



SCM Direct Research into Cost and Fees Reporting in the UK Post MiFID II Legislation

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Legal and Regulatory Background

The Markets in Financial Instruments Directive - MiFID II came into effect on January 3rd, 2018 and under Article 24 stipulates full transparency of fees and charges¹:

Article 24(4) of Directive 2014/65/EU

2. For ex-ante and ex-post disclosure of information on costs and charges to clients, investment firms shall **aggregate** the following:

- (a) **all costs and associated charges** charged by the investment firm or other parties where the client has been directed to such other parties, for the investment services(s) and/or ancillary services provided to the client; and
- (b) **all costs and associated charges** associated with the manufacturing and managing of the financial instruments.

10. Investment firms shall provide their clients with an **illustration showing the cumulative effect of costs on return** when providing investment services.

Annex II of the delegated regulation² clearly prescribes that the costs and charges for **both** the services and the financial instruments used should be **aggregated**. The key cost categories are:

1. **One-off charges** – e.g. Deposit fees, termination fees, switching costs, Front-loaded management fee, structuring fee, distribution fee
2. **On-going charges** – e.g. Management fees, advisory fees, custodian fees, service costs, swap fees, securities lending costs and taxes, financing costs
3. **All costs related to transactions** – e.g. Broker commissions, entry and exit charges, platform fees, mark ups (embedded in the transaction price), stamp duty, transactions tax and foreign exchange costs
4. **Any charges that are related to ancillary services** – e.g. Research costs, custody costs
5. **Incidental costs** – e.g. Performance fees

Furthermore, EU member states are required to provide for administrative sanctions and other effective measures, proportionate and dissuasive, against those responsible for infringements.³ In particular, competent authorities e.g. the FCA are empowered to impose fines sufficiently high to offset the benefits that can be expected and dissuasive even for larger institutions and their managers.

The FCA has regulatory powers to fine firms and act on individuals choosing not to comply with MifidII, including:

- i) public statements;
- ii) withdrawal or suspension of authorisation;
- iii) temporary or permanent bans of individuals;
- iv) temporary or permanent bans on firms being members of certain trading venues; and
- v) **maximum fines of up to 10% of annual turnover or at least €5m, and at least twice the benefit derived (where this can be determined).**

¹ <https://ec.europa.eu/transparency/regdoc/rep/3/2016/EN/3-2016-2398-EN-F1-1.PDF>

² <http://ec.europa.eu/finance/docs/level-2-measures/mifid-delegated-regulation-annex-2016-2398.pdf>

³ https://www.eversheds-sutherland.com/global/en/what/articles/index.page?ArticleID=en/global/poland/publications_en/2017-10-12-importance-of-mifid-2-for-the-energy-sector-sanctions-for-non-compliance

The operation of a market in which consumers can see their full aggregated costs and charges, as required by Mifidii, could be considered central to the FCA's Strategic and Operational Objectives⁴:

1. (a) its strategic objective of ensuring that the relevant markets function well; and
2. (b) its operational objectives:
 - i) the consumer protection objective
 - ii) the integrity objective
 - iii) the competition objective

It could also be considered as being mandated by the FCA's 11 principles for business⁵, which includes:

1 Integrity	A <u>firm</u> must conduct its business with integrity.
6 Customers' interests	A <u>firm</u> must pay due regard to the interests of its <u>customers</u> and treat them fairly.
7 Communications with clients	A <u>firm</u> must pay due regard to the information needs of its <u>clients</u> , and communicate information to them in a way which is clear, fair and not misleading.

The widespread failure of firms to show clients their full costs and charges, even when prescribed by law, may thereby be in breach of UK competition law:

The Competition Act 1998⁶ prohibits agreements, practices and conduct that may damage competition in the UK. It covers anti-competitive agreements and concerted practices between businesses which have as their object or effect the prevention, restriction or distortion of competition within the UK.

Agreements etc. preventing, restricting or distorting competition.

(1) Subject to section 3, agreements between undertakings, decisions by associations of undertakings or concerted practices which—

(a) may affect trade within the United Kingdom, and

(b) have as their object or effect the prevention, restriction or distortion of competition within the United Kingdom, are prohibited unless they are exempt in accordance with the provisions of this Part.

(2) Subsection (1) applies, in particular, to agreements, decisions or practices which—

(a) directly or indirectly fix purchase or selling prices or any other trading conditions;

(b) limit or control production, markets, technical development or investment;

(c) share markets or sources of supply;

(d) apply dissimilar conditions to equivalent transactions with other trading parties, thereby placing them at a competitive disadvantage;

(e) make the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts.

