

Jan 4, 2021

U.S. Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090.

Subject: Request for Comment on S7-09-20 Tailored Shareholder Reports, Treatment of Annual Prospectus Updates for Existing Investors, and Improved Fee and Risk Disclosure for Mutual Funds and Exchange-Traded Funds Fee Information in Investment Company Advertisements

Dear SEC,

Thanks for the opportunity to comment. I have a co-authored paper that is relevant for this proposal's economic analysis. We obtain data from a large Australia financial planning to measure the Future of Financial Advice reform's effects in the financial advice market. The reform mandates financial advisers to provide a salient annual Fee Disclosure Statement (FDS) and obtain biennial advice service opt-in affirmation from their clients. If the clients do not opt-in within 60 days after their advice service anniversary, the law requires the firm to stop charging an advice service fee.

Our study is relevant because there is a strong parallel between the Australian FDS requirement and the proposed Improved Fee Disclosure. The Australian FDS is a direct annual letter in a page or so stating the annual dollar amount of fee that a financial adviser charged the client over the past twelve months and lists the services provided to the client. We use the pre-FDS advice service exit rate as a benchmark and find a statistically and economically significant increase (1.8x) in advice service exit rate in the months following the issue of an FDS. Salient disclosure makes a difference.

However, we find investor inattention is a larger problem. The opt-in letters every two years (accompanied by an FDS) is associate with a client exit rate several times larger than the effect of the annual FDS alone.

Sincerely,

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Disclosure, inattention, and conflicted remuneration in financial advice^{*}

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Abstract

We study investor attention and agency conflict in financial advice using data that spans a regulatory change that banned conflicted remuneration, required salient annual fee disclosure and biennial opt-in (i.e., passive clients default out of advice). We find that unconflicted advisers steer clients to better performing funds and expenses play a dominant role. Fee disclosure statements generate a 1.8x increase in the advice exit rate, suggesting improved investor attention. However, biennial defaulting out generates a much larger 8.4x increase, suggesting that salient disclosure has limited effect on investor attention. Client literacy, gender, and behavioral biases seem to play important roles.

Keywords: Consumer Finance, Financial Advisers, Retail Investment, Agency Conflict, Mutual Fund Expenses, Nudges, Salient Disclosure, Default Opt-in, Future of Financial Advice (FOFA)

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SAMPLE FEE DISCLOSURE STATEMENT



Fee Disclosure Statement

Mr and Ms Client Name
100 Any Street
Sydney NSW 2000

1 July, 2017

Client identification number: 00000-00000

This Fee Disclosure Statement (FDS) is provided to inform you about the services that you have received and paid for under your ongoing fee arrangement with us in the last 12 months.

It is provided to you in accordance with the requirements of the Financial Planning Association of Australia Professional Ongoing Fees Code.

Ongoing Services you were entitled to receive 01/08/2017 to 01/07/2018	Fees you paid
Ongoing management of your investment portfolio: <ul style="list-style-type: none">Monitoring your portfolio investments in respect of performance, income and outlook;Making investment recommendations (where changes deemed appropriate) including discussion with you explaining the basis of advice;Annual review meeting;Reasonable time spent discussing financial queries/matters via phone, email and post.	\$
	\$

Ongoing Services you received 01/08/2017 to 01/07/2018
Monitoring your portfolio investments in respect of performance, income and outlook.
Annual review meeting.

Important information

An FDS is not an invoice. No payment is required.

This FDS includes the fees that you have paid in relation to your client services agreement with us. It does not include financial services that we have provided outside of the client services agreement. We have not received any commissions from any product provider or any other party in connection with our services under your agreement with us.

This table must replicate the services stated in the ongoing services table in clause 1.1 of the Client Service Agreement.