

Improving Fee Disclosures for Canadian Investors

Research Report

Prepared by the Behavioural Insights Team at the request
of the Mutual Fund Dealers Association of Canada,

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Executive Summary

This report presents behavioural science research on how Canadian retail investors review, comprehend, and use information provided to them in annual investment fee summaries (i.e., the annual Report on Charges and Other Compensation).¹ We focus on implications and recommendations for *expanded cost reporting*, which refers to the suggestion made by regulators and other stakeholders to include fees charged by investment fund companies in the annual investment fee summaries ("fee summaries") sent to Canadian investors.

Our findings are based on four streams of research: a survey of Canadian investors; a scan of the behavioural finance and decision-making literature; qualitative interviews with Canadian investors; and a rigorous randomized experiment testing the impact of different fee summary structures on investor comprehension. Key findings include:

1. **More than two-thirds of Canadian investors report reviewing at least some section of their fee summaries.** This suggests that they are a promising medium for supporting investor decision-making.
2. However, investors **struggle to understand their cost of investing**, including the information presented in annual fee summaries. For example, fewer than one in five of the investors we surveyed correctly identified what types of costs are included in current fee summaries. Even experienced investors struggle to understand key terms and how their choices influence the type and amount of fees they pay.
3. The root cause of low comprehension is the **inherent complexity of investment fees and how they relate to investor choices**, but behavioural science offers a more nuanced problem definition. People have limited attention and may miss important information if it is not immediately salient. This is especially significant when information is complex, as people have a limited cognitive bandwidth (i.e., there is a limit to what we can remember, process, and understand at any given time). When cognitive bandwidth is stretched, people tend to disengage. People also tend to neglect relatively small amounts, long term costs, and the exponential growth of the impact of fees over time. Tools and resources that aim to support informed decision-making, like annual fee summaries, are more effective when they address these barriers.
4. The current scope of annual fee summaries compounds these challenges. Investors often believe that the summaries cover all their costs of investing. Even those who understand the limited scope then need to collate multiple sources of information to determine the total cost of investing, imposing both cognitive and practical friction costs. Perhaps recognizing these issues, our survey data indicates that **Canadian investors have a clear preference for expanded cost reporting**. Among the 84% of respondents who indicated that fee summaries are useful, **81% of investors would like to receive cost information that is not currently provided** through the fee summaries. The most commonly stated preference was to receive information on all

¹ As set out in National Instrument 31-103 (NI 31-103), which regulates registration requirements, exemptions, and obligations related to the distribution of securities.

fees. We suggest caution in interpreting these data, as people may say they want more information than they can use.

5. It is not just that investors prefer expanded cost reporting; receiving additional cost information increases comprehension. We ran an experiment testing four formats for expanded cost reporting. Three of these formats, the “treatment” options, specified investment fund charges. The fourth, our “control” option, only included a disclosure that other charges, including fund management and operation costs, applied. **All three treatments increased investor comprehension relative to the control.** In particular, they significantly increased investors’ understanding of the total cost they pay to invest. In the control, only 23% of investors correctly identified their total cost of investing. In the three treatments, correct responses range from 54% - 70%.
6. The differences in comprehension across the three treatment options were relatively small. However, we found that **providing a short preamble noting the impact of fees, consolidating amounts paid to dealers and to investment fund companies in a single table, and more clearly defining key terms can increase investor comprehension.** We further found that defining fees directly in the cost of investing table and explicitly linking fees to investor actions may further facilitate comprehension.
7. Results also suggest that including the management expense ratio (MER) for each investment fund holding within the account holdings section of account statements does not increase comprehension of annual investment fee summaries. However, we found it may improve investors’ ability to identify actions they could take (e.g., to better understand their fees, improve the value of their service they receive, and/or reduce their costs of investing). Overall, **our research suggests that including the MER in account statements may have a small positive impact on investor comprehension.**
8. While effectively designed expanded cost reporting increases investor comprehension of the costs of investing, **it is not a panacea.** Even with the strongest performing version of the fee summary, investors struggle to understand the complex array of fees they pay and to identify the most impactful levers for reducing their costs. Effective disclosures are important for understanding costs of investing but may be insufficient in helping investors make complex inferences and value judgements.

Collectively, our research **strongly supports regulatory proposals for the implementation of expanded cost reporting that provides investment fund charges.** We further recommend that annual investment fee summaries be structured to clarify key terms, better communicate the fee summary purpose, describe fees in ways that help investors understand which choices engendered those fees, and make key information more salient. These recommendations are exemplified by the Behavioural Insights Expanded Cost Reporting fee summary structure reproduced in Appendix B.

Our research also suggested further opportunities to improve disclosure format design that we did not empirically test. In some cases, the ideas were not feasible in the short term, requiring data or other resources that are not available. In other cases, we simply had to make hard choices on what to test given the natural limitations in any one experiment (e.g., sample size). This report also includes those ideas to support further efforts.

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Background

The Mutual Fund Dealers' Association of Canada (MFDA) engaged the Behavioural Insights Team (BIT) to (1) understand investor preferences for expanded cost reporting, (2) identify key barriers and enablers of investor comprehension and action on expanded cost information, (3) develop disclosure formats that reflect a nuanced understanding of investor behaviour, and (4) generate high-quality evidence about the impact of these formats. The goal of this research was to enable Canadian investors to make better choices for themselves through more effective cost disclosures.

Fee structures are complex and, although investors are reviewing their annual fee summaries more frequently, they struggle to understand their cost of investing. Canadian regulators have been using disclosure requirements like those in CRM2 to boost investors' understanding and ability to make more informed decisions. CRM2 requirements apply to investments in securities (including stocks, bonds, mutual funds and ETFs) and are set out in National Instrument 31-103 *Registration Requirements, Exemptions and Ongoing Registrant Obligations* ("NI 31-103"). Under NI 31-103, the annual Report on Charges and Other Compensation provides securities investors with the costs paid to the dealer for administration and providing advice to the client. It should be noted that MFDA requirements in this area apply not just to securities, but to all investments (such as GICs and segregated funds) that Members hold on behalf of their clients.

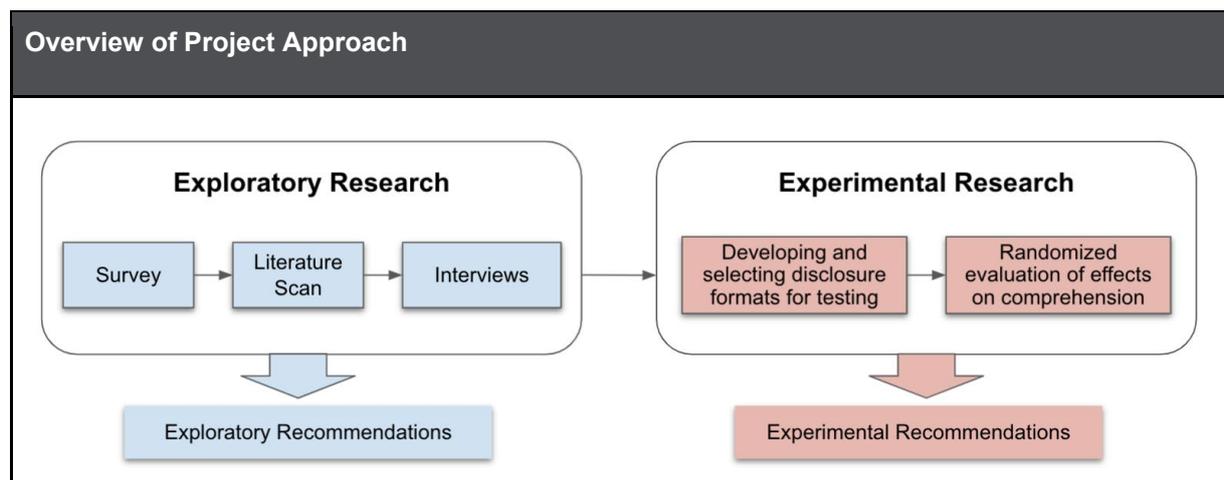
This does not represent all costs investors pay and, as a result, there has been significant discussion regarding the potential value of expanded cost reporting. This would augment CRM2 fee summaries with information about other costs of investing, which are paid to entities other than the dealer, most significantly those related to the management and operation of investment funds. In December 2015, MFDA published a Consultation Paper ([Bulletin #0671-P](#)), to solicit stakeholder input on expanding investment cost reporting requirements. Examples of expanded cost reporting were developed and published for comment in a second Consultation Paper ([Bulletin #0748-P](#), published in April 2018).

Over the course of this discussion, alternative approaches to expanded cost reporting have been put forward. However, there is limited Canadian empirical evidence to support the overall case for expanded cost reporting and even less evidence to indicate what format this reporting should take if implemented. The research BIT conducted for MFDA aims to close that gap and add new, relevant evidence to inform ongoing regulatory discussions.

Overview of Project Approach

This project had two main phases, illustrated in the diagram below. First, we conducted exploratory research to better understand investor preferences for the scope of fee summaries and the barriers to understanding and acting on information about the costs of investing. Our exploratory research included a survey of 1,000 Canadian investors, semi-structured interviews with Canadian mutual fund investors, and a scan and synthesis of the relevant behavioural science literature. In the second phase, in close collaboration with MFDA, we used the exploratory research to develop alternate formats of the fee summaries (as well as selecting and adapting previously proposed disclosure formats). We then designed and executed a large online randomized control to determine the impact of the

selected disclosure formats with over 5,000 participants. This evaluation provided quite precise estimates of the impact of each disclosure format on investor comprehension, as measured through a seven-item scale developed for the project.



The following sections provide more details on each of the elements visualized above.

Exploratory Research: Methods, Key Findings, and Recommendations

This section summarizes the methodology, findings, and recommendations from our exploratory research, which included survey, interview, and literature scan activities.

Exploratory Research Methodology

We applied a mixed methods approach to address three exploratory research questions:

1. What is investors' current level of understanding of the investment costs they pay?
2. What are the most significant barriers to investors' understanding of investment costs?
3. What are investors' preferences for the scope of fee summaries, and how do they perceive the potential value of receiving expanded cost information?

Methods included an online survey, interviews with investors, and a literature scan. The survey reached a large number of investors to obtain robust data on investor preferences, understanding, and key barriers. The interviews helped add nuance and context by allowing us to go deeper with a small group of investors. The literature scan provided a broad theoretical foundation for our investigation. Key methodological considerations for each activity are summarized below:

Exploratory Research Activities: Sampling, Data Collection, and Analysis	
Survey	<ul style="list-style-type: none"> • We recruited 1,000 participants that: reside in Canada, hold mutual funds, and are over 18 years of age. Participant recruitment aimed to ensure representation of individuals from all provinces/territories. • Anonymized data was collected through BIT's Predictiv platform for online

	research and analyzed descriptively.
Qualitative Interviews	<ul style="list-style-type: none"> • We recruited 10 Canadian mutual fund holders through convenience sampling. • This sample is non-probabilistic and small, meaning that there is a low level of generalizability and an increased risk of potential bias compared to the survey method. However, the qualitative methods complement the survey findings by enabling more detailed questions and nuanced answers. • Data was collected through live in-depth interviews with semi-structured questions on how people review disclosures and the barriers they encounter in doing so. • Analysis was thematic, comparing and synthesizing participant responses by key topic (e.g., preferences for cost reporting, intended actions after receiving a fee summary).
Literature Scan	<ul style="list-style-type: none"> • The literature scan began with a synthesis of similar scans conducted for relevant previous BIT projects, including our work with the Ontario Securities Commission (OSC) on investor fee summaries. We also conducted research database searches, then used a “snowball method,” whereby we reviewed the sources cited by each relevant document, paper, and/or report we examined. • Key findings from the literature scan were synthesized to identify behavioural and cognitive challenges investors might face reviewing, understanding, and acting on cost disclosures, with a focus on implications for expanded cost reporting.

Key Exploratory Research Findings

What is investors’ current level of understanding of their investment costs?

This section presents an overview of findings from exploratory research activities; detailed findings are in Appendix A.

Overall, Canadian investors struggle to understand their costs of investing and the information they receive about their fees. Fewer than 1 in 5 investors surveyed correctly identified the types of fees currently included in annual fee summaries. Most interviewees did not understand certain key terms, such as “compensation” or “commissions,” and struggled to map the fees captured in summaries to the terms they are more familiar with, such as “management expense ratio.”

What are the most significant barriers to investors’ understanding of investment costs and actions on the basis of that information?

We believe that the following behavioural and cognitive barriers are most likely to significantly limit investors’ understanding of annual fee summaries:

Key Barriers: Investor Comprehension	
Limited attention	People have limits on how much information they can pay attention to, meaning that they do not always review information carefully and sometimes take shortcuts, like skimming for the main points. This may lead investors to miss important cost information if it is not salient.
Cognitive overload	Even if investors can attend to all the information presented, the volume information can strain their ability to make sense of it. When people are cognitively taxed or overloaded, they are more likely to misinterpret information and to

	disengage altogether.
Complex terminology	Complex language can confuse or further cognitively burden readers. While investors may intend to seek out more information to help them make sense of things, doing so imposes additional frictions. Our qualitative interview research indicated that even partial, simplified explanations can increase investors' understanding.
Cost neglect	People tend to neglect small costs, even though these costs can add up, especially over time. Investors are likely to further underestimate the impact of fees on returns due to "exponential growth bias," which describes how people tend to neglect how fees (or returns) compound over time.
Lack of a reference point	Investors who understand how much they pay to invest and the impact of those fees on returns still struggle to evaluate whether the fees they pay are reasonable / appropriate. The lack of a "reference point" in fee summaries poses a major challenge in making this determination. Investors want to compare their fees to the performance or value of their investments and/or to a relevant benchmark.

Investors who understand fee summaries may not fully use this information in their investment decisions due to the barriers described in the following table.

Key Barriers: Informed Investor Action	
Awareness of potential actions	Investors are not aware of all the actions they can take on the basis of their cost information. When prompted with potential formats, survey respondents indicated they would be likely to use the fee information to evaluate (1) their fees against the quality of advice they receive and (2) the performance of their investments. However, when unprompted in the qualitative interviews, investors who have less experience and expertise struggled to identify actions beyond learning more about the fees they pay.
Current fees as the status quo	Unlike point-of-sale disclosures, fee summaries are provided after the costs have already been incurred. Paying the current level of fees for the current level of service is the status quo, and people show a strong preference for maintaining the status quo, creating a barrier to action.
Missing link between fees and choices	Interviews with Canadian investors revealed a significant challenge in mapping fee information back to their actions and choices. The aggregation of fee information at the account level meant that they could not see which investments were generating which fees; they could not trace the likely "cause" of administration or transaction fees either.
Assessing alternate options	Finding and evaluating information on alternative options for investment fees, products, and dealers can be a significant practical and cognitive challenge for investors.
Hassle factors to action	Even seemingly small details that make a task more challenging or effortful can make the difference between doing something and putting it off – sometimes indefinitely. The real or perceived hassle of potential actions such as changing dealers, services, or even investment products significantly limits action.

What are investors' preferences for the scope of fee summaries, and how do they perceive the potential value of receiving expanded cost information?

Our survey demonstrated that investors have a clear preference for expanding the scope of the current CRM2 annual investment fee summaries to include the costs of managing and

operating mutual funds. A majority of survey respondents expressed interest in receiving information not currently provided through fee summaries, with the most commonly stated preference being information on all fees. In contrast, the current scope of reporting was the least preferred format. Similarly, all 10 interview participants reported a strong preference for complete, consolidated information including fees paid to mutual fund companies. Investors believe that expanded cost information would improve transparency and better enable them to make informed decisions. We caution that investors are likely to state a preference for additional information even if they would not necessarily review or use that information; people are not fully aware of the limits of their attention and cognitive bandwidth. Critically, our experimental research, described below, shows that investors do not just want more information -- providing it increases their comprehension of the fees they pay.