Any business found to have infringed the prohibitions in the Competition Act 1998 can be fined up to 10% of their annual worldwide group turnover.

⁴ <https://www.handbook.fca.org.uk/handbook/glossary/G2976.html>

⁵ <https://www.handbook.fca.org.uk/handbook/PRIN/2/1.html>

⁶ <http://www.legislation.gov.uk/ukpga/1998/41/part/I/chapter/I>

False Representation under the 1967 Misrepresentation Act⁷.

It is the view of SCM Direct that a firm which communicates via websites or other communications, key facts concerning the costs and fees of investing, which by portraying a significantly lower level of costs and charges than those prescribed by the MifidII determination of costs and charges, could be deemed to be making a 'false representation'.

SCM Direct believes that many consumers will have relied on such 'false representations' about costs and charges in their decision to invest. **Any investor who suffered loss either from the investment having fallen in value or their performance being impacted by additional 'hidden' charges and fees, could be entitled to rescind their contracts and claim damages for any loss suffered.**

It would be open to individual investors directly or through a class action to exercise these legal remedies against firms whom they believe have made such 'false representations'.

⁷ <https://www.legislation.gov.uk/ukpga/1967/7>

SCM Direct Research

Research Aim:

SCM Direct's aim was to conduct an audit of how firms were complying with new legislation under Article 24 of MiFID II on displaying costs and charges, together with the various FCA requirements including Principle 7 of the FCA's Principles for Business⁸ – *'A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.'*

The findings of the report which was carried out after Mifidii came into force, may assist any individual or group of investors to ascertain whether they had been 'misrepresented' the costs and charges for their investment. Under the 1967 Misrepresentation Act⁹, successful claimants could be entitled to rescind their contract with the investment firm and claim damages for their losses.

Research Target Group (75 companies):

- 10 large fund management groups with total assets of £387 bn
- 10 well known online wealth managers i.e. 'robo-advisers'
- 10 leading Direct to Consumer DIY platforms with total assets of c. £600 bn
- 45 traditional wealth managers with £281 bn under management

It is surprising that so few firms across the industry have not compared their own costs and charges disclosure with readily available summaries elsewhere. For example, TISA, a cross-industry body with over 160-member firms from all areas of UK financial services has provided freely an industry-wide approach to the practical aspects of implementing the changes and to provide guidance about recommended good practice¹⁰.

Several firms within our research target group are members of the TISA Costs & Charges Executive Committee. TISA recommends that:

'An investor must be able to see the costs and charges applicable in good time before the provision of services. This is to enable comparison of costs between different products (including service costs) in order to make informed investment choices.'

Here are two of the TISA example templates which would appear to be rarely followed by the industry.

⁸ <https://www.handbook.fca.org.uk/handbook/PRIN/2/1.html>

⁹ <https://www.legislation.gov.uk/ukpga/1967/7>

¹⁰ http://www.tisa.uk.com/minutes/227_Version1.2TISAbestpracticeguide4Dec2017final.docx

a) Funds

Charges Summary

		£1,000 Lump Sum	£20,000 Lump Sum	Regular Savings Plan £100/month
Cost Category	% of Investment	Costs	Costs	Costs
Product Costs	2.17%	£21.7	£434	£14
3 rd party payments received	0	0	0	0
Service Costs	0	0	0	0
Total	2.17%	£21.7	£434	£14

These are the annualised costs based on 3 indicative initial investment amounts of £1,000, £20,000 and a regular savings plan of £100/month

Itemisation of Charge Categories

Product Costs	One-Off Costs	0	0	0	0	Costs you pay when entering or exiting your investments
	Ongoing Costs	1.42%	£14	£284	£9	Costs that we take each year for managing your investments
	Transaction Costs	0.75%	£8	£150	£5	Costs incurred by us buying and selling underlying investments
	Incidental Costs	0	0	0	0	The impact of the performance fee
Service Costs	One-Off Costs	0	0	0	0	Costs you pay when entering or exiting your investments
	Ongoing Costs	0	0	0	0	Costs that we take each year for managing your investments
	Transaction Costs	0	0	0	0	Costs incurred by us buying and selling underlying investments
	Andillary Costs	0	0	0	0	Costs related to andillary services not included above
	Incidental Costs	0	0	0	0	The impact of the performance fee

The person selling you or advising you about this product may charge you other costs. If so, this person will provide you with information about these costs, and show you the impact that all costs will have on your investment over time.

