WRAP

A Wrap account or non-super master trust (or master fund) is a combined administration and investment service. There is a single set of fees covering administration, investment, advice and other services. It is not possible to separate the costs of any particular service and compare it against alternative products.

Most Wrap accounts have an asset-based administration fee to cover both administration and the adviser's income. These can be significant relative to fees on other products.

Administration Charges - Superannuation

Superannuation is complicated and there are a number of special charges related to compliance. For example, benefit payments must be accompanied by an Eligible Termination Payment (ETP) and it is usual to charge a fee of \$20 to \$70 for preparing these.

There are also special conditions (*member protection*) relating to fees on small accounts (under \$1,000). This means that funds have cross-subsidies in their fee bases.

Stamp Duties and Taxes

Stamp duties are almost always absorbed as part of the general expenses of a fund or policy. Taxes are passed onto investors, usually equitably.

Superannuation tax is usually separated into components. The tax on deductible contributions is normally deducted from each member's account. Some companies deduct premiums and fees from each member's own contributions; others spread these costs amongst all accounts. The tax on investment income is usually deducted from earnings.

When deriving unit prices, capital gains taxes are calculated as if the asset were to be sold. A provision for the tax at that time is then made and the unit price is adjusted. This ensures that tax is paid over the period in which the asset is held, and is not transferred from one group of unit holders to the next.

Risk Products

Policy Fee

Most policies have a small annual fee to cover policy maintenance.

Premiums

The major cost is contained in the premium. This includes the cost of covering the risks, administering the policy, paying the adviser and profit margins. These items are not segregated.

Annuities

Term certain and lifetime annuities do not have an explicit fee since the expenses are effectively deducted before quoting the annual payment per dollar of purchase price. The investor cannot ascertain the components of the expenses.

Income Payment Charges

The income payment charge is applied to each income payment under an annuity and pension product. This is usually a small fee to cover administration of the policy payments. Again, the fee is not disclosed.

Other Charges

Fund Expenses

Unit trusts normally have provision to recover a range of expenses. These expenses are often listed without being quantified. Such items include audit costs and stamp duties.

Source for above "Description of Fees and Charges" is Phillips Fox, *Financial Services Reform Act: Product Disclosure of Fees, Charges and Commissions*, Report Prepared for ASIC, November 2000, pp 10-15.

APPENDIX

TABLE OF TYPICAL FEES FOR FINANCIAL PRODUCTS

FEE TYPE	Insurance Bonds	Unit Trusts	WRAP Accounts	Personal Super	Allocated Pensions	Employer Super (Retail)	Non-Profit Super Funds	Life Insurance (charges not disclosed)	
								Annuities	Risk
Asset Based									
Investment Management Charges	✓	✓	✓	✓	✓	✓	✓	X	X
Switching Charges	✓	✓	✓	✓	✓	✓	X	X	X
Buy / sell margins	✓	✓	✓	✓	✓	✓	X	X	X
Entry / Exit									
Contribution Charges	✓	✓	✓	✓	✓	✓	X	X	X
Terminating Member Charge	X	X	✓	✓	X	✓	✓	X	X
Establishment Charges	✓	✓	✓	✓	✓	✓	X	X	X
Member Fee	✓	✓	✓	✓	✓	✓	✓	X	X
Terminating Plan Charge	X	X	X	X	X	✓	✓	X	X
Early Withdrawal Charge	✓	✓	✓	✓	✓	✓	X	X	X
Financial Advice									
Adviser service fee	✓	✓	✓	✓	✓	✓	X	✓	✓
Asset Based Commission	✓	✓	✓	✓	✓	✓	X	✓	✓
Fund Expense									
Trustee Fee	X	✓	✓	✓	X	✓	✓	X	X
Custodian fee	X	✓	✓	✓	X	✓	✓	X	X
Policy fee	✓	X	X	✓	✓	✓	X	X	✓
Premium Loadings	X	X	X	X	X	✓	X	X	✓
Income payment Charges	X	X	X	X	X	X	X	✓	X

Note: (1) The Establishment fee is now usually expressed as a contribution charge

(2) Where a fee applies, it is ticked. However not all products in this category would have this charge.

Source: Phillips Fox, *Financial Services Reform Act: Product Disclosure of Fees, Charges and Commissions*, Report Prepared for ASIC, November 2000.