The Canadian investors we interviewed wanted more detailed information about the fees they pay in addition to the wider scope of fees. However, it is unclear to what extent a majority of investors would read this information given the barriers to comprehension outlined above. There are also important questions about what level of detail will work for whom. Interview participants who self-identified as less knowledgeable about investing indicated they would not review anything in detail beyond summary-level information while more knowledgeable investors prefer product-level information. While no disclosure will be ideal for every investor, we believe an effective disclosure should assist the greatest proportion of investors, especially those with less investment experience, as they may be most affected by the previously discussed barriers.

It is also unclear to what extent expanded cost reporting might increase or shift investors' actions. Including management fees is likely to focus more investor attention on changing the investment products they hold. Our interviews provided some support for this perspective, with investors commonly noting that they may wish to switch to lower fee products.

Recommendations Based on Exploratory Research

We synthesized the exploratory research findings to develop 16 recommendations for disclosure format design. At this point in the process our thinking was not necessarily? generally? constrained by feasibility of implementation.² As such, these recommendations have not been discussed or tested to determine if they can be implemented in a cost-effective way. Further analysis is required prior to implementation.

Comprehension of fee information / scope of fee summaries

- 1. Eliminate any information presented in the fee summary that is unlikely to be useful to investors.** People have limited attention, so it is important to restrict information to that which is useful to investors. Note that the sample fee summaries developed by MFDA in Bulletin #0748-P largely reflect this concept as they contain very little information that would not be helpful to investors.
- 2. Clarify key terms.** Help investors understand key concepts about their fees by providing clear, simple and/or more familiar explanations of challenging terms. For

² In our Experimental Research, described below, we narrowed our focus to the development and testing of disclosure formats. We focused on formats that would be likely to work within the current CRM reporting approach, and therefore might be more feasible to implement.

example, explaining “*short term trading fees*” to note that “*these fees apply when you buy and sell the same investment within 40 days*”, or providing a link between the “*ongoing cost of investing*” and the more commonly understood term of “management fees” or “MER”. Other challenging terms that should be clarified include: “ongoing cost of investing”, “trailing commissions”, and “compensation”.

- 3. Make key information more salient.** A significant proportion of investors only skim annual investment fee summaries, without reading all of the content in detail. To best support their comprehension, certain information deemed key (e.g., total amount of fees, purpose of the fee summary) should be made salient through design choices (large font, bold, colour, placement towards the top of the fee summary). The most essential information should also be presented at the start of the fee summary.

A similar approach could be taken to the full package of information provided at the end of the year, which includes information on performance, fees, and holdings. A cover page providing the most critical information (e.g., total \$ invested, total market value, total cost, and total return) in a large font and simple, clear format could increase the salience of most important information.

- 4. Clearly communicate fee summary purpose / importance.** Make the significance of the fee summary more salient by helping investors understand why they are receiving this document and what they should be looking for within it, ideally at the start of the report. E.g., “*This report provides a breakdown of the total costs you paid to invest in [Year]. It includes all the fees you paid us [FIRM NAME] for things like investing advice, account administration, and transactions. It also includes fees that you paid to other entities, like the mutual fund companies that operate the mutual funds you hold. The information in this report is important and can help you make more informed investing decisions.*”

Comprehension of fee amounts paid and their impact on financial performance

- 5. Make the total amount of fees paid salient** by showing this information in a prominent part of the summary. Note that the sample fee summaries developed by MFDA in Bulletin #0748-P already make total fees salient, but it is not a current regulatory requirement.
- 6. Provide historical information on fees** to show how they have added up over time. For example, fee summaries could include a table or bar chart showing the total fees paid over the last X years (or even since account opening). This would help address investor’s tendencies to under-appreciate how small fees add up and compound over time.
- 7. State that both direct charges and indirect charges affect investment returns.** This straightforward indication may keep investors from underestimating the significance of fees by establishing a link between fees and their financial performance. E.g., “*Both direct charges and indirect charges are important because they reduce the value of your investments.*”

Linking fees to actions

- 8. Framing the costs of investing as the result of investors' choices.** Annual fee summaries are provided after the costs have already been incurred. Paying the current level of fees for the current level of service is the status quo, and people tend to prefer maintaining the status quo, creating an uphill battle in translating the disclosure into informed action. Language within annual fee summaries could communicate that fees are a product of investors' choices, either as part of a description of the purpose of the fee summary or as an introduction to the list of potential actions investors could take). E.g., *“the fees you pay depend on the choices that you make as an investor, and there are things you can do to reduce your fees or increase the services you receive.”* Using the word “you” in these descriptions may personalize the content and give investors a greater sense of agency regarding their fees.
- 9. Define or explain the different types of fees in ways that link to investor choices.** Language could be developed to link fees noted on the main fee summary and investor choices and to state where fees are not meaningfully linked to choices. For example:

 - For short term fees: *“when you buy and sell the same investment within 40 days”,* or
 - For ongoing cost of investment could include a phrase like *“based on the mutual funds you bought”.*
 - For administration fees: *“these fees are applied to all investors regardless of your investment decisions.”*
- 10. Provide more detailed fee information as a supplement to the fee summary, with the more detailed information providing a “1:1” link between investor choice and costs incurred.** In additional pages attached to the main fee summary, provide investors with a breakdown of costs within each fee category to help them map their fees onto their previous choices. For example, the ongoing costs of investing could be broken down by mutual fund (or ETF) held. Transaction fees could be broken out by transaction. Each set of detailed information (i.e., each type of fee) should be in a separate section to enable narrower “choice bracketing.” Some of this detail could potentially be provided in other investor documents. For example, management fees could be linked to investor choices by adding a column noting the MER of each investment fund held to the holdings section of account statements. This would help investors acknowledge that investment funds have different MERs and identify which holdings have higher costs. Interactive online disclosures may also be helpful to present detailed fee information in ways that link costs and choices.

Encouraging actions

- 11. Increase awareness of potential actions by including examples.** Investors are not aware of all the actions they can take on the basis of their cost information, especially less experienced investors. Including a set of recommendations or ideas for how investors can use the information could increase the likelihood of them taking actions that are in their best interest. For example, suggestions could include:

- Speak with your investment advisor about whether your fees are right for you and consider the value you receive from the advisor and dealer you invest with, as well as alternate options available to you.
- Assess the performance of your investments compared to the fees you pay for those investment products.
- Confirm or change the investments you hold to better fit your investment goals.
- Ask your investment dealer whether there are services, fee structures, or account types that are more suitable for your investment needs.
- Determine if the *advice provided* to you is worth the fees you pay.

12. Encourage investors to reflect on their investment goals. Asking investors to think about their objectives can help improve their planning of potential actions they can take towards that goal with regards to investment costs. It may be helpful to ask people to reflect on their investment goals prior to reviewing a list of suggested actions (as described above).

13. Encourage investors to make a plan for action. Encouraging investors to make a specific plan for which actions they intend to pursue may increase the likelihood that those who intend to take an action will follow through with it. This type of approach is called an “implementation intention” prompt and is most powerful when coupled with reflections about one’s goals (see above).

14. Provide links to additional resources to help investors compare and assess options. Finding and evaluating information on alternative options for investment fees, products, and dealers can be a significant practical and cognitive challenge for investors. To address this challenge, fee summaries could include links to external resources that help investors navigate their investment options. This could include helping investors research mutual fund options or dealer options.

15. Proactively include information that may reduce hassle for investors. The real or perceived hassle of potential actions (such as changing dealers, services, or even investment products) significantly limits investors’ actions. To minimize the cost of these ‘frictions’, annual investment fee summaries could:

- Provide a shortened URL for any external links included in the fee summary.
- Generally, use language that emphasizes the ease of certain actions that investors can take.

16. Provide a list of recommended questions that investors can ask their advisors. Some investors may find it difficult to engage with their advisors, especially if they are experiencing the barriers to comprehension and informed action discussed above. If investors do not feel able to speak comfortably with their advisor, they may be less likely to follow up with them after receiving annual investment fee summaries. Providing a list of common questions investors may wish to ask could support advisors and their clients in fee discussions. This idea needs to be balanced with the value of keeping the fee summary as brief as is reasonable. The fee summary could be a link to a dealer website with common questions to address this challenge.

Experimental Research: Methods, Findings, and Recommendations

This section presents the methodology, findings, and recommendations for our experimental research, an online randomized controlled trial with a sample of 5,268 Canadians.

Experimental Research Methodology

Approach to developing and selecting disclosure formats for testing

Following on the exploratory research, we empirically tested options for disclosure format design to inform ongoing regulatory discussions related to expanded cost reporting. Working collaboratively with MFDA, we selected three new fee summary formats to test, the “treatments,” as well as a modified version of the “status quo” (CRM2) format that functioned as our “control.” A description of each of these formats and our rationale for inclusion follows. You can view the formats in Appendix B.

- **Option 1: Status Quo with Expanded Disclosure.** We selected a representative example of a current (CRM2) fee summary and added a disclosure that outlined the existence of fees paid to fund managers (i.e., investment fund charges), but did not show the actual dollar value of those fees. This was used as our control group instead of a pure current status quo alternative, as we understood it to be the minimum level of additional disclosure that could be considered.
- **Option 2: Expanded Cost Detail, Separated Costs and Compensation.** An expanded fee summary characterized by:
 - A similar preamble to Option 1, but detailing costs of investing framed as direct and indirect payments.
 - **Separate cost tables for dealer compensation and fees paid to investment fund companies.** The structure of the table detailing dealer charges and compensation was similar to that in Option 1. This table included more subtotals and, therefore, rows than Options 3 and 4. Unlike Option 1, this format includes newly disclosed investment fund costs paid by the investor, shown in actual dollar amounts.
 - An explanation of investment fund charges and a note detailing that the amount investment fund companies paid to dealers (i.e., trailing commissions) is a part of investment management fees and operating expenses (MER). Unlike Options 3 and 4, this format does not indicate amounts that are captured in both tables (i.e., it did not show a line item subtracting the management and operating costs that are paid to dealers as commissions).
 - An articulation of why the information contained in the fee summary is important (“Charges are important because they reduce your profit or increase your loss from investing”).

This format was selected for testing as the structure was advanced by another stakeholder as potentially minimizing implementation costs to industry and complexity of change for investors, given its structural similarity to current reporting.

- **Option 3: Expanded Cost Detail, Combined Costs.** An expanded cost reporting format based on a preliminary version put forward by MFDA in Bulletin #0748-P: Discussion Paper on Expanding Cost Reporting, but with some additional revisions based on feedback from IFIC, BIT (e.g., simplifying certain terms), and others. It is characterized by:
 - A preamble that differs from Option 1 through its salient total cost of investing (noted in bold font at the top) and a clear call to action (“Important: Review Your Cost of Investing”). The preamble also includes an articulation of why the information is important.
 - **A single table for all costs with subtotals for dealer charges and investment fund costs.**
 - A line item to subtract the amount investment fund companies paid to the dealer to help make it clear that trailing commissions are included within MER fees and allow investors see how the total cost of investing adds up.
 - Explanatory notes that provide a definition for trailing commission and MER fees.

Like Option 2, we wanted to test this approach because it had been proposed by a regulator and discussed with stakeholders.

- **Option 4: Expanded Cost Detail, Combined Costs & BI:** An expanded cost reporting format that is structurally similar to Option 3, with the following additional features informed by behavioural insights (BI):
 - A preamble that makes the goal of the fee summary (more informed choices) salient by linking the articulation of why the information contained in the fee summary is important with the fact that costs of investing are impacted by investor choices.
 - Line-item descriptions that are more explicit about to whom the amounts were paid (e.g., by specifying the name of the dealer). Line-item descriptions also included a simple definition for trailing commissions, account administration and operating charges, trading fees, and MER fees.
 - Line-item descriptions and explanatory notes that are more explicit in linking costs with the investor choices that led to those amounts. For example, we noted that MER fees “...depend on the investment funds (e.g., mutual funds) you purchased and continue to hold.”

This format reflected BIT’s recommended approach to expanded cost reporting, incorporating the most promising, feasible ideas stemming from our exploratory research. Option 3 (Expanded, Combined Costs) was used as the baseline for the format.

Beyond the disclosure format design, we also needed to determine which fees and related amounts would appear across the formats. While there is great variation across Canadian investment portfolios and fee structures, we wanted to use a sample fee summary that was reflective of the most common fees to enhance the generalizability of our findings. The fees we chose to include were: account administration and operating fees; trailing commissions; trading fees; investment management fees and operating expenses (i.e., MER); net investment management fees and operating expenses (obtained by subtracting trailing commissions from investment management fees and operating expenses); redemption fees on deferred sales charge investments³. You can see a sample of the highest performing format with a more exhaustive list of possible fees in Appendix C. That appendix also has a sample for a fee-based account.

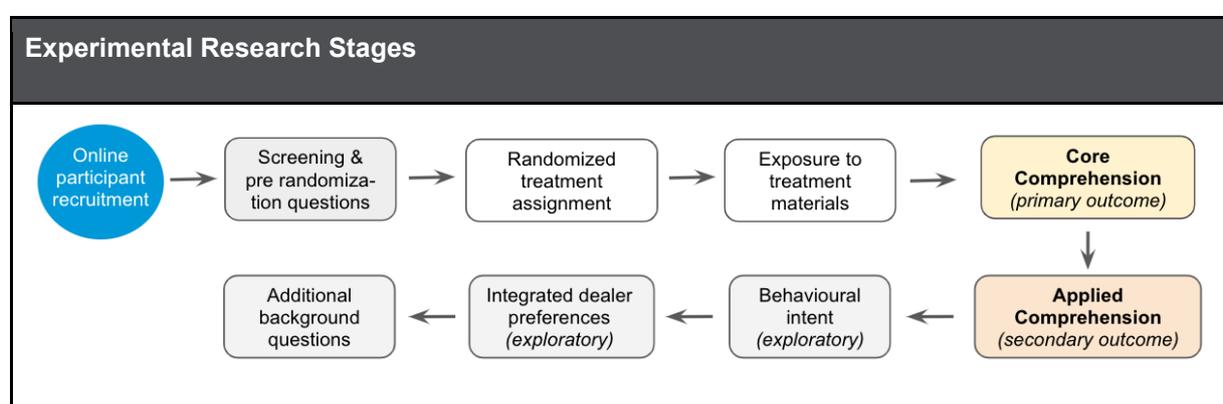
There have also been regulatory discussions related to the inclusion of the management expense ratio (MER) on account statements as a further measure to support fee comprehension. We tested this idea as well by varying whether investors saw a standard (“business as usual”) version of the holdings section of an account statement or an “MER” version with an added column noting the MER of each investment fund held.

Randomized evaluation methodology

After developing the formats that we wanted to test, we conducted a randomized controlled trial to assess their impact on investors’ comprehension of their costs of investing.

We measured comprehension in two ways. Our primary outcome measure, *core comprehension*, was based on 7 factual questions about different aspects of the cost of investing that we developed with MFDA. As described further below, we also measured secondary and exploratory outcomes to develop a fuller picture of the impact of the different versions of the fee summary and account statement.

The following figure shows an overview of our research design, a randomized controlled trial conducted via an online platform called Predictiv.



³ At the time of this study, since not all CSA jurisdictions had agreed to a complete ban of DSC and, in any case, there would still be 7 years from the time a ban was implemented for the DSC fee schedule on existing DSC funds to expire, we included these redemption charges in the formats tested. Subsequent to the completion of the survey, the OSC announced it would join in on the ban of DSC, making such a ban effective across all of Canada.