The Cumulative Effect of Costs on Return

The total charges deducted for each fund will have an impact on the investment return you might get. Whilst performance can't be guaranteed, we can give you examples of how the charges will affect what you might get back.

£1,000 investment – Assumed net growth rate of 3%	1 Yr	5 Yr
What you might get back if there were no charges at all	£1,053	£1,292
What you might get back after charges	£1,030	£1,159

In the first year, without fees the performance you could have achieved would be 5.26%, after fees the performance achieved is 3%. This equates to a reduction in profit of £23.

Part of the total costs and charges may represent an amount in foreign currency. The following indicative currency translation rates have been used for the purpose of this report: 123 USD @ 1.25 USD to GBP. 400 EUR @ 1.12 EUR to GBP.

b) Discretionary Portfolios (e.g. for many 'robo advisers or wealth managers)

Costs and Charges Summary

Portfolio Amount: £500,000,000

Year 0-1	£ Costs	% of Investment cost
Total Service Cost (TSC)	£5,538,750	1.30%
3rd party payments received	£0	£0
Total Product Cost (TPC)	£4,289,375	0.86%
Total Aggregated Costs (TAC)	£10,808,125	2.16%

Service Costs

One-off Charges	£0	0.00%
On-going Charges	£4,000,000	0.80%
Transaction Costs	£1,000,000	0.20%
Ancillary Service Costs	£1,538,750	0.30%
Incidental Costs	£0	0.00%

Product Costs

One-off Charges	£477,500	0.10%
On-going Charges	£1,086,875	0.34%
Transaction Costs	£2,125,000	0.43%
Incidental Costs	£0	0.00%

PLEASE NOTE - ABOVE AND BELOW TABLES ARE NOT REGULATORY MANDATORY – ONLY REGULATORY APPLICABLE VIA “AD-HOC REQUEST”. HOWEVER BEST PRACTICE SUGGESTING TO INCLUDE

Subsequent years	£ Costs	% of Investment cost
Total Service Cost (TSC)	£5,538,750	1.30%
3rd party payments received	£0	£0
Total Product Cost (TPC)	£3,811,875	0.76%
Total Aggregated Costs (TAC)	£10,330,625	2.07%

Service Costs

One-off Charges	£0	0.00%
On-going Charges	£4,000,000	0.80%
Transaction Costs	£1,000,000	0.20%
Ancillary Service Costs	£1,538,750	0.30%
Incidental Costs	£0	0.00%

Product Costs

One-off Charges	£0	0.00%
On-going Charges	£1,086,875	0.34%
Transaction Costs	£2,125,000	0.43%
Incidental Costs	£0	0.00%

Firms may also wish to consider if they would like to put in a description of the different types of charges, like in other example templates in this guide.

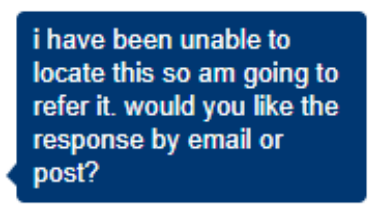
Firms may also wish to consider if they would like to put in a description of the different types of charges, like in other example templates in this guide.

Assumes £500,000,000 investment (zero entry and exit charges at portfolio level and no further investment in subsequent years) and 3% net performance				
Investment Period	1 year (year 0-1)		[5] years (year 0-[5])	
	£	%	£	%
What you might get back if no charges at all	526,132,368.75	5.23%	642,643,956.14	28.53%
What you might get back after charges	515,000,000.00	3.00%	579,637,037.15	15.93%
Cumulative effect of costs & charges on return	11,132,368.75	2.23%	63,006,918.99	12.60%

Findings

1 Investment Fund Group Costs and Charges Disclosures – only 40% of the firms disclosed their MiFID II cost disclosures (EMT) on their websites – the remainder required either an email or were only available via a third-party data provider.

- i) SCM Direct analysed 10 of the largest fund management companies with combined assets of £387 billion and found all firms were making MiFID II compliant disclosures of their fund costs.
- ii) 40% of their websites contained a European MiFID II Template (EMT) which details the various product related costs. Each cost field is labelled with a prefixed containing either “one-off”, “ongoing”, “transaction” or “incidental”.
- iii) However, 60% of the firms did not provide these EMT disclosures on their websites. They were only available by emailing the fund group directly or utilising a third-party data provider e.g. Morningstar and FE Analytics.
- iv) One firm when asked by screen chat for the MiFID II costs could not find it saying:

A screenshot of a screen chat message. The message is contained within a blue speech bubble with white text. The text reads: "i have been unable to locate this so am going to refer it. would you like the response by email or post?".

i have been unable to locate this so am going to refer it. would you like the response by email or post?