First, we recruited over 5,000 Canadians that met our screening criteria to participate in the trial. Then we randomly assigned them to review a package of materials including one of the four fee summary formats and one of the two account holdings versions. After participants reviewed the materials, we asked them a series of questions to measure our primary, secondary, and exploratory outcomes. They could consult the materials again while answering the questions to better replicate the real-world scenario we were simulating. Participants were compensated for participating in the survey; they were given more compensation for answering the questions correctly, which we believe improved the quality of the data by coming closer to replicating the real-world “stakes” for understanding cost information. We believe this increases the quality of data by decreasing the chance of participants clicking through questions without reading them. More information on sampling, data collection, and analysis are summarized in the table below.

Experimental Sampling, Data Collection, and Analysis	
Sampling	<ul style="list-style-type: none"> ● We screened over 10,000 individuals to reach our final sample size of 5,268 complete responses, all of which were included in our analysis. ● Participants accessing the survey from mobile phones were excluded as we thought that few investors would review these materials on the phone in the real world. ● There were three additional screening criteria: residing in Canada; holding investment funds (e.g., mutual funds), stocks, bonds, and/or a savings account; and being over 18 years of age. Our recruitment was initially focused on investment fund holders, who ultimately represented 90% of our total sample. ● Full detail on sample composition, including investment products held, income, portfolio value, age, gender, province of residence and self-reported investment knowledge can be found in Appendix D. ● We believe this sample is reflective of Canadian investors writ large, but it is not a true probability sample because all participants had chosen to be on survey / study completion panel. As a result, the sample may differ from the population of interest (e.g., individuals who participate in online surveys tend to be more active internet users).
Data Collection	<ul style="list-style-type: none"> ● No personally identifiable information was collected. ● Compensation was approximately \$1.75 per complete response, with an additional variable incentive of \$0.10 per correct answer to core and applied comprehension questions.
Analysis	<ul style="list-style-type: none"> ● Data was analyzed to assess the effects of random treatment assignment on pre-specified primary, secondary, and exploratory outcomes. ● Primary outcome measure: <i>core comprehension score</i>. <ul style="list-style-type: none"> ○ Based on responses to seven core comprehension questions constructed in coordination with MFDA to encompass the types of concepts and considerations that could occur in real-world disclosure review settings. ○ These questions measure investors’ comprehension of the scope of the sfee summary and its purpose, comprehension of who receives different types of fees they pay (i.e., advisors or investment companies), identification of their total costs of investing, comprehension of what causes each fee, and why it

	<p>matters.</p> <ul style="list-style-type: none"> ○ We believe these questions are a proxy for comprehension of the scope of annual fee summaries and the information contained within these annual investment fee summaries. ● Secondary outcome: <i>applied comprehension score</i>. Based on responses to two applied comprehension questions, constructed in coordination with MFDA, to reflect appropriate inferences that investors should be able to make on the basis of their understanding. Correctly identifying the right response option(s) in these questions signifies that a participant can adequately identify the purposes to which the information they have understood can be applied. <ul style="list-style-type: none"> ○ We believe these questions are a proxy for 'applied comprehension' of information contained within these annual investment fee summaries (i.e., the ability to identify the purposes to which information can be applied / make correct inferences on the basis of the information). ● We also specified two exploratory measures: participants' <i>behavioural intent</i> (i.e., their self-reported likelihood of using the information to take a series of specific actions) and participants' <i>preferences for integrated dealer disclosures</i>. The latter was only measured for participants randomly assigned to experimental groups, as the control format does not provide the necessary information for integrated disclosure preferences to be relevant. ● The full set of questions and response options can be found in Appendix D. ● Our analysis approach aimed to reject the null hypothesis that the difference between outcome measures (e.g., core comprehension scores) across disclosure formats was statistically indistinguishable from zero. To test this, we used an ordinary least squares regression controlling for a range of covariates. More details on the statistical approach and other technical aspects of the trial are available upon request.
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Experimental Research Findings and Recommendations

In this section, we provide the results of the randomized controlled trial described above and make related recommendations.

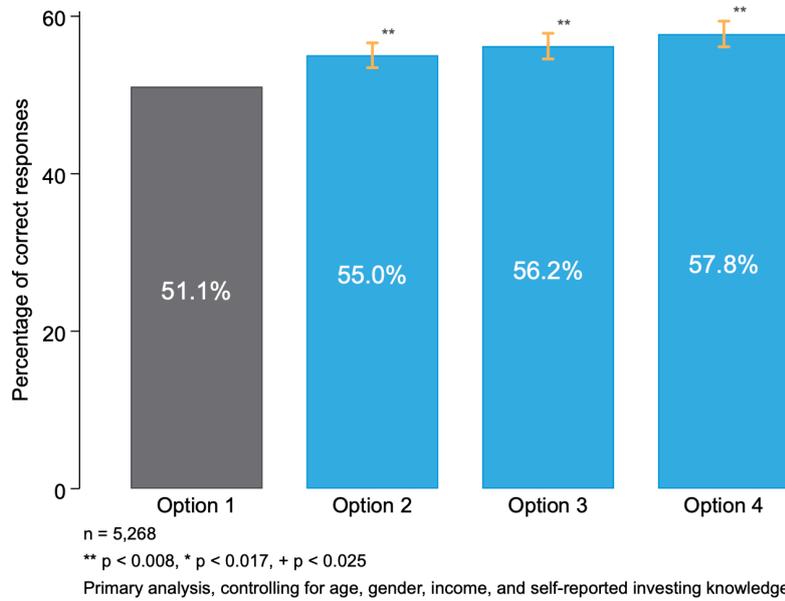
Core Comprehension

Our primary analysis measure, **core comprehension**, is a seven-item scale measuring investors' understanding of the scope of the fee summary and its purpose, understanding of who receives different types of fees they pay (i.e., advisors or investment companies), and understanding of what causes each fee, and why it matters.

All three fee summary formats including expanded cost information increased core comprehension relative to the status quo format.

As illustrated below, investors answered significantly more core comprehension questions correctly when they viewed one of the three fee summaries that showed the expanded cost information in actual dollars paid. The difference between Option 1 (51.1% correct) and the best performing format, Option 4 (57.8%), represents a relative increase in comprehension of more than 11%. While there is no objective standard, we would quantify this as a medium-sized effect for a disclosure intervention.

Figure 1: Core comprehension (percentage correct) by fee summary format



These differences in core comprehension are primarily driven by one of the seven questions: identifying the sample investor’s total cost of investing. As illustrated in the table below, only 23% of investors in the control condition correctly identified that the costs of investing were higher than the amount reported, despite an explanatory note to this effect. By contrast, investors who were shown their total cost of investing were much more likely to correctly identify it, ranging from 54% in Option 2 to 70% in Option 4.

Table 1: Understanding of total costs of investing by fee summary format

Q5: Based on the information that you received, what was your total cost of investing in 2020?				
	Option 1: Status Quo with Expanded Disclosure	Option 2: Expanded Cost Detail, Separated Costs and Compensation	Option 3: Expanded Cost Detail, Combined Costs	Option 4: Expanded Cost Detail, Combined Costs & BI
% Correct	23%	54%	67%	70%

N = 5,268

Note that this question, unlike the other six, had different response options in the control group. Because of the more limited scope of the Status Quo fee summary (Option 1), the correct response option was that the investor paid *more than \$462.00*, which was the amount shown as the “total charges and compensation received in this period.” In the other versions, the correct response was \$815.00. This dramatic difference in correct responses demonstrates that simply informing investors that they pay other costs of investing in a note does not sufficiently support investor understanding of their actual costs. We cannot definitely say why Options 3 & 4 performed better than Option 2 on this question, but hypothesize it is because the total cost of investing was more salient (larger font and

standalone rather than part of a table) and/or because the single-table structure of those options enabled a “total” row at the bottom.

Recommendation: Investors should receive investment fund charge information in their annual fee summaries.

The behavioural insights format (Option 4) performed best, but the differences between treatment options were modest.

Having observed that all treatment formats yield greater core comprehension compared to the status quo, we assessed the differences between them. The differences between the Options 3 and 4 were not statistically significant, although Option 4 did have a descriptively higher level of comprehension (57.4% compared to 56.4%). The same was true when comparing Options 3 and 2 (56.4% compared to 54.9%).⁴ The last comparison of treatments, between Options 4 and 2 (57.4% to 54.9%), was significant at the $p < 0.1$ level, which is above our pre-specified threshold for statistical significance.⁵ These results provide weak, suggestive evidence in favour of design elements shared by Options 3 and 4 (e.g., combining fees into a single table rather than separating advisor charges and investment fund charges into separate tables). Similarly, they suggest that certain behavioural science-informed changes, like being clearer about the link between investor choices and the specific fees they pay, can help.

Recommendation: Pending feasibility considerations, implement key features included in Option 4, including:

- A single table for all costs with subtotals for dealer charges and investment fund costs.
- A line item to subtract the amount investment fund companies paid to the dealer to make it clearer that trailing commissions are included within MER fees and to allow investors see how the total cost of investing adds up.
- Explanatory notes that provide a definition for trailing commissions and investment fund charges.
- A preamble that makes the purpose of the fee summary, more informed choices, salient.
- Line-item descriptions that are more explicit about to whom the amounts were paid (e.g., by specifying the name of the dealer) and include a simple definition for trailing commissions, account administration and operating charges, trading fees, and MER fees.
- Line-item descriptions and explanatory notes that are more explicit in linking costs with the investor choices that led to those amounts

Because the differences in comprehension between treatment formats were small, other factors, like implementation costs, should be considered strongly.

⁴ These values differ from those reported in Figure 1 since they are products of distinct regression analyses assessing the differences between treatment versions.

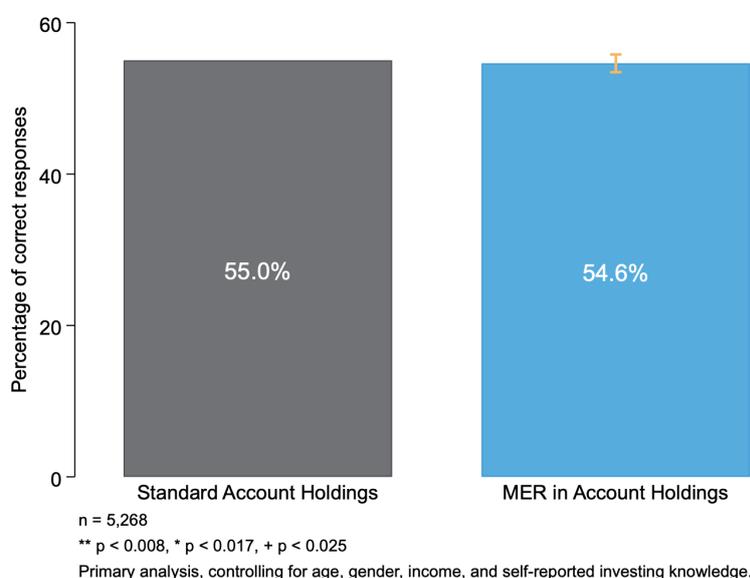
⁵ Our threshold for significance ($p < 0.008$) includes a Benjamini-Hochberg correction for multiple comparisons. This represents a more conservative approach to statistical significance compared to a traditional threshold of 0.05. Results with p-values above 0.008 should be considered suggestive as they do not meet our pre-specified threshold for statistical significance.

Adding a column with MER to account holdings tables does not have an impact on core comprehension.

Each fee summary format was tested with and without MER added to the account holdings section of statements. In aggregate, the impact of adding the MER is statistically indistinguishable from a null effect, as shown on **Figure 2** (55.0% compared to 54.6%). Because of the large sample, this is a very precise null effect. Further, the result holds when looking exclusively at the control format of the fee summary with and without adding MER to the account holdings. This largely rules out null effect being the result of providing expanded cost information in the fee summary.

We note that none of the core comprehension questions directly asked about the magnitude of costs related to the management and operation of an investment fund, which the MER would most help investors understand. As described further below, there is suggestive evidence that including the MER helped with applied comprehension, which did include a question about the relative magnitude of different fees.

Figure 2: Impact of including MER in account holdings on core comprehension



Applied Comprehension

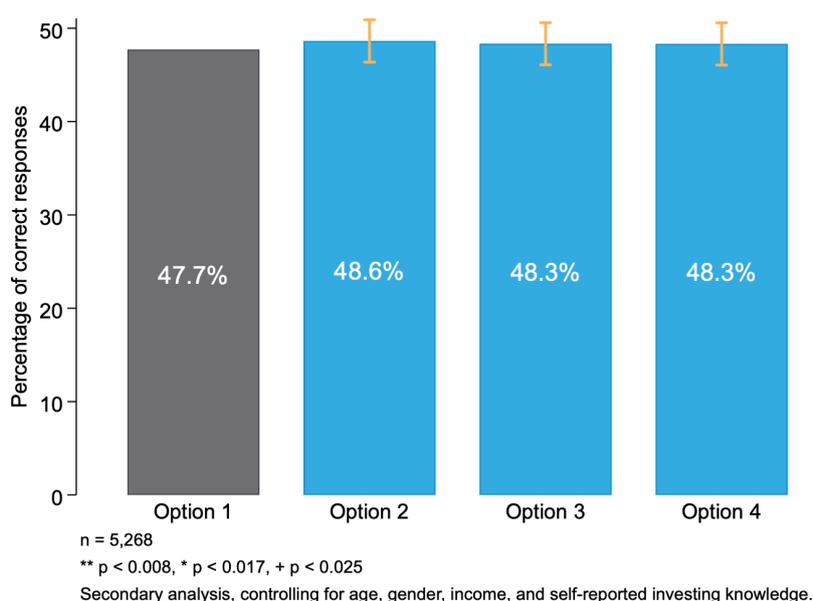
Our secondary measure, applied comprehension, refers to investors' ability to make complex inferences on the basis of their core comprehension. In particular, we focus on investors' applied understanding of the ways in which they could (most) reduce their fees. This section describes results on applied comprehension across the four fee summary formats and two account holdings statement versions in much the same manner as the primary analysis, above.

Despite increasing core comprehension, expanded cost reporting did not increase applied comprehension.

Compared to the control format, the treatment fee summary formats do not have a statistically significant impact on applied comprehension. Although comprehension was descriptively greater for all groups than for the control format, the difference is not large enough for us to establish that the intervention had an effect.

This means that while the new fee summary formats increase comprehension of fee information, they do not appear to significantly increase the ability to answer more challenging questions that require inference.

Figure 3: Applied comprehension (percentage correct) by fee summary format



While effective approaches to expanded cost reporting can increase investors' fundamental understanding of their cost of investing, it does not appear to be able to significantly increase their ability to make complex inferences about how to (most) reduce costs.

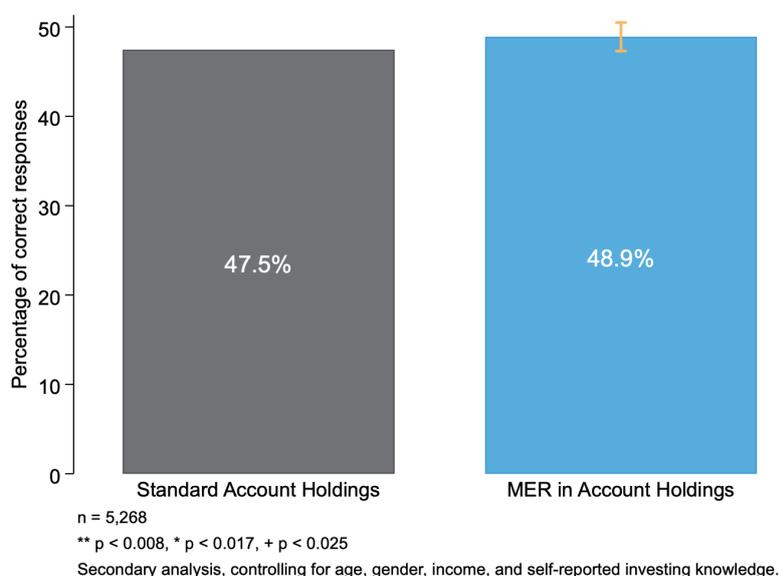
Recommendation: Regulators and stakeholders should acknowledge the limitations of disclosure-based approaches to supporting complex investor choices related to fees and continue to develop other tools and supports.

Including fund MER in account holdings tables *may* modestly increase applied comprehension.

Although the inclusion of MER information did not significantly increase core comprehension, there is suggestive evidence that it may have increased applied comprehension. Those who received the version with MER answered 48.9% of applied comprehension questions correctly, compared to 47.5% among those who did not receive the MER version, a

suggestive increase of just under 3%.⁶ In particular, those who received the MER were more likely (43% compared to 40%) to correctly identify the action that could *most* reduce the cost of investing, which was to “Switch to investment funds with lower management expense ratios (MER)” under the scenario we developed.

Figure 4: Impact of including MER in account holdings on applied comprehension



When looking exclusively at those who received the control format of the fee summary, the increase in applied comprehension was about twice as large. This suggests that including the MER may be more helpful under the current scope of reporting. Additional research addressing specific questions like “*which is your most expensive fund*” may be helpful to further assess the value of including MER information in account holdings.

Recommendation: All else being equal, the MER of investment funds should be included in the holdings section of account statements. Because the effects are modest and suggestive, other factors like implementation costs should be considered strongly.

Behavioural Intentions

Option 4 (the BI format) appears to be the most effective in encouraging investors to take action on the basis of their fee information.

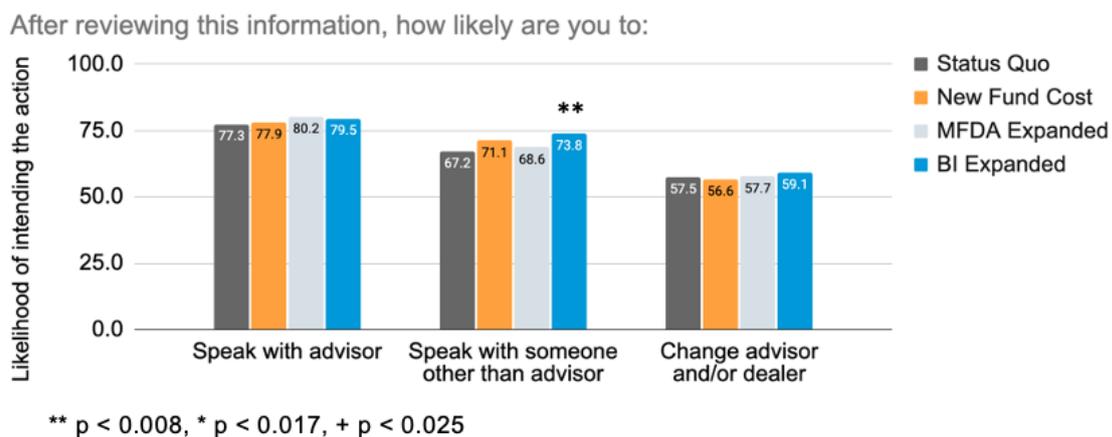
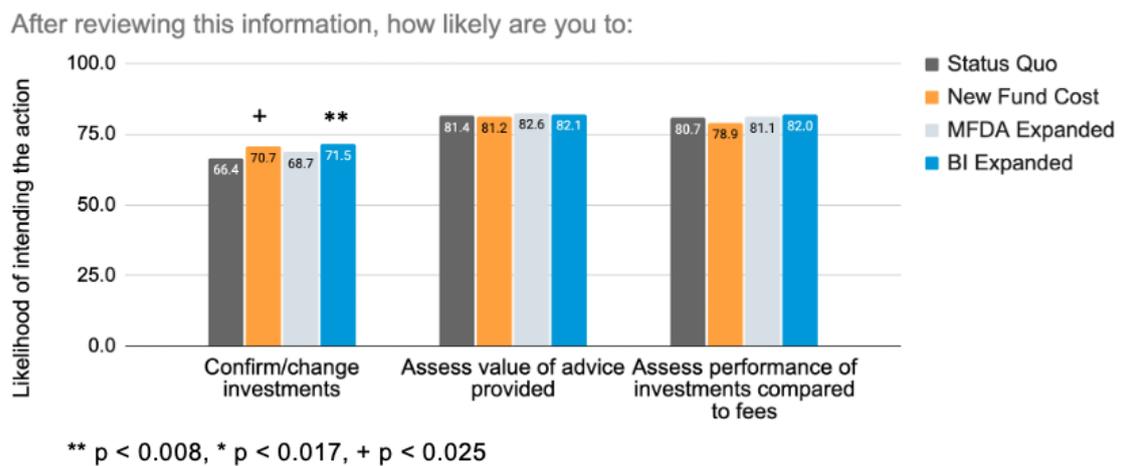
The ultimate goal of disclosure is to support more informed decision-making (action) *through* improved comprehension. While our study design did not allow us to directly measure investor behaviour, we asked participants how likely they would be to take each of six potential actions based on the fee information they reviewed. This was measured through a Likert scale with four response options: very unlikely; unlikely; likely; very likely.

⁶ This result is only statistically significant at the p<0.1 level. Results with p-values above 0.008 are considered suggestive as they do not meet the pre-specified threshold for statistical significance.

Although people may overstate their likelihood to take action (especially those they believe to be socially desirable actions), these exploratory data are valuable in assessing potential translation of comprehension to informed action.

Comparing intentions across fee summary formats, we found that Option 4 led to a statistically significant increase in being either likely or very likely to “confirm or change the investments they hold” (8% increase; $p < 0.008$) and to “speak with someone other than their advisor about their fees” (10% increase; $p < 0.008$). We did not detect significant effects on the other four actions or fee summary. These results correspond with the intent of the Option 4 (BI format), which had a more explicit focus on taking action. For example, it noted in bold near the beginning of the summary that “This report is important because it can help you make more informed choices about your investing costs.”

Figures 6 and 7: Behavioural intentions by fee summary format



Recommendation: These exploratory data further support the recommendation above to implement key features included in Option 4.

Preferences for Integrated Disclosure Reporting

Participants reported a preference not to show a single fee amount in integrated dealer fee summaries.

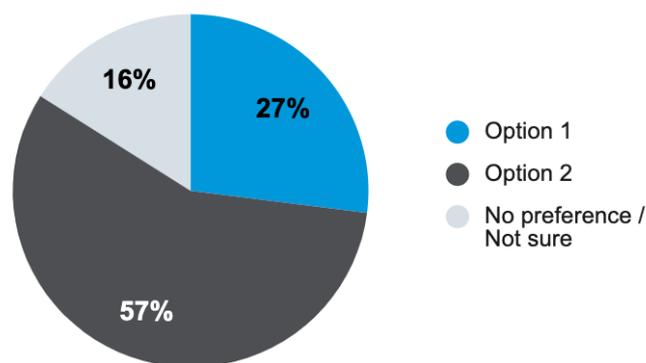
Some investors in Canada invest with an integrated dealer, which means that the investor's dealer is part of the same organization that manages and operates the investment funds (e.g., mutual funds) that investor holds. With an integrated dealer, the fund manager does not pay commissions to the dealer, as they would essentially be paying themselves. This creates a challenge for expanded fee disclosure, which would generally separate out advisor fees from fund management and operation costs.

Participants were presented with this context and asked for their preference between the following approaches to address the challenge.⁷

- **Option 1:** Only show one amount. This would be less complicated to read and reflect the reality that there is no commission paid to the dealer.
- **Option 2:** Take the overall cost and estimate a reasonable amount that *might* be paid to the dealer as a commission for administering your account and providing financial advice and show this as a separate amount. This would be more consistent and comparable with the information received by investors who do not have an integrated dealer.

Most participants, 57%, preferred this information be shown as a separate amount (option 2). Only 27% of participants reported they prefer the integrated dealer cost be shown as one combined amount (option 1) and 16% reported not being sure or not having a preference.

Figure 8: Preferences for integrated disclosure reporting



These findings suggest that investors have a strong preference for receiving an estimate of their dealer costs in integrated dealer scenarios. However, unlike the primary and secondary analysis, this data captures individuals' self-reported preferences and does not provide evidence on the *impact* of the options. We suggest caution in interpreting these data, as people tend to say they want more information than they can usefully use. We would therefore recommend causal research into the effect of these disclosure options on comprehension if this is a priority question.

⁷ Note: This question was only asked to participants in treatment (i.e., not status quo) conditions. The sample for this question is equal to 3,959 (75% of the total study sample).

Conclusion

Costs of investing are a critical factor affecting Canadian investors' ability to achieve their financial goals. However, fee structures are complex and investors struggle to understand their cost of investing. Canadian regulators have been using disclosure requirements, like those included in CRM2, to boost investor understanding and ability to make more informed decisions.

Recently, there has been significant discussion regarding the potential value of expanded cost reporting, which would augment CRM2 fee summaries with information about costs related to the management and operation of investment funds. Expanded cost reporting would provide investors with more consolidated, complete information about their costs of investing. Behavioural finance theory suggests this could help by reducing the cognitive burden of reviewing this information and alleviating friction costs in obtaining more complete data. However, there was little empirical evidence to support this theoretical view, undermining regulators' ability to make evidence-based decisions. This is especially important because expanding reporting requirements could impose new costs on industry. This project addressed this critical evidence gap while also providing data about investor *preferences* for expanded cost reporting.

Overall, we found that **expanded cost reporting that specifies investment fund charges can significantly increase investors' understanding of their cost of investing**. In particular, it significantly increases their understanding of the total cost they pay to invest. In a rigorous experiment, we found that only 23% of investors correctly identified their total cost of investing when they were given a status quo fee summary with an additional disclosure that some fees were not included. In the three formats we tested where investors did receive information about their investment fund charges, 54% - 70% correctly identified their total cost of investing. Canadians seem to understand that more complete, consolidated fee information will help. In our survey, they expressed a strong preference for it. Among the 84% of respondents who indicated that fee summaries are useful, 81% of investors would like to receive cost information that is not currently provided.

Of the three expanded cost reporting formats we tested with investment fund charge information, the most effective one integrated key findings from behavioural insights. For example, it made clear links between investor actions and the fees they pay and increased the salience of the most important information. We recommend the implementation of key features of this format, pending a cost-benefit analysis.

We cannot conclude this report without flagging the limitations of disclosure; while fee summaries represent a promising medium for supporting investor decision-making, they are a necessary but not sufficient tool. In particular, they may be insufficient in helping investors make complex inferences about how they should identify and prioritize options for reducing their cost of investing. Nonetheless, expanding the scope of cost reporting, especially if coupled with complementary approaches, represents a promising step to enable investors to make more informed investment choices and realize greater financial security.

Appendices

Appendix A: Detailed Exploratory Research Findings

Survey Findings

Summary

The survey enabled us to assess the extent to which Canadian investors understand the current scope of fee summaries, as well as the services they receive for their fees and how their choices impact their cost of investing. Our findings, summarized below, also provide insight into how investors act upon receiving investment fee summaries and what they think would be useful in future reporting.

Overall, most respondents remember receiving the annual fee summary (78%) and report reviewing the summary in some detail (69%). They find the fee information useful; in particular, most respondents report they have used or would use the fee summary to assess their fees against the performance of their investments and the value of the advice they receive. **However, investors do not understand what fees are included in the current summaries (only 18% correctly identified the scope of fees included in a multiple-choice question).**

Among the 84% of respondents who indicated that fee summaries are useful, **81% of investors would like to receive cost information that is not currently provided through the fee summaries. Across the four response options, the most commonly stated preference is to receive information on all fees.** The current scope of reporting was the least preferred option.

The survey data clearly indicate an investor preference for expanded cost reporting and the need to better communicate the scope of these summaries going forward. The results also indicate how valuable it might be to improve the quality of fee disclosures given how useful investors find them. The sections below present our key findings in detail.

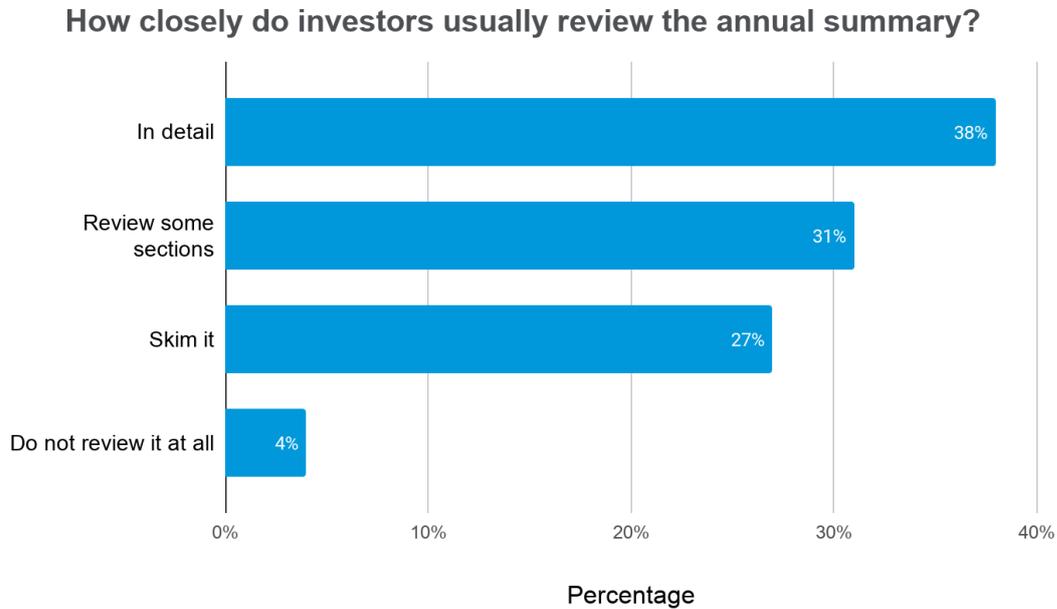
Findings related to how investors read the fee summary

In total, 78% of investors surveyed recalled receiving an annual fee summary. This finding suggests that the summaries are salient to most Canadian investors, and therefore, improvements to annual investment fee summaries may enable more informed decision-making. However, these findings may be overstated due to the limitations of self-reported data. For example, respondents may have adjusted their responses to match the perceived social desirability of recalling the fee summary in this research context. Further, some respondents may have confused the annual fee summary with other financial documents they receive, inaccurately reporting that they recalled receiving it.

Most investors report reviewing their fee summaries in some depth (see Figure 8, below). Of the respondents who remembered receiving the fee summary, 69% reported reviewing at least some sections, while only 31% said they skimmed or did not review the summary. As with data on recall, survey data likely overstate investors' depth of review, as they may have

been influenced by the perceived social desirability of diligently reviewing annual investment fee summaries.

Figure 8: Reviewing Annual Fee Summaries

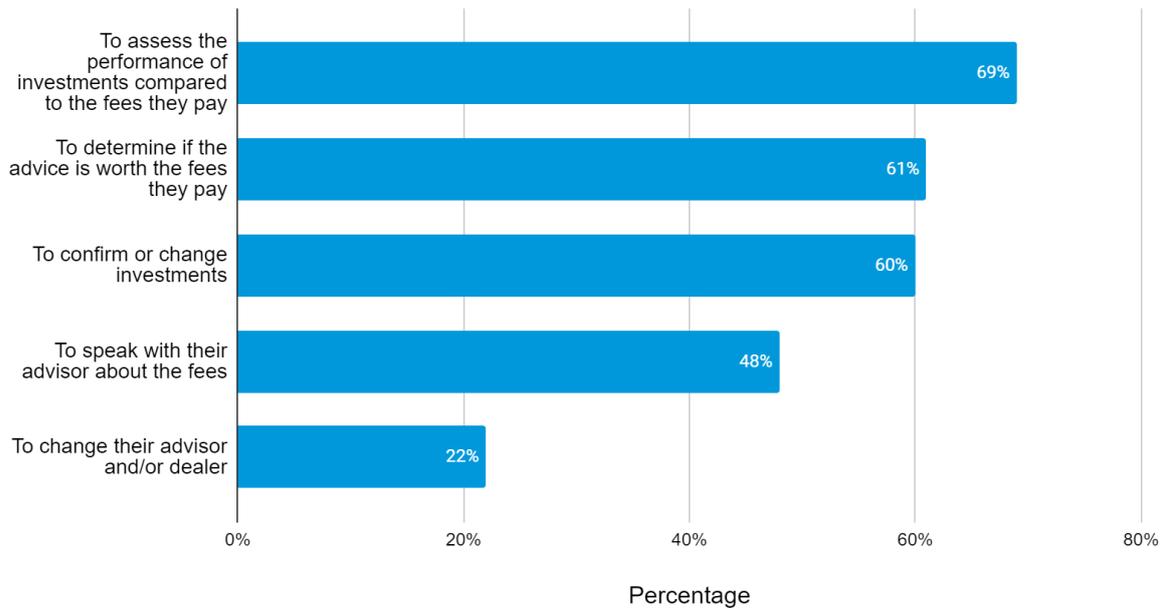


Still, these data, even if overstated, provide support for the idea that fee summaries can affect Canadian investors' choices. They also suggest that barriers to reviewing fee summaries may not be a top priority in disclosure format design. However, modifications that highlight key messages and make the information easier to understand may increase depth of review, particularly for the almost one third of investors that do not review the summary in any meaningful depth.

Investors who recall receiving the fee summary find it useful. Amongst the 78% of participants who remembered the fee summary, the majority indicated they use the information to assess performance against fees (69%), the value of the advice they receive (61%), or to change / confirm their investments (60%). About half report speaking with their advisor (48%) and about one fifth (22%) report changing their advisor and/or their dealer.

Figure 9: Use of Annual Fee Summaries

How have investors used the annual summaries in the past?

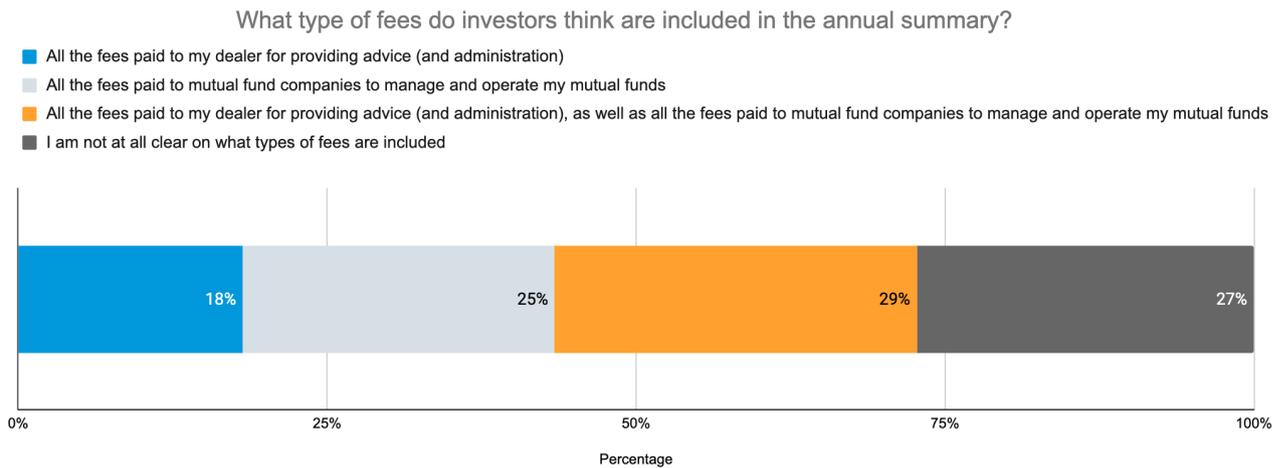


It is likely that these data overstate the extent to which annual investment fee summaries are used by investors, due to the same social desirability response bias mentioned above. Even if that is so, these findings support the argument that more complete fee summaries could improve investor decision-making.

Findings related to comprehension of the content of the fee summary

Only 18% of respondents correctly identified which fees are included in the annual fee summaries. Even among those who remembered receiving annual investment fee summaries, only 21% correctly identified the scope. Almost one third (29%) thought that it included both dealer and mutual fund company fees. These findings suggest the scope of annual investment fee summaries need to be clarified to investors, and expanded cost reporting is more likely to be accurately understood.

Figure 10: Comprehension of Annual Fee Summary Scope

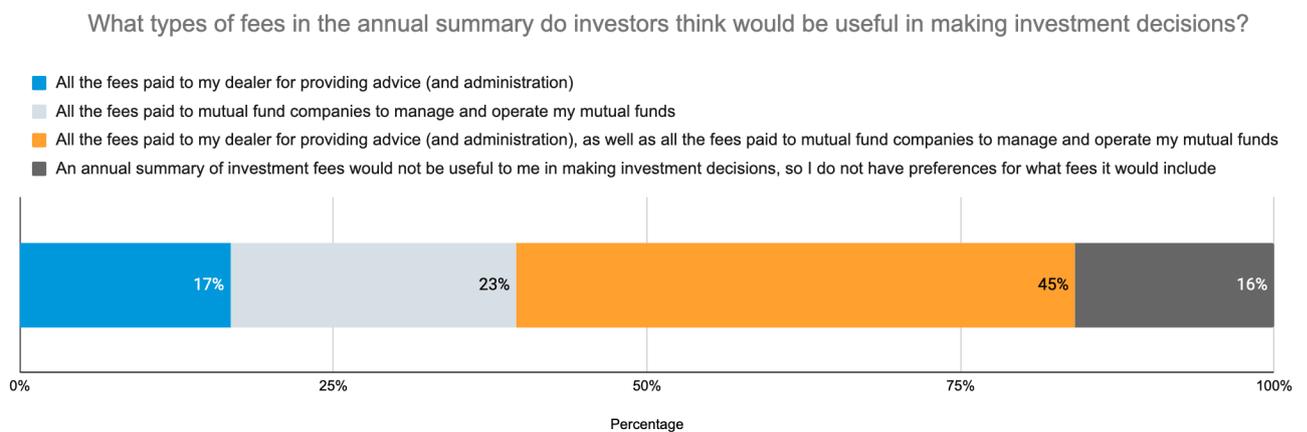


These data imply that most Canadian investors do not understand the information in the current fee summaries, despite using them to assist with financial decisions (as described in point 3, above). Expanded reporting of fees and clear explanations of what services are included in each fee would help investors better understand the services they receive and facilitate informed decision-making.

Findings related to investor preferences

A significant majority of investors (84%) would find it useful to receive some form of information about fees in order to make investment decisions. The most common preference was receiving expanded information about all the fees paid to dealers and to mutual fund companies (45%). In contrast, fewer than 1 in 5 respondents (17%) indicated they prefer the current scope of reporting.

Figure 11: Preferences for Scope of Annual Fee Summaries

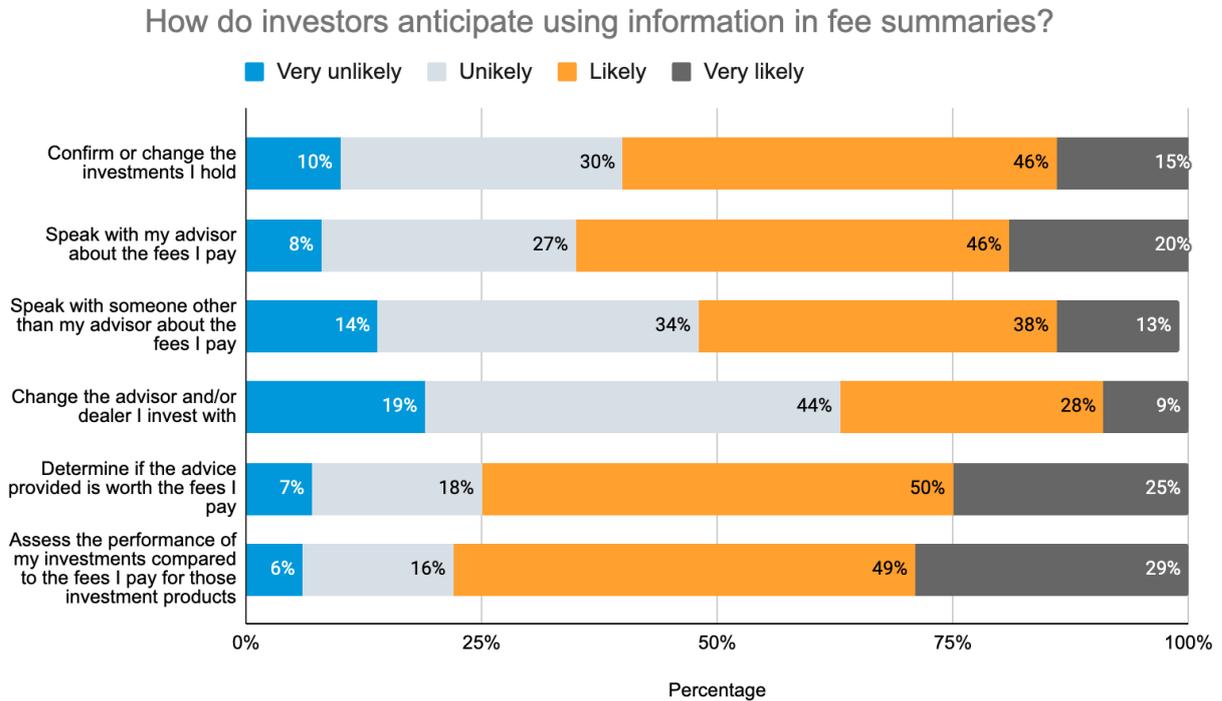


Other survey findings

Respondents indicate that they would be likely or very likely to use their annual fee summary to: assess the performance of their investments against their fees (78%), assess the value of their advice compared to their fees (75%), speak with their advisor about fees (66%), confirm

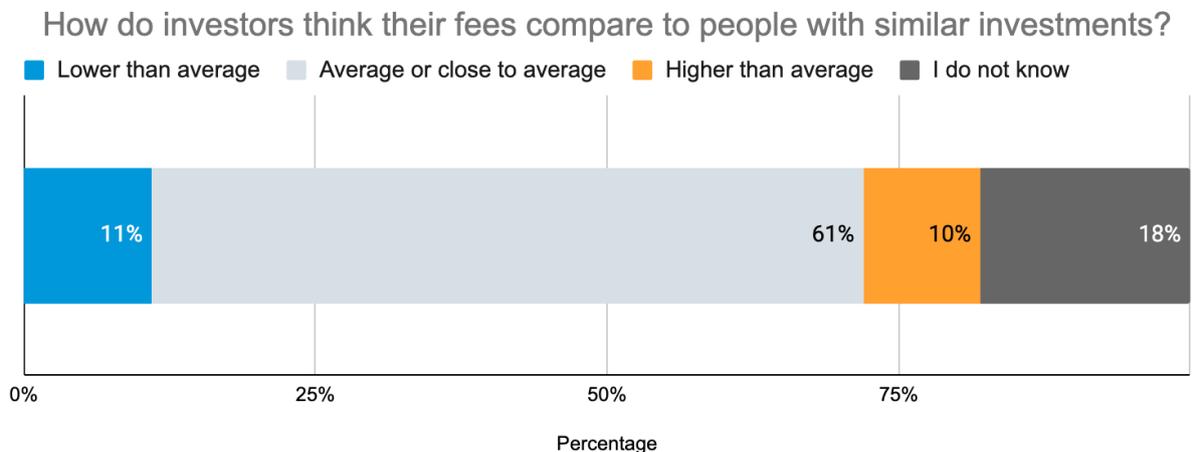
/ change the investments they hold (61%), speak with someone other than their advisor (51%), or change their advisor / dealer (37%). Although people may overstate their likelihood to take action, these findings show they would prioritize the same sorts of actions (e.g., assessing performance and advice against the fees they pay).

Figure 12: Potential Actions on Reviewing Annual Fee Summary



Finally, respondents do not exhibit any bias in assessing the level of fees they pay compared to other investors. This suggests that strategies related to the relative fairness of fees investors pay (e.g., “are you paying more than other investors?”) will not be effective.

Figure 13: Perception of Fees Relative to Other Investors



Qualitative Interview Findings

Semi-structured interviews with ten Canadian mutual fund investors provided greater depth to our understanding of the trends and barriers uncovered by our survey and literature scan. Participants had a wide range of self-reported investment knowledge (from 3 to 9 on a 1-10 scale) and investing experience (from 6 months to 25 years).

Participants shared their attitudes about fees, their understanding of current fee summaries, and their preferences for future fee summaries. Participants also answered questions about the actions that they have or would consider taking upon receiving the fee summaries.

Understanding fee information and the scope of fee summaries

The investors we interviewed varied in the extent of their knowledge about the fees they pay to invest, and their level of attention toward those fees. In general, those with greater self-assessed knowledge and investing experience indicated paying more attention to fees and thought that fees were more important. Many respondents, regardless of investment knowledge and experience, mentioned becoming more aware about and focused on fees over the past 5 years (e.g., searching information online, listening to podcasts where people said investment fees are important to examine).

Fees related to the cost of managing and operating mutual funds, which most investors referred to in terms of MER, were by far the most commonly cited and salient type of fees. This is likely explained by the fact that most investors had integrated dealers and therefore were not charged dealer fees. Investors with less investing knowledge and experience were less likely to immediately recognize fees but showed improved understanding upon being prompted with additional information and/or basic explanations.

In general, when participants started actively thinking about fees, they became more curious, even if they had previously indicated not being interested in the subject or showed a lack of understanding about fees. 'Being interested' in examining the fee summary in detail may require a baseline level of understanding, which is currently left up to each investor to attain. Additional signposting and basic explanatory prompts within annual investment fee summaries, in a way that replicate the interviewer role in these interviews, could therefore be beneficial to investors.

While investors were generally able to understand the types of fees they pay, certain terms and concepts remained very challenging. For example, the term "compensation" in the context of dealer compensation is not at all clear. The relationship between the costs an investor pays and the compensation that dealers receive is nuanced; even with 3-4 minutes of detailed explanation, many interviewees did not attain a clear understanding. Investors also had trouble understanding trailing commissions and short-term trading fees. The complexity of key terms related to fees and inadequacy of definitions affected even the more experienced, expert investors. Investors recognized the impact of this complexity – in one case identifying that "there's such a barrier because of the lingo and the jargon." The costs of investing are inherently complex, and it is likely that some complexity and confusion is unavoidable. However, investors expressed a meaningful degree of interest in better understanding these concepts.

Beyond individual terms, investors did not understand the scope of current CRM2 fee summaries. Most became confused with performance reports and/or fund facts documents and thought that current summaries included management fees. In reviewing samples of current and expanded cost summaries, many investors thought the information related to individual investments, not the whole account. This misunderstanding jeopardized investor understanding of the purpose and nature of the fee summary. This misunderstanding is probably less common in the real-world context of receiving fee summaries as they are generally packaged with the performance report / account summary, which more clearly indicate that they are at the account level. One mutual fund investor, who had a low level of self-reported expertise, was even more unsure of the nature of the fee summary, asking whether it was a bill that needed to be paid.

Perceptions and preferences regarding fee summaries

All interviewees had a strong, unequivocal preference for the inclusion of management fees in their annual fee summaries. It was not immediately obvious to investors that the “ongoing cost of owning investment funds” referred to in the sample expanded fee summary reflected those fees, as investors tended to search for the term “management fees” or “management expense ratio”. Investors have a preference for terms they are already familiar with.

Overall, investors reported a strong preference for more information and transparency than that provided in the sample expanded cost disclosures developed by MFDA. Some wanted more detail on the components of the “ongoing cost of owning investment funds.” One indicated that they wanted to “know the exact dollars and cents [...] spent as an investor to receive the services [they] received.” Other investors wanted a breakdown of the fees by each investment they held. These two points can be seen as part of a broader desire to understand what generated the fees, in terms of both investor choices and dealer / fund manager actions. While no investors believed the lack of information was hiding inappropriate dealer actions, some shared the sentiment that “the lack of transparency has the potential to create a perception that there is [something untoward].”

These preferences for more detailed information varied. People who reported themselves to be less knowledgeable about investing indicated that they would not review anything in detail beyond aggregate, summary level information.⁸ In contrast, more knowledgeable investors would prefer product level information for each individual investment. It is unclear to what extent a majority of investors would review this information in practice.

Many investors indicated a desire to contextualize the fee information as a way to help evaluate whether the level of fees they pay is appropriate or requires them to take action. The most common request was to be provided with their fees as a percentage of the total value of their investments.⁹ (This desire may be less relevant in practice, where investors receive the fee summary alongside the performance report.) Another commonly sought

⁸ As has been reported in previous research, providing purely a summary may lead some investors to question the completeness of the disclosure, and, more importantly, may not give them enough information about the services they received and the decisions they made, reducing their ability to take informed action (BIT & OSC, 2019).

⁹ On the specific point of expressing fees as a dollar amount or percentage of total investment value, investor preferences were split roughly evenly.

reference point was the performance of each fund or of their portfolio (i.e., investment gains or losses over the previous year). While less common, investors also identified other potential reference comparisons, including historical trends in their fees or comparisons to other investors or standards

Taking actions on the basis of the information provided by fee summaries

When discussing the actions that investors have or might take after reviewing fee summaries, most investors focused on getting greater clarity on the information, given the comprehension issues described above. This could include taking a more detailed look through the fee summary, researching terminology, or speaking with family, friends, or a financial advisor. In doing so, investors would focus on understanding the “total cost” that they paid, assessing if “total fees matched up” with their expectations upon purchasing the fund, and/or comparing the fees (usually stated in terms of MER) they paid for each investment with that of other, comparable funds.

Switching investments to lower fee / or higher performing options was the most commonly cited action other than learning more about the fees. For example, one investor would “ask [their advisor] about comparable funds and what the total cost and compensation would be, if the rate of return was equal.” However, some investors shared that the perceived difficulty of finding more information has kept them from doing so.

None of the investors we interviewed flagged other potential actions like obtaining more value for the fees that they paid or renegotiating fees. Only one mentioned potentially switching dealers, which they framed as unlikely. When prompted to consider other actions, they indicated several potential barriers. For instance, one investor felt there is “not a lot that [an investor] can do” to meaningfully influence their costs of investing given the modest size of their portfolio: “it’s not like [I] can take [my] millions to another bank.”

Upon reviewing the sample expanded fee summary developed by MFDA, we asked investors whether they would take different actions with the additional information provided. Some reported that they would feel more comfortable comparing management fees to an “industry average” for a given sector or type of product, but most participants would take the same actions they had cited for the current CRM2 reports.

Overall, most investors have a limited view of how fee information could enable them to make more informed investing decisions and better achieve their financial goals. We hypothesize this is because they are focused on understanding the information itself, which is a significant challenge. Interview participants struggled to make sense of the links between their choices and the fees that they pay when reviewing sample fee summaries. While this speaks to the need to help investors better understand their annual investment fee summaries, it also suggests fee summaries may have a role in communicating what investors may want to use the information *for*.

Literature Scan Findings

We reviewed selected literature on the key cognitive and behavioural barriers to reviewing, understanding, and acting on investment fee cost disclosures. This section summarizes each barrier identified for each of these three categories, with a focus on the potential implications for expanded cost reporting.

Barriers to reviewing fee summaries

Investors are not able to benefit from annual fee summaries if they do not see them, open them, and review them.

1. Investors may not see the fee summary.

Investors are unable to review annual investment fee summaries if they do not see them. This may be more likely to occur where annual investment fee summaries are delivered through a channel that the investor does not routinely interact with (e.g., sent in the mail to an investor who primarily handles their documents digitally) or if they are included with other documents and easily overlooked (BIT & OSC, 2019).

We do not foresee additional implications for expanded cost reporting.

2. Investors may decide not to review the fee summary.

Even if investors see and open the fee summary, they may ultimately not meaningfully review it. This may be especially true if:

2.1. The fee summary purpose is not immediately apparent.

When the purpose of a document is unclear or cannot be understood quickly, people are less inclined to read it. Investors may not easily understand what the fee summary is for or about, and chose not to review it further (BIT & OSC, 2019).

We do not foresee additional implications for expanded cost reporting.

2.2. Investors may think reviewing the fee summary will be unpleasant.

When individuals believe that information or a task will be unpleasant (e.g., that they are paying more in fees than they wish), they often put off engaging with it. This is known as *information aversion* or the *ostrich effect* (Lowenstein et al., 2014). If investors believe that the information contained within the fee summary or the task itself of reviewing the fee summary will be unpleasant, they may avoid reviewing it.

This barrier is likely to be more significant under expanded cost reporting, as the value of the fees paid will be higher.

2.3. Investors may perceive the fee summary to be complex, long, or otherwise taxing to read.

People are more likely to rely on mental shortcuts and/or fail to act when they are faced with choices or information that they perceive to be complex. The more complex something seems to be, the stronger this tendency will be (Chernev et al, 2015). If investors perceive a fee summary as complex or onerous, they may be less motivated to review it.

Expanded fee summaries would likely contain more information than current annual investment fee summaries, increasing the possibility that investors could perceive the report as onerous and avoid reviewing it.

2.4. Investors may think the fee summary is unimportant.

Investors may regard the fee summary as “just another notice” among the many that they receive instead of something that they need to pay attention to (BIT & OSC, 2019).

Annual investment fee summaries should be distinguished from routine documents that are sent to investors, (e.g., through labelling or prompts to expect the fee summary) and not packaged with other documents.

We do not foresee additional implications for expanded cost reporting.

2.5. Investors may fail to consider the aggregate value of potential savings based on actions they could take to reduce their fees.

Investors may view small individual fees as insignificant, failing to appreciate how they add up over time and impact overall financial performance (Read, Loewenstein, & Rabin, 1999). The implication is that actions to reduce those fees would therefore also be seen as insignificant, demotivating actions.

Expanded cost reporting is likely to reduce the impact of this barrier, as the total levels of fees will be the same or higher.

2.6. Investors may not review fee summaries because they are taking other actions to support their financial wellness.

When faced with multiple choices, such as what action to take to achieve a financial goal, individuals may group these choices into sets or “brackets” which can influence the decisions they make as they consider the choices in relation to one another (Read et al., 1999).

This means that when investors think about financial wellness, they may consider a number of behaviours as equally valuable or helpful in achieving their goals and choose to substitute one behaviour for another. For example, investors may choose not to review their fee summary, but still believe that they are sufficiently caring for their financial wellness by monitoring their investment earnings.

We do not foresee additional implications for expanded cost reporting.

Barriers to understanding

Investors need to understand the fee information provided to them if they are going to use that information to make better investment decisions. The barriers listed in this section relate to both how the information is *presented*, and the *complexity / amount* of information that is ultimately disclosed.

3. Content presentation as a barrier to investor understanding

3.1. Investors may not be able to understand critical but complex terminology used in the fee summary.

When investors cannot understand the content of the fee summary because it uses language that is complex, unclear, and/or unfamiliar (e.g., “trailing commissions”) or uses terms in ambiguous ways (e.g., “is fee the same as a charge?”), they will be less likely to continue reading it.

Cost disclosures should use clear, plain language whenever possible and explain all terms that may be unfamiliar to investors.

Compared to current cost reporting, expanded cost disclosures would likely include more information for investors to make sense of and might also introduce new terminology. These factors could make the fee summary harder to understand and subsequently decrease the likelihood that investors will understand it.

3.2. Limited attention leads investors to miss key details in the fee summary.

People have limits on how much information they can process or pay attention to. These limits mean people do not always review information carefully and sometimes take shortcuts, such as skimming for the main points. This may lead investors to miss important details about costs if key information is not salient.

Cost disclosures should ensure that the key points are salient (i.e., attention grabbing/obvious) and can be understood easily and ideally, independent of other information in the fee summary. Expanded cost reporting would have additional content which may increase the likelihood of key details being missed if these are not highlighted for investors.

4. Cognitive barriers to understanding the information provided by annual investment fee summaries.

4.1. It may be challenging for investors to consider all of the complex information related to various fees.

People have limits on the amount of information that can be processed at a given time. Greater quantity and/or complexity of information places greater strain on individuals’ cognitive bandwidth. People may thus rely on cognitive shortcuts to make it easier to process the information, which can introduce errors in understanding.

Expanded cost reporting would present investors with more information to consider. This could contribute to cognitive overload, increasing investors reliance on shortcuts and ultimately decreasing thoughtful review of the fee summary. This could impact investors’ ability to act on the information in the fee summary. This barrier may be exacerbated if investors assess information in comparison to previous annual investment fee summaries they have received, especially if they do not recognize the expanded scope.

4.2. Investors may neglect the indirect costs that they pay.

Investors often fail to consider hidden attributes or fees, which can introduce significant costs (Gabaix & Laibson, 2006). For example, investors may not understand indirect investment fees paid to third parties (e.g., trailing commissions) that comprise part of CRM2 cost reporting as they are not paid directly by the investor.

It is unclear whether expanded cost would compound this challenge. Management fees reduce returns and are not directly paid, making them less visible, which may lead to their neglect. On the other hand, the qualitative interviews we conducted indicate that they are the most salient fees for mutual fund investors. What is clear is that the relationship between dealer compensation and management fees is indeed hidden and complex, which will pose a challenge for investor comprehension.

4.3. Investors may not find information on fees meaningful without a reference point.

When assessing costs and benefits, people often rely on comparisons to understand values relative to something else (Ariely, 2009). Without the ability to compare information on fees to reference points or benchmarks (e.g., industry standards, fees paid in previous years, fees paid as a proportion of total investment value or investment gains), investors may find it difficult to understand whether or not their fees are reasonable or appropriate.

This potential barrier could be exacerbated if expanded fee summaries are not clear about the ways in which information presented in expanded fee summaries is comparable to previous annual investment fee summaries, as that is one potential reference point that would now be less relevant (and could in fact be quite confusing).

4.4. Investors may underestimate the total cost of fees (especially over time).

When people make multiple choices, they tend to make each decision in isolation and fail to consider accumulative effects. This can lead to the 'peanuts effect', in which repeated and seemingly inconsequential transactions can add up to significant total expenditures (Read et al., 1999). As a consequence of this underweighting of small money amounts, investors may not recognize how small fees they incur add up.

People also tend to estimate growth in linear terms and neglect the compounding of exponential growth over time (Kronlund, et al., 2019; Levy & Tasoff, 2016). Investors may overlook that as their portfolio grows, the fees will compound at a rate that may be small at first but amount to significant sums over the years.

Cost disclosures should therefore address the consideration that investors may overlook that as their portfolio grows, the fees will grow at a compounding rate that may be small at first but over the years could amount to significant sums.

A larger cost base (i.e., current fees) means that compounding effects will be larger in absolute terms, so investor neglect of the compounded values could have significant financial ramifications. The fee summary could highlight fees that grow at an exponential rate and include projections of how the fees will increase over time. On the other hand, the inclusion of management fees may mean that the “peanuts effect” is less relevant.

Barriers to action

Investors who review and comprehend annual fee summaries may still face barriers in using fee information to make better decisions.

5. Barriers to considering taking action.

Upon reviewing their annual fee summaries, investors may not even consider taking action to reduce costs and/or improve the services they receive.

5.1. The perceived cost of fees is too low to motivate action.

When fees are deducted without deliberate action from the consumer (i.e., when they are applied automatically), the 'pain of paying' is reduced (Prelec & Loewenstein, 1998). When combined with the barriers noted above on underestimating the total cost of fees over time, investors may misperceive the impact of fees and therefore be less inclined to take action. This barrier is likely to be substantially less significant in the context of expanded cost reporting given the larger fee amounts being disclosed.

5.2. Investors may default to the status quo.

Individuals tend to prefer maintaining the existing state of affairs or pattern of behaviour (Kahneman, 1991). Given that annual investment fee summaries are retrospective, the fees investors pay are in fact the “status quo,” meaning that acting to reduce these fees or obtain more value from them is a fundamentally “uphill battle.” Investors may also default to their past behaviours after receiving a fee summary, which in many cases could mean taking no further action.

This barrier is unlikely to be affected by expanded cost reporting.

5.3. Investors are unaware of the range of actions they can take on the basis of fee information.

Investors may face a very simple barrier preventing them from taking action on their annual investment fee summaries: not knowing what actions they might take. For example, investors may be unaware when it is appropriate to negotiate fees and prices, so will accept the charges as they are presented. Investors may fail to act on investment fees simply because they do not know that they can explore different options.

Current reporting does not clearly link the fees people pay to the choices they have made, which makes it more challenging to understand what investor choices could reduce fees or increase the value of services. While in some cases the link between service and fee is relatively intuitive (e.g., transaction fees), in other cases it may be much less clear (e.g., trailing commissions or management fees).

This barrier may become more significant under expanded cost reporting given the inclusion of management fees, which cannot be negotiated with the dealer.

5.4. Switching investment dealers or products may be considered a hassle.

When there is considerable friction or perceived difficulty in the process of changing dealers, products or services, consumers are often put off from following through. When institutions, intentionally or inadvertently, make actions 'sludgy' by introducing (or failing to eliminate) friction, some outcomes, like investor inaction, are more likely to occur (Sunstein, 2020). Where investors implicitly *assume* these actions will be a hassle, they will be less likely to even consider taking action.

This barrier may be less prominent under expanded cost reporting as switching investment products (mutual funds) is a clearer and somewhat less friction-laden process than switching investment dealers or renegotiating dealer fees.

6. Barriers to taking an intended action.

Even if investors *intend* to take action on the basis of the information provided in annual fee summaries, there are certain barriers which may inhibit their ability to do so.

6.1. The complexity of investment choices hinders informed decision-making.

Decisions involving investment fees rely on judgements that can involve many complex comparisons, such as types of fees, different rates, third party compensation, and expected investment returns. Yet, as people take more choices or factors into account, they are less able to identify better financial options or 'deals' (Lunn et al., 2016; Kronlund et al., 2019).

The complexity of the decision, in a context with few opportunities for feedback and learning, could introduce a risk that investors will make decisions that are less than optimal for their financial wellbeing (ASIC & AFM, 2019).

Expanded cost reporting may deepen this challenge by adding more types of fees and choices for investor consideration.

6.2. Investors may be uncomfortable speaking with their investment representative about their fees.

Investment representatives can provide more clarity and context on fees than the annual fee summary, but speaking to a financial professional can be intimidating for many people (BIT & OSC, 2019). The discomfort people often experience when speaking to professionals with specialized knowledge and training can be heightened in situations in which people are asking about or requesting renegotiated, lower fees. Investors may also be reluctant to reach out to their current advisors to discuss the charges if they see it as questioning the advisor's current advice and/or intimidated by the advisor's specialized knowledge.

These concerns could decrease the likelihood that investors follow up with their advisors after receiving annual investment fee summaries, despite the fact that advisors are likely to be a key resource for investors looking to lower their fees.

Expanded cost reporting may help decrease this barrier, as investors may feel more prepared to talk about the different fees or may choose to talk about fees that are not levied

by the dealer themselves, potentially decreasing their discomfort.

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Appendix B: Disclosure Formats

Formats tested in our online trial

Account Holdings Section of Account Statements

Standard Account Holdings

Dealer ABC Inc.

Your Account Number: 123-4567

Holdings in your account

On December 31, 2020

Portfolio Assets

<u>Description</u>	Book Cost	Shares/ Units	Price	Market Value	Unrealized gain or loss	% of your holdings
<u>Investment Funds</u>						
ABC Management Monthly Income Fund, Series A FE	\$17,000.00	250.00	\$78.00	\$19,500.00	\$2,500.00	41.49%
ABC Management Canadian Equity, Series A FE	\$19,500.00	450.00	\$50.00	\$22,500.00	\$3,000.00	47.87%
<u>Equities</u>						
Company A N/A	\$2,000.00	100.00	\$30.00	\$3,000.00	\$1,000.00	6.88%
Company B N/A	\$1,500.00	50.00	\$40.00	\$2,000.00	\$500.00	4.26%
Totals	\$40,000.00			\$47,000.00		100.00%

MER Account Holdings

Dealer ABC Inc.

Your Account Number: 123-4567

Holdings in your account

On December 31, 2020

Portfolio Assets

<u>Description</u>	MER ¹	Book Cost	Shares/ Units	Price	Market Value	Unrealized gain or loss	% of your holdings
<u>Investment Funds</u>							
ABC Management Monthly Income Fund, Series A FE	1.00%	\$17,000.00	250.00	\$78.00	\$19,500.00	\$2,500.00	41.49%
ABC Management Canadian Equity, Series A FE	2.00%	\$19,500.00	450.00	\$50.00	\$22,500.00	\$3,000.00	47.87%
<u>Equities</u>							
Company A N/A		\$2,000.00	100.00	\$30.00	\$3,000.00	\$1,000.00	6.88%
Company B N/A		\$1,500.00	50.00	\$40.00	\$2,000.00	\$500.00	4.26%
Totals		\$40,000.00			\$47,000.00		100.00%

1. MER is the management expense ratio. It is the fee charged by the investment fund company for management, operating expenses, taxes, and commissions, expressed as a percentage of a fund's value. The MER differs depending on the fund you select.

Option 1: Status Quo with Expanded Disclosure

Dealer ABC Inc.

Your Account Number: 123-4567

Annual Charges and Compensation Report

This report summarizes the compensation that we received in 2020. Our compensation comes from two sources:

1. What we charge you directly. Some of these charges are associated with the operation of your account. Other charges are associated with purchases, sales, and other transactions you make in the account.
2. What we received from third parties.

Charges are important because they reduce your profit or increase your loss from investing. If you need an explanation of the charges described in this report, your representative can help you.

Charges and Compensation	Amount
Section 1: Charges associated with the operation of your account	
Account administration fee	\$100.00
Section 2: Amounts you paid to us for specific transactions	
Trading fees	\$20.00
Section 3: Amounts we received from others	
Trailing commissions	\$342.00
Total charges and compensation received in this period:	\$462.00

Trailing Commission: Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce the amount of the fund's return to you. Information about management fees and other charges to your investment funds is included in the prospectus or fund facts document for each fund.

Explanatory Notes

Fund management and operation costs: You pay ongoing costs related to the management and operation of funds for so long as you have them as investments in your account. You do not pay these fees directly; they are deducted from the funds. These fees were already deducted from the funds before their market value was calculated for purposes of your investment performance report and are not included in the table above. These fees are the principal way the funds' managers cover their costs and make an operating profit. You may have also paid other fees related to transactions in investment funds such as short term trading fees and redemption charges. For information about specific funds, see your account statements and the relevant fund facts documents available on each fund's issuer's website.

Dealer ABC Inc.

Your Account Number: 123-4567

Annual Charges and Compensation Report

This report summarizes your investment costs in 2020 as well as any additional compensation we received in connection with your account.

Your total cost of investing with us was \$815.00

Direct payments by you to us totalled \$120.00

Indirect payments by you to investment fund issuers totalled \$695.00

We also received payments from others that totalled \$342.00

This report uses two sections to break down and explain these totals:

1. Our charges and compensation
2. Investment fund charges

1. Our Charges and Compensation

This part of the report covers the compensation that we received directly and indirectly in 2020. Our compensation comes from two sources:

- What we charge you directly. Some of these charges are associated with the operation of your account. Other charges are associated with purchases, sales and other transactions you make in the account.
- What we receive through third parties.

Charges are important because they reduce your profit or increase your loss from investing. If you need an explanation of the charges described in this report, your representative can help you.

Charges you paid directly to us

Account administration fee	\$100.00	
Total charges associated with the operation of your account		\$100.00
Trading fees	\$20.00	
Total charges associated with transactions we executed for you		\$20.00
Total charges you paid directly to us		\$120.00

Compensation we received through third parties

Trailing commissions from mutual fund managers (see note 1)	\$342.00
Total compensation we received through third parties	\$342.00
Total charges and compensation we received in 2020	\$462.00

2. Investment Fund Charges

This part of the report covers ongoing charges you paid in 2020 to the managers of investment funds. You pay these investment fund charges (often referred to as "management expense ratio" or "MER") for so long as you have them as investments in your account. You do not pay these amounts directly; they are deducted from the funds. These charges were already deducted from the funds before their market value was calculated for purposes of your account statements and investment performance report. These charges are the principal way the funds' issuers cover their costs and make an operating profit. For information about charges for specific funds, see the relevant fund facts documents available on each fund's issuer's website.

Charges you paid indirectly to the issuers of investment funds

Investment management fees and operating expenses ("MER")	\$645.00
Redemption fees paid on the sale of deferred sales charge investments	\$50.00
Total Investment Fund Charges you paid in 2020	\$695.00

Notes:

1. Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce the amount of the fund's return to you. Information about management fees and other charges to your investment funds is included in the prospectus or fund facts document for each fund.

Your Account Number: 123-4567

Annual Charges and Compensation Report

Important: Review Your Cost of Investing

Your total cost of investing in 2020: \$815.00

This report shows your total cost of investing last year. These costs impact your returns. They reduce your profit when your investments go up and increase your losses when your investments go down.

Your cost of investing is impacted by your choices. **This report is important because it can help you make more informed choices about your investing costs.**

A detailed breakdown of your costs is presented in two sections:

1. Fees that we, *Dealer ABC Inc.*, received. This includes fees we charged you directly and amounts we received from investment fund companies (e.g., commissions).
2. Amounts you paid to investment fund companies that operate any investment funds (e.g., mutual funds) you hold.

	Cost
1. Fees that we, <i>Dealer ABC Inc.</i>, received	
Trailing commissions ¹ - paid to us by investment fund companies out of the fees they charge you	\$342.00
Account administration and operating fees - you pay these fees to us each year	\$100.00
Trading fees - you pay these fees to us when you buy or sell investments	\$20.00
Net amount we received	\$462.00
2. Amounts you paid to investment fund companies	
Investment management fees and operating expenses ² - automatically deducted from your investments by the investment fund companies (based on the fund's MER)	\$645.00
Minus: trailing commissions the fund companies paid to us, as reported above	(\$342.00)
Net investment management fees and operating expenses	\$303.00
Redemption fees on deferred sales charge investments	\$50.00
Net amount you paid to investment fund companies	\$353.00
Total you paid to invest in 2020	\$815.00

1. **Trailing commissions** are a part of the overall investment management fees and expenses you pay to investment fund companies, which you may know as the "management expense ratio" or "MER." They are paid to us, *Dealer ABC Inc.*, by investment fund companies for the advice and services we provide to you.
2. Your **investment management fees and operating expenses**, which you may know as the "MER," depend on the investment funds (e.g., mutual funds) you purchased and continue to hold. Different funds charge different levels of fees. These fees are deducted from the value of your investments by the companies that manage and operate those funds.

Your Account Number: 123-4567

Annual Charges and Compensation Report**Total Costs you paid to invest in 2020: \$815.00**

This report summarizes your investment costs in 2020 and uses two sections to break down and explain these totals:

1. Amounts paid to us which includes:

- What we charge you directly. Some of these charges are associated with the operation of your account. Other charges are associated with purchases, sales, and other transactions you make in the account.
- What we received from third parties.

2. Amounts you paid to investment fund companies.

Costs are important because they reduce your profit or increase your loss from investing. If you need an explanation of the costs described in this report, your representative can help you.

	Cost
1. Fees that we, Dealer ABC Inc., received	
Trailing commissions ¹ - paid to us by investment fund companies out of the fees they charge you	\$342.00
Account administration and operating fees - you pay these fees to us each year	\$100.00
Trading fees - you pay these fees to us when you buy or sell investments	\$20.00
Net amount we received	\$462.00
2. Amounts you paid to investment fund companies	
Investment management fees and operating expenses ² - automatically deducted from your investments by the investment fund companies (based on the fund's MER)	\$645.00
Minus: trailing commissions the fund companies paid to us, as reported above	(\$342.00)
Net investment management fees and operating expenses	\$303.00
Redemption fees on deferred sales charge investments	\$50.00
Net amount you paid to investment fund companies	\$353.00
Total you paid to invest in 2020	\$815.00

1. **Trailing commissions:** Investment funds pay investment fund managers a fee for managing their funds. The managers pay us ongoing trailing commissions for the services and advice we provide you. The amount of the trailing commission depends on the sales charge option you chose when you purchased the fund. You are not directly charged the trailing commission or the management fee. But, these fees affect you because they reduce the amount of the fund's return to you. Information about management fees and other charges to your investment funds is included in the prospectus or fund facts document for each fund.
2. **Ongoing investment management fees and operating expenses.** You pay these investment fund charges (often referred to as "management expense ratio" or "MER") for so long as you have them as investments in your account. You do not pay these amounts directly; they are deducted from the funds. These charges were already deducted from the funds before their market value was calculated for purposes of your account statements and investment performance report. These charges are the principal way the funds' issuers cover their costs and make an operating profit. For information about charges for specific funds, see the relevant fund facts documents available on each fund's issuer's website.

Appendix C: Sample Disclosures for Other Types of Fees and Fee / Product Exclusions

The disclosure formats tested used a non-comprehensive set of fees and charges. Our goal was to make the samples as representative of common investor disclosures as possible. In this Appendix, we visualize the highest performing disclosure format with a more comprehensive set of fees and charges. We also offer an example of what the disclosure might look like for a fee-based account. Last, we briefly touch on certain fees and products that were excluded from our research.

Sample disclosure with a more comprehensive list of potential fees

The formats developed for testing included only a subset of the universe of fees that may be included in an Annual Charges and Compensation Report. We included fees that were most likely to be relevant to an average investor. This makes our findings more generalizable to the population of Canadian investors. For example, we did not include:

- **Referral fees**, as they are not widely applicable and because the way they are presented varies widely across the industry.
- **DSC commissions**, as they were rapidly decreasing in popularity and there was an impending ban in all jurisdictions except one¹⁰. (We included DSC redemption charges as even where CSA jurisdictions had agreed to a complete ban of DSC, there would still be 7 years from the time a ban was implemented for the DSC fee schedule on existing DSC funds to expire).

The following sample disclosure visualizes a more comprehensive list of fees. It is based on Option 4, which was the most effective in our testing.

Note that the fees added below under “Fees that we, *Dealer ABC Inc.*, received” are currently required to be reported under CRM2. It would be extremely rare for all of these charges to be charged to the same account. In fact, some of these suggest that the others might not apply. We further note that some of the “Fees that we, *Dealer ABC Inc.*, received” could also be charged by a third party. Additional fees relative to the formats used in our evaluation are indicated in italics.

¹⁰ Subsequent to the completion of the experiment, the OSC announced it would join in on the ban of DSC, making such a ban effective across all of Canada.

Your Account Number: 123-4567

Annual Charges and Compensation Report

Important: Review Your Cost of Investing

Your total cost of investing in 2020: \$1,260.00

This report shows your total cost of investing last year. These costs impact your returns. They reduce your profit when your investments go up and increase your losses when your investments go down.

Your cost of investing is impacted by your choices. **This report is important because it can help you make more informed choices about your investing costs.**

A detailed breakdown of your costs is presented in two sections:

1. Fees that we, *Dealer ABC Inc.*, received. This includes fees we charged you directly and amounts we received from investment fund companies (e.g., commissions).
2. Amounts you paid to investment fund companies that operate any investment funds (e.g., mutual funds) you hold.

	Cost
1. Fees that we, Dealer ABC Inc., received	
Trailing commissions ¹ – paid to us by investment fund companies out of the fees they charge you	\$342.00
Account administration and operating fees – you pay these fees to us each year	\$100.00
Trading fees – you pay these fees to us when you buy or sell investments	\$20.00
<i>Switch fees – you pay these fees for switching your investments</i>	\$25.00
<i>NSF Fees – you paid these for providing us with a payment that was returned NSF</i>	\$50.00
<i>Transfer out fee – you pay these fees for transferring assets to another dealer</i>	\$125.00
<i>Front end sales charge – you pay these fees for purchasing investment funds</i>	\$20.00
<i>Trustee Fee – you pay these fees to us each year</i>	\$50.00
Net amount we received	\$732.00
2. Amounts you paid to investment fund companies	
Investment management fees and operating expenses ² – automatically deducted from your investments by the investment fund companies (based on the fund's MER)	\$645.00
Minus: trailing commissions the fund companies paid to us, as reported above	(\$342.00)
Net investment management fees and operating expenses	\$303.00
Redemption fees on deferred sales charge investments	\$50.00
<i>Short term redemption fee - you bought and sold an investment fund within 90 days</i>	75.00
Net amount you paid to investment fund companies	\$428.00
3. Amounts you paid to other third parties	
<i>Intermediary fees</i>	\$100.00
Net amount you paid to other third parties	100.00
Total you paid to invest in 2020	\$1,260.00

1. **Trailing commissions** are a part of the overall investment management fees and expenses you pay to investment fund companies, which you may know as the “management expense ratio” or “MER.” They are paid to us, *Dealer ABC Inc.*, by investment fund companies for the advice and services we provide to you.
2. Your **investment management fees and operating expenses**, which you may know as the “MER,” depend on the investment funds (e.g., mutual funds) you purchased and continue to hold. Different funds charge different levels of fees. These fees are deducted from the value of your investments by the companies that manage and operate those funds.

Sample disclosure for fee-based account

We did not include fee items related to fee-based charges (a flat fee paid each year for account advice and administration). Generally, this can be represented by two sets of costs: the fee-based charge paid directly by the client to the dealer, and the investment management fees and operating costs paid indirectly by the client to the investment fund companies. See below for an illustration of how this could be represented within the overall Option 4 format.

Your Account Number: 123-4567

Annual Charges and Compensation Report

Important: Review Your Cost of Investing

Your total cost of investing in 2020: \$815.00

This report shows your total cost of investing last year. These costs impact your returns. They reduce your profit when your investments go up and increase your losses when your investments go down.

Your cost of investing is impacted by your choices. **This report is important because it can help you make more informed choices about your investing costs.**

A detailed breakdown of your costs is presented in two sections:

1. Fees that we, *Dealer ABC Inc.*, received. This includes fees we charged you directly.
2. Amounts you paid to investment fund companies that operate any investment funds (e.g., mutual funds) you hold.

	Cost
1. Fees that we, <i>Dealer ABC Inc.</i>, received	
Fee based Account Charges ¹	\$462.00
2. Amounts you paid to investment fund companies	
Investment management fees and operating expenses ² – automatically deducted from your investments by the investment fund companies (based on the fund's MER)	\$353.00
Total you paid to invest in 2020	\$815.00

1. A fee you agreed to with your advisor to service your fee-based investments. Payment of this fee is deducted from your account or through a redemption of fund units.
2. Your **investment management fees and operating expenses**, which you may know as the “MER,” depend on the investment funds (e.g., mutual funds) you purchased and continue to hold. Different funds charge different levels of fees. These fees are

deducted from the value of your investments by the companies that manage and operate those funds.

We had to weigh the potential benefits of testing additional formats with the limitations of reduced sample size within each comparison group. As a result, a number of items were considered but not prioritized for the purposes of this testing. What follows is a brief overview of some of these key items (in addition to those covered in the Recommendations Based on Exploratory Research section), which may be valuable considerations for future research.

Fee and product exclusions

Trading expenses that an investment fund incurs for trading in the underlying securities are shown separately (for example, on the Fund Fact document) as the trading expense ratio (TER). It is a significantly smaller number than MER, which means it has relatively limited impact on clients. The TER is also more variable, making it more difficult, and therefore costly, to show either a correct TER at a particular time or calculate and provide the actual dollar cost at year end. Given these considerations, TER was not included for the purposes of our testing. MFDA has examined various ways it could be displayed including: a simple wording disclosure on the existence of TER, addition to the account statement along with the MER, and/or inclusion as another “amount you paid to investment fund companies” line item. A more thorough review of the costs and benefits of providing TER could be undertaken in future studies.

Other products may have fees. This project focused on investment funds, as they represent over 95% of MFDA Member assets and the large majority of indirect costs paid by clients. The remaining products generally have no initial or ongoing costs, bear small costs, or are specialized products (such as certain exempt products) only sold to a small, generally more sophisticated proportion of the investing population.

Appendix D: Detailed Experimental Research Findings

Background / Demographics Questions

Investor Status		
<i>Do you currently hold any of the following? (Please select all that apply)</i>		
Investment funds (e.g., mutual funds)	4,753	(90%)
Savings account	4,500	(85%)
Stocks	2,922	(55%)
Bonds	1,592	(30%)
GICs ¹¹	381	(7%)
		N = 5,268

Gender	
Female	53.13%
Male	46.55%
Other	0.32%
N = 5,268	

Province	
Ontario	42.26%
Quebec	22.11%
British Columbia	13.12%

¹¹Note: This response option was only available for ~20% of the sample. 381 of the 1,123 participants for which this response option was available reported GIC holdings (34%). We therefore hypothesize the rate of GIC holdings is considerably higher than what as a percentage of our full sample.

Alberta	10.95%
Manitoba	3.02%
Nova Scotia	2.45%
Saskatchewan	2.33%
New Brunswick	2.05%
Newfoundland and Labrador	0.84%
Prince Edward Island	0.57%
Northwest Territories	0.19%
Nunavut	0.08%
Yukon	0.04%
N = 5,268	

Age	
18-24	9.13%
25-24	21.05%
35-44	32.99%
45-54	16.21%
55-64	10.59%
65-74	7.80%
75+	2.22%
N = 5,268	

Annual Income	
\$0 - \$24,999	5.81%
\$25,000 - \$49,999	11.26%
\$50,000 - \$74,999	14.33%
\$75,000 - \$99,999	19.15%
\$100,000 - \$149,999	23.10%
\$150,000 - \$199,999	15.28%
\$200,000 or more	6.70%
Prefer not to specify	4.37%
N = 5,268	

Portfolio Value	
Under \$25,000	10.63%
\$25,000 - \$100,000	20.92%
\$100,001 - \$250,000	21.58%
\$250,001 - \$500,000	23.86%
\$500,001 - \$1,000,000	12.76%
Over \$1,000,000	4.57%
Prefer not to specify	5.68%
N = 5,268	

Investing Knowledge

On a scale from 1–10 (with 1 being “not at all knowledgeable” and 10 meaning “very knowledgeable”), how would you rank your knowledge about investing in investment funds (e.g., mutual funds)?

1	2.28%
2	3.08%
3	4.78%
4	4.63%
5	8.22%
6	10.90%
7	17.54%
8	22.61%
9	20.10%
10	5.87%
N = 5,268	

Core Comprehension Questions¹²

Q1 Understanding Report Purpose

What is the reason the Annual Charges and Compensation Report is included in the information package? (Select one)

	Option 1: Status Quo with Expanded Disclosure	Option 2: Expanded Cost Detail, Separated Costs and Compensation	Option 3: Expanded Cost Detail, Combined Costs	Option 4: Expanded Cost Detail, Combined Costs & BI
% Correct	52%	51%	52%	53%
				N = 5,268
Response options below (correct response underlined).				

¹² Please note disaggregated data is not causal and many of the differences across treatment groups may not be statistically significant. Totals may not add to 100% due to rounding.

- To inform you about your costs of investing
- To inform you of the performance of your investments
- To inform you of new investment opportunities available
- To inform you about new government regulations that may impact your investments

Q2 Identifying Fees Incurred

Based on the information you reviewed, what types of investing costs / fees have you incurred? (Select all that apply)

	Option 1: Status Quo with Expanded Disclosure	Option 2: Expanded Cost Detail, Separated Costs and Compensation	Option 3: Expanded Cost Detail, Combined Costs	Option 4: Expanded Cost Detail, Combined Costs & BI
<u>7/7</u> response options correctly selected	8%	8%	14%	14%
<u>6/7</u> response options correctly selected	26%	15%	17%	16%
<u>5/7</u> response options correctly selected	15%	20%	16%	15%
<u>4/7</u> response options correctly selected	29%	31%	30%	29%
<u>3/7</u> response options correctly selected	11%	12%	11%	12%
<u>2/7</u> response options correctly selected	10%	11%	10%	10%
<u>1/7</u> response options correctly selected	2%	4%	3%	3%
<u>0/7</u> response options correctly selected	0%	0%	0%	1%

N = 5,268

Response options below (correct responses underlined).

- Account administration / operating fees
- Costs / fees related to the management and operation of investment funds
- Trading fees
- Trailing commissions
- Asset performance fees
- Annualized tax withholding fees
- Investment gains charges

Q3 Understanding who receives compensation

Which organization or organizations received compensation related to your costs of investing? (Select

all that apply)

	Option 1: Status Quo with Expanded Disclosure	Option 2: Expanded Cost Detail, Separated Costs and Compensation	Option 3: Expanded Cost Detail, Combined Costs	Option 4: Expanded Cost Detail, Combined Costs & BI
4/4 response options correctly selected	19%	19%	20%	24%
3/4 response options correctly selected	48%	48%	44%	41%
2/4 response options correctly selected	15%	15%	17%	17%
1/4 response options correctly selected	15%	15%	15%	16%
0/4 response options correctly selected	3%	3%	4%	3%

N = 5,268

Response options below (correct responses underlined).

- My dealer
- The companies that manage investment funds I hold
- The securities regulator in my province or territory
- The Canada Revenue Agency

Q4 Understanding dealer fees

A dealer buys and sells securities and other investments for you. They may also provide investment advice. Which of the following statements about the payments your dealer received is most accurate? (Select one)

	Option 1: Status Quo with Expanded Disclosure	Option 2: Expanded Cost Detail, Separated Costs and Compensation	Option 3: Expanded Cost Detail, Combined Costs	Option 4: Expanded Cost Detail, Combined Costs & BI
% Correct	54%	54%	49%	54%

N = 5,268

Response options below (correct response underlined).

- My dealer received fees for administering my account
- My dealer received fees for administering my account and for transactions I made; they also received compensation related to the investment funds I hold
- My dealer received fees for administering my account and for transactions I made

Q5 Identifying total cost of investing

Based on the information that you received, what was your total cost of investing in 2020? (Select one)

	Option 1: Status Quo with Expanded Disclosure	Option 2: Expanded Cost Detail, Separated Costs and Compensation	Option 3: Expanded Cost Detail, Combined Costs	Option 4: Expanded Cost Detail, Combined Costs & BI
% Correct	23%	54%	67%	70%

N = 5,268

Response options below (correct response underlined).

Control group response options:

- \$342.00
- \$462.00
- More than \$462.00

Other treatment response options:

- \$462.00
- \$815.00
- More than \$815.00

Q6 Understanding fund fees

Why would an investor pay costs related to the management and operation of an investment fund? (Select one)

	Option 1: Status Quo with Expanded Disclosure	Option 2: Expanded Cost Detail, Separated Costs and Compensation	Option 3: Expanded Cost Detail, Combined Costs	Option 4: Expanded Cost Detail, Combined Costs & BI
% Correct	44%	44%	46%	43%

N = 5,268

Response options below (correct response underlined).

- Because they held that fund
- Because they bought that fund
- Because they sold that fund
- Because that fund went up in value

Q7 Understanding the impact of fees

Which of the following statements best describes how your cost of investing impacts your investments? (Select one)

	Option 1: Status Quo with Expanded Disclosure	Option 2: Expanded Cost Detail, Separated Costs and Compensation	Option 3: Expanded Cost Detail, Combined Costs	Option 4: Expanded Cost Detail, Combined Costs & BI
% Correct	54%	53%	50%	52%

N = 5,268

Response options below (correct response underlined).

- When the value of your investments goes up, your cost of investing reduces your gains
- Whether or not you gain or lose you still incur your cost of investing, which increases your losses or reduces your gains
- The higher your cost of investing, the better their performance will be
- The higher your cost of investing, the better the investment advice you will receive from your dealer

Applied Comprehension Questions¹³

Q8 Potential Action (by fee summary format)

Based on the information you saw in the Annual Charges and Compensation Report, which actions could you take to reduce the fees you pay to invest? (Select all that apply?)

	Option 1: Status Quo with Expanded Disclosure	Option 2: Expanded Cost Detail, Separated Costs and Compensation	Option 3: Expanded Cost Detail, Combined Costs	Option 4: Expanded Cost Detail, Combined Costs & BI
5/5 response options correctly selected	10%	9%	6%	8%
4/5 response options correctly selected	16%	17%	18%	17%
3/5 response options correctly selected	37%	40%	39%	37%
2/5 response options correctly selected	20%	16%	20%	20%
1/5 response options correctly selected	15%	16%	16%	16%
0/5 response options correctly selected	3%	2%	2%	3%

N = 5,268

Response options below (correct response underlined).

- Switch to investment funds with lower management expense ratios (MER)
- Reduce the number of transactions you make
- Renegotiate your account administration charges
- Switch to investment funds with a higher historical rate of return
- Shift your assets into an RRSP or TFSA

¹³ Please note disaggregated data is not causal and many of the differences across treatment groups may not be statistically significant. Totals may not add to 100% due to rounding.

Q8 Potential Action (by account holdings version)

	Standard	Added MER
5/5 response options correctly selected	8%	8%
4/5 response options correctly selected	17%	17%
3/5 response options correctly selected	38%	38%
2/5 response options correctly selected	18%	19%
1/5 response options correctly selected	16%	15%
0/5 response options correctly selected	2%	2%

N = 5,268

Q9 Effective Action (by fee summary format)

Based on your Annual Charges and Compensation Report, which of the following actions would likely reduce your costs of investing the most? (Select one)

	Option 1: Status Quo with Expanded Disclosure	Option 2: Expanded Cost Detail, Separated Costs and Compensation	Option 3: Expanded Cost Detail, Combined Costs	Option 4: Expanded Cost Detail, Combined Costs & BI
% Correct	40%	42%	42%	42%

N = 5,268

Response options below (correct responses underlined).

- Switch to investment funds with lower management expense ratios (MER)
- Reduce the number of transactions you make
- Renegotiate your account administration charges
- Switch to investment funds with a higher historical rate of return
- Shift your assets into an RRSP or TFSA

Q9 Effective Action (by account holdings version)

	Standard	Added MER
% Correct	40%	43%

N = 5,268

Behavioural Intent Questions

Q 10 Confirming/changing investments

After reviewing this information, how likely are you to: Confirm or change the investments you hold?

	Option 1: Status Quo with Expanded Disclosure	Option 2: Expanded Cost Detail, Separated Costs and Compensation	Option 3: Expanded Cost Detail, Combined Costs	Option 4: Expanded Cost Detail, Combined Costs & BI
Likelihood of intending the action	66.39	70.69 (.021)	68.66 (.253)	71.50 (.006)

N = 5,268

P-values noted in parentheses below each result.

Q 11 Speaking with advisor

After reviewing this information, how likely are you to: Speak with your advisor about the fees you pay?

	Option 1: Status Quo with Expanded Disclosure	Option 2: Expanded Cost Detail, Separated Costs and Compensation	Option 3: Expanded Cost Detail, Combined Costs	Option 4: Expanded Cost Detail, Combined Costs & BI
Likelihood of intending the action	77.31	77.93 (.71)	80.20 (.079)	79.52 (.178)

N = 5,268

P-values noted in parentheses below each result.

Q 12 Speaking with someone other than advisor

After reviewing this information, how likely are you to: Speak with someone other than your advisor about the fees you pay?

	Option 1: Status Quo with Expanded Disclosure	Option 2: Expanded Cost Detail, Separated Costs and Compensation	Option 3: Expanded Cost Detail, Combined Costs	Option 4: Expanded Cost Detail, Combined Costs & BI
Likelihood of intending the action	67.15	71.14 (.032)	68.61 (.441)	73.83 (.000)

N = 5,268

P-values noted in parentheses below each result.

Q 13 Changing advisor and/or dealer

After reviewing this information, how likely are you to: Change the advisor and/or dealer you invest with?

	Option 1: Status Quo with Expanded Disclosure	Option 2: Expanded Cost Detail, Separated Costs and Compensation	Option 3: Expanded Cost Detail, Combined Costs	Option 4: Expanded Cost Detail, Combined Costs & BI
Likelihood of intending the action	57.45	56.60 (.678)	57.68 (.91)	59.08 (.425)
N = 5,268 P-values noted in parentheses below each result.				

Q 14 Assessing value of advice provided

After reviewing this information, how likely are you to: Determine if the advice provided is worth the fees you pay?

	Option 1: Status Quo with Expanded Disclosure	Option 2: Expanded Cost Detail, Separated Costs and Compensation	Option 3: Expanded Cost Detail, Combined Costs	Option 4: Expanded Cost Detail, Combined Costs & BI
Likelihood of intending the action	81.44	81.20 (.882)	82.55 (.471)	82.12 (.66)
N = 5,268 P-values noted in parentheses below each result.				

Q 15 Assessing performance of investments compared to fees

After reviewing this information, how likely are you to: Assess the performance of your investments compared to the fees you pay for those investment products?

	Option 1: Status Quo with Expanded Disclosure	Option 2: Expanded Cost Detail, Separated Costs and Compensation	Option 3: Expanded Cost Detail, Combined Costs	Option 4: Expanded Cost Detail, Combined Costs & BI
Likelihood of intending the action	80.67	78.87 (.26)	81.07 (.8)	81.99 (.4)
N = 5,268 P-values noted in parentheses below each result.				