- v) SCM Direct believes that in the spirit of transparency, the MiFID II costs disclosures should be as widely and easily available as possible. The disclosures should be readily displayed on the firm’s website rather than just by email or via third-party data collectors.

These findings illustrate that even if it might require emailing or subscribing to a third-party data vendor, it is 100% possible for firms to both possess and calculate full cost disclosure including the funds in which they invest. This is contrary to what many firms within the industry falsely claim.

2 Robo-Advisers / Online Wealth Managers Costs and Charges disclosures – 0% displayed the aggregated costs and charges (including transaction costs inside the funds in which they invested) on their website prior to an account being opened/invested.

- i) SCM Direct analysed 10 well-known online investment managers - None of the sample disclosed within their website the full aggregate costs and charges of their services including the full transaction costs within the products in which they invested
- ii) 90% of the sample had no estimate of the overall transaction costs within their website or within their overall charges
- iii) Screenshots of fee schedules within Annex 1 show that 'transaction costs' is rarely mentioned, let alone estimated within their key costs and charges display within their website.
- iv) One firm calculated the 'effect of market spread' but this appeared to represent the transaction costs of dealing in the ETFs rather than the transaction costs within the ETFs themselves. When questioned why they had not included the transaction costs within the funds, the firm claimed, "There are no further costs applicable."
- v) Several claimed within their websites that there were no transaction costs associated with their services.
- vi) One firm when asked whether it had included the spread related transaction costs in its displayed charges, replied:

"After a discussion with the portfolio team, we do capture the spread costs internally and looking at the spreads across all the products we traded today the average would be 16 basis points."
- vii) Another firm replied when asked whether the ETF Ongoing Charges included the ETF transaction charges, then admitted:

"if by this you mean the trading fee bid/ask spread no this is not included. As I'm sure you appreciate these can differ, but we estimate it to be around 5bps across the entire portfolio"
- viii) Another firm claimed on its website that its annual charge included the 'Buying and selling investments for your Plan'. However, this figure had not changed at all since MiFID II, thereby implying it did not include any bid/offer spreads related transaction cost.

A webchat with the firm proceeded in which it was asked whether the annual charge "included the transaction charges within the funds?" The answer was "Yes that's correct." It was then asked whether it "included the transaction charges of buying and selling the funds?". The answer came back again "Yes".

- ix) Many firms when contacted, made statements about their firms' transaction costs which might be considered either to be false or misleading:
- *"The funds we offer are all wrapped within OEIC structures and therefore all the transaction charges are wrapped up within the fee displayed"*
 - *"Transaction costs would be included in the fund cost"*
 - *"I can confirm the fund trading cost is that within the funds themselves and encompasses all the underlying costs. "*
 - *"The underlying fund cost of approximately 0.19%, I have mentioned, is the only cost you will incur from our ETF providers. Their spread cost will be included in the underling fee paid."*
 - *"The only thing you pay is a cost of ownership for the ETF. Any transaction costs which may be separate and covered and included as part of that management fee."*

3 Direct to Consumer 'DIY' Platforms Costs and Charges Disclosures – only 30% showed all the aggregated costs and charges (including transaction costs inside the funds) on their website prior to an account being opened/invested.

- i) SCM Direct analysed 10 of the largest DIY fund platforms with overall assets of £600bn at the end of 2016
- ii) SCM compared the total costs shown across these platforms for the exact same fund, the **Janus Henderson Absolute Return Fund Class I**; one of the UK's top twenty selling funds in 2016.

The MiFID II disclosures show that whilst its Ongoing Charges Figure are 1.06% pa, but because of significant transaction costs (0.79% pa) + performance fees (1.53% pa), the overall annual charges amounted to 3.38% pa

MIFID Information					
Cost & Charges					
Reporting Date	29/09/2017	One Off Entry Cost	0.50%	One Off Typical Exit Cost	0.00%
Ongoing Cost	1.06%	Transaction Cost Ex Ante	0.79%	Incidental Cost Ex Ante	1.53%

Source: FE Analytics

- iii) When reviewing the relevant fund page of each DIY platform on which the fund was available, only one site revealed within the main fund overview webpage (rather than via links to documents), the full MiFID II costs of 3.38% pa. It is the view of SCM Direct that most investors will not open the attachments or documents within sites.

The FCA revealed within their Interim Asset Management Market Study that of all the visits to the website to look at funds *'Under 3% look at documents (including the KID).'*¹¹ The FCA also revealed that *'as a percentage of time spent across all customers, the majority of time was on the account and portfolio summaries (about 25%) and factsheet landing pages (over 10%).'*

This clearly shows the importance of displaying the full costs and charges on the account and portfolio and factsheet landing pages rather than in places few consumers will ever see.

Most sites just showed the fees of the fund within the relevant webpage as being 1.06% pa + performance fees or 1.06% + a 20% performance fee; which in SCM's view is totally misleading. If the distributor of the fund knows from the MiFID II disclosures that the total cost is 3.38% pa rather than 1.06% pa for this fund, would it not be better to show this figure within the relevant fee pages?

See Annex II showing screenshots of costs and charges as shown within the main fund overview tab/page for the fund.

- iv) Only 30% of the firms analysed supplied via their website prior to an account opening being completed and/or money being sent for investment, an illustration of the total costs and charges that applied to the Janus Henderson UK Absolute Return Fund.

It is the view of SCM that the 'illustration' of total charges should be available prior to the client choosing whether or not to finalise their account opening or send money to the platform.

- v) Whilst the annualised performance fee, according to the MiFID II cost disclosure amounts to 1.53% pa, a number even higher than the ongoing charge figure, none of the sites used this figure within the fund summary webpage (rather than a document).

Some (30%) did not even mention the existence of a performance fee, some (50%) referred to the performance fee being 20%, and some (20%) simply said there was a performance fee (which would then be detailed within another document or webpage).

- vi) One firm's costs and charges illustration to a client selecting this Janus Henderson UK Absolute Return fund, showed just a generic illustration in which the fund costs were illustrated as being only 0.75% pa even though the overall costs of the selected fund, under MiFID II added up to 3.38% pa, even before any another service costs:

¹¹ <https://www.fca.org.uk/publication/market-studies/ms15-2-2-interim-report.pdf>

Annual charges

These are the annual costs based on four indicative initial investments amounts of £5,000, £10,000, £20,000, £50,000 and a regular savings plan of £500/month assuming a net zero growth rate. For illustrative purposes we have assumed one of the more popular funds, which carries a 0.75% Ongoing Charges Figure, has been purchased. A breakdown of our dealing costs and the costs within any investment products is itemised below, as are further illustrations showing the cumulative effect of costs on the return of the investment.

Cost Category	% of investment	£5,000 lump sum costs	£10,000 lump sum costs	£20,000 lump sum costs	£50,000 lump sum costs	£500/month Regular savings plan costs
Our annual fee	0.25%	£12.50	£25.00	£50.00	£125.00	£8.22
Our dealing charges	n/a	£0.00	£0.00	£0.00	£0.00	£0.00
Product provider costs	0.75%	£37.50	£75.00	£150.00	£375.00	£24.58
Third party payments received by us	0.00%	£0.00	£0.00	£0.00	£0.00	£0.00
Total (£)		£50.00	£100.00	£200.00	£500.00	£32.80
Total (%)		1.00%	1.00%	1.00%	1.00%	1.00%

We will not levy any entry or exit costs so initial and subsequent year charges are the same, but on occasion these might be levied by the fund manager.

It is surprising that this firm chose to provide a generic illustration of costs and charges when Recital 78 of the MiFID II Delegated Regulation requires investment firms to disclose the costs associated with the products and the service the client intends to subscribe to:

‘However, the costs and charges disclosed should represent the costs the client would actually incur based on that assumed investment amount. For example, if an investment firm offers a range of ongoing services with different charges associated with each service, the firm should disclose the costs associated with the service the client subscribed to.’

- vii) One firm shows to clients setting up an account and investing in the fund, that the overall costs of the fund, including its own platform charge as being 1.41% pa. However, the same firm provided a ‘Pre-Sale illustrations document’ for the same fund in which the total costs including its platform charge amounted to 3.73% pa - more than double the cost it disclosed elsewhere.

Total cost of service including the costs of the Janus Henderson UK Absolute Return fund shown to a client when setting up an account and investing as being 1.41% pa:

Annual Charges

Ongoing Fund Charges	1.06%
Negotiated Fund Manager Discount	-
Our Service Fee*	0.35%
Total Cost	1.41%

The same firm’s ‘Pre-Sale illustrations document’ when investing in this same fund showed the overall costs including the platform costs as being 3.73% pa:

At end of year	Total payment	Your return if there were no charges		Total charges to be deducted		Your return after charges are applied	
1	£1,000.00	5.00%	£1,050.00	3.73%	£37.34	1.27%	£1,012.66

Total Payment is the value of your investment before growth has been added and charges have been deducted. For regular savings plans this will be your regular collection amount multiplied by the frequency of collections over a year.

Furthermore, MiFID II requires *‘Investment firms shall provide their clients with an illustration showing the **cumulative** effect of costs on return when providing investment services.’*

It is our view that showing the effect of costs on returns just over one year rather than several years should not be deemed to be ‘cumulative’. Most firms are choosing to show the impact of costs on returns over 5 years or more. Is this platform effectively saying that it expects its clients to hold a fund on its platform for just a year?

- viii) One firm showed the charges for the fund as being just 1.06% pa on its ‘At a glance’ tab for the fund but then showed the fund total charges within its ‘costs’ tab including its own platform charges, amounted to 3.82% pa overall.

1.06% pa cost on ‘at a glance’ tab:

CHARGES AND SAVINGS	
Initial charges	
Initial charge:	5.00%
Initial saving from:	5.00%
Dealing charge:	Free
Net initial charge:	0.00%
How initial savings affect the buy price	
Annual charges	
Performance fee:	Yes View risks
Ongoing charge (OCF/TER):	1.06%
Ongoing saving from:	0.00%
Net ongoing charge:	1.06%

Within the ‘costs’ tab of the same fund, the average annual charge of the fund is then shown to be approximately 3.37% pa, and the overall cost including the platform charges 3.82% pa.

Average annual charge

3.82%

4 Traditional Wealth Manager Costs and Charges Disclosures – only 22% showed all the costs and charges (including transaction costs inside the funds in which they invested) prior to an account being opened/invested. Furthermore, just 14% provided all the costs and charges, aggregated and within an illustration showing the cumulative impact of costs and returns.

SCM Direct researched 45 wealth managers with total assets of £281,469m

Methodology:

The research was conducted as a mystery shopping exercise. The researchers posed as a retail client with £1 million investable income.

The questions asked in the mystery shopping email from a potential UK investor looking to initially invest £1m into a medium risk portfolio of bonds and equities who asked each manager:

‘what might be the total initial costs and the total annual costs thereafter. Any breakdown/details to help me understand how the various costs and charges are levied would be incredibly helpful so I can compare like with like, then select a handful of managers for further review.’

- i) SCM received meaningful email responses regarding the costs from 36 out of the original 45 managers (80%). The other wealth managers either did not respond or would not provide further details by email without a telephone conversation or face to face meeting.
- ii) SCM found only 8 out of these 36 firms (22%) provided an initial disclosure of costs that included the underlying fund costs, their transaction costs and the transaction costs within the funds invested (including the bid/offer spreads).
- iii) SCM found only 5 out of these 36 firms (14%) provided an illustration showing the cumulative impact of costs and returns as required by MiFID II including the full transaction costs. Of course, it may well be that such firms were planning to comply with this requirement at a later stage.
- iv) One firm provided an attachment showing the impact of fees which did not include additional costs mentioned elsewhere such as 3rd party brokerage costs, fund charges, foreign exchange, etc.
- v) Another firm provided an illustration of all fees but surprisingly had a 0 figure for all transaction costs, even for the funds themselves:

Illustration of costs and charges
Amount invested: £1,000,000
Report date: 22 Jan 2018

		Sterling		
Fees and Charges		Amount	VAT (where applicable)	Total
Service Charges		10,119	2,024	12,143
	Management Fee	10,119	2,024	
Transaction Charges		0	0	0
	Commission	0	0	
Other Costs and Charges				
Transaction Costs		0	0	0
	Stamp Duty	0	0	
Ongoing Third Party Charges		0	0	0
	Ongoing Fund Charges	0	0	
Total Costs and Charges		10,119	2,024	12,143

Cumulative Effect of Costs and Charges on Returns
The total costs and charges deducted will have an impact on your investment return.
Whilst investment returns cannot be guaranteed, we can indicate below how the costs and charges may impact what you may get back.

- vi) Another firm said *“Purchases of UK equities are charged UK stamp duty which is currently 0.5%. Over the last 3 years the average turnover of an XXX client portfolio is 10%. So, this would be a negligible charge.”*

Therefore at least 10% of 0.5% of costs, i.e. 0.05% pa together with other transaction costs were not included in the firm’s overall estimate.

- vii) Another firm sent a fees document that showed its Annual Management Fees but did not provide an overall figure that included the following ‘*additional costs*’:

- Government levies and taxes including Value Added Tax (VAT).
- Third-party brokerage costs.
- Product costs such as annual management charges for funds.
- A foreign exchange spread of 0.05% will be charged on purchases or sales of assets denominated in a different currency to the base currency of the portfolio.
- Re-registration – if we are asked to transfer holdings out of our nominee, we will charge a fee for each holding

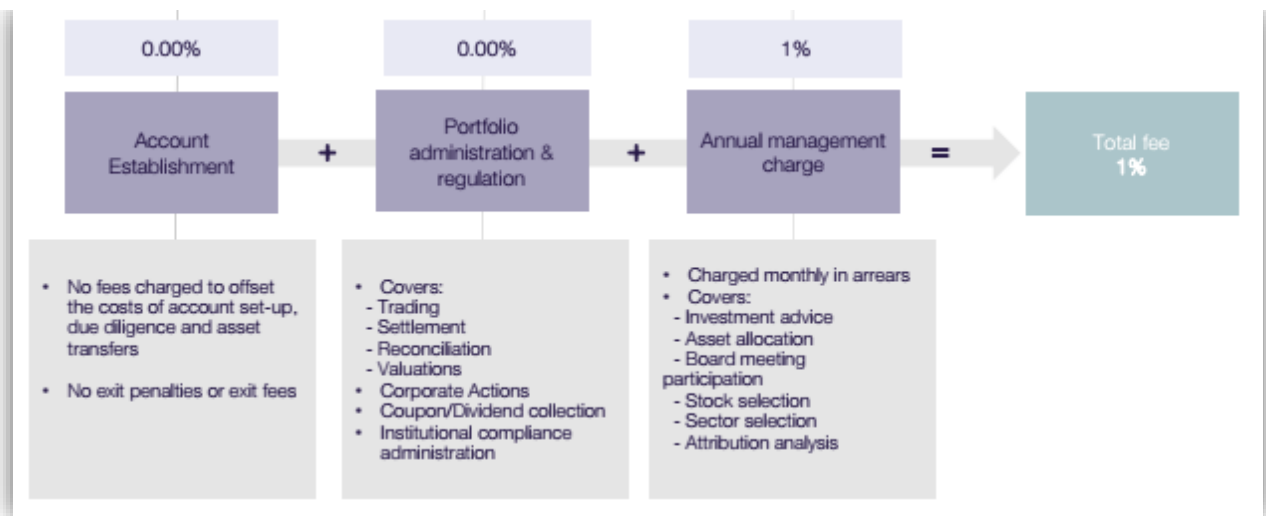
- viii) Another firm said it charged for its services *‘0.8% + vat includes all dealing, reports, buy and selling or portfolios and any changes made’* but made no mention or estimate of any transaction costs that might exist within the funds invested.

- ix) Another firm showed its costs with no mention of any transaction costs:

Role	Ongoing Service Provided	Ongoing Fees Per Annum Assuming £1million*
Financial Adviser and Investment Manager [REDACTED]	<ul style="list-style-type: none"> • Manage investments • Ongoing review of funds and implementation of changes within discretionary mandate • Provide review meetings and Quarterly Valuations 	0.75% plus VAT (£7,500)
Custodian	<ul style="list-style-type: none"> • Administer investments • Provide SIPP, GIA and ISA administration • Act as trustees for SIPP • Provide online viewing access 	0.20% (£2,000)
Fund Managers	<ul style="list-style-type: none"> • Choose underlying investments for each fund 	Average OCF of 0.80% (£8,000)
	Total Estimated Fees	1.90% (£19,000)

x) Another firm initially replied as below:

'The attached is an overview of our fees. You will see there is no set up, initial or admin fee. We just charge an Annual Management fee which would be 1% on a portfolio of £1m.'



The firm was then asked:

'Are portfolio's costs the cost of the funds (others seem to call this the ongoing charge) and does this include stamp duty and all the costs of the managers buying and selling shares?'

The new total charge was then estimated by the firm as being 1.4% pa (and this excludes underlying transaction costs):

Let me break this down for you:

Management fee

Annual Management Charge is 1% pa

This is the cost for managing your account on a discretionary basis. This also includes reporting, reviews and 24/7 access to your team.

Funds

For a funds based solutions There is Zero management charge for investing into our funds

The underlying administration and audit charge is anywhere between 0.25% and 0.3%. This would cover any buying and selling of shares.

Custody

Depending on the custodian we use this will be around 0.1%

TOTAL:

AMC = 1%

Fund audit and admin = 0.3%

Custody = 0.1%

Total costs = 1.4%

- xi) Another firm provided a charges illustration which excluded both the cost of funds and transaction costs within the funds.

CHARGES ILLUSTRATION

Below is an annual cash illustration based on a notional portfolio valued at £250,000 and held in nominees, of which 75% is in UK equities and 25% in collectives, with four switches per annum (eight transactions) of £12,500 each.

Management fee, including VAT	£3,300
Plus	
Transaction-related charges	£194
Total annual illustrative charge	£3,494

Please note the above calculation is for illustrative purposes only. The illustration assumes unchanging portfolio values and includes VAT and stamp duty where applicable, but excludes the cost of any external funds that you may hold. In addition, where you have a Financial Adviser, if agreed between you adviser remuneration may apply.

- xii) Another firm said that it *'would charge an annual management fee of 1.35%. There are a further 0.25% costs associated with running the multi-asset funds'.....' We do not charge commission, nor is there any entry fee or surrender charge or buy/sell spread when dealing in the Funds'.*

The firm failed to include the underlying fund transaction costs.

- xiii) One firm was found to have sent to its clients earlier this year an extensive fee document, which did not appear to include the transaction costs that took place within funds:

When the firm was asked why the schedule appeared not to include the transaction costs within the funds, it answered:

'when we put our disclosures together we were of the understanding that the OCF takes into account the underlying transaction costs to the fund'.

It was then pointed out that the legal definition of the Ongoing Charge did not include such transaction costs. The firm then said its previous explanation was incorrect but:

'since we are not manufacturing funds but distributing them, we would have no visibility on the transaction costs for each fund and so it would not be possible for us to publish this information routinely.'

- xiv) Another firm said *"I understand that our average across our main active portfolios for this second part is around 0.77%, thus making the OCF 2.1% to 2.2%, including VAT."..... "The only charges you would see levied are the two components of the AMC. Additionally, our charges are inclusive of all dealing commission."* The firm failed to include the underlying fund transaction costs.

- xv) Another firm said *"The TER is the total expense ratio and includes all the aggregate funds fees and the fund manager fee. There would be no additional charges on top i.e. transaction charges or charges for payments if the fund was held with the registrar "*. The firm failed to include the underlying fund transaction costs.

- xvi) Another firm said *“Your specific questions were about Stamp duty and the bid/offer spread – I am afraid neither of these are included in those costs. After I have made such a lot of noise about how transparent we are, you may find this surprising but there are good reasons for it:*

Stamp duty – this is payable on UK listed share purchases. We don’t include it in the transaction costs as it varies a lot with time depending on the amount of UK shares we are buying. At the moment UK equities are relatively small components of our portfolios.

Bid/offer – this is also a cost, however, because we are dealing directly with banks and market makers these spreads are pretty small, and again we do not make any mark up on the prices we are achieving in the market. Some on-line platforms and some investment managers may add a mark-up, which would increase the cost of trading with them”

- xvii) Another firm said *“yes, all costs generated by the fund e.g. trading, legal, regulatory, personnel costs etc. are covered by the ‘underlying fund charges’ which can often be termed the ‘on-going charge’ (OGC). This charge is taken from within the fund and as such the performance of that fund is reported in your portfolio net of that charge.”*

- xviii) Another firm said *“I attach our rate card for our Discretionary Management Service for your interest. The costs detailed are inclusive of financial planning advice and are subject to VAT. I should also mention that in addition to the costs detailed we manage client monies via funds wherein the costs are an additional c0.75-1% per annum.”*

Thus, the c. 1% + vat quoted on the ratecard could amount to more than 2% pa and this excluded any transaction costs for the funds in which they dealt or transaction costs that would exist within the same funds.

- xix) Another firm made no mention whatsoever of the transaction costs within the funds it would invest, even though on another site of the same company was found a full schedule of costs for its own funds which included such transaction costs:

The ongoing costs are around 2% per annum, as you rightly state this will vary in line with the actual fund recommended. This costs also includes our 0.5% ongoing management charge for providing ongoing advice as and when required. This means that you will receive as a minimum a 6 monthly face to face review of your holdings and a review in any changes of your circumstances.

When we looked for the transaction costs of the funds, which would seem from the email to be typically charging 1.5% pa, it was clear that this had excluded transaction costs since the same fund group had available via a website, a schedule of portfolio transaction costs (not in a MiFID II format) which showed that transaction costs averaged 0.24% pa for its own funds.

Interestingly, we were unable to locate directly or via two leading data providers, the full MiFID II EMT disclosures for its own funds.

- xx) Although some firms mentioned that third parties' funds were present in the portfolio, they omitted to disclose the transaction costs within those funds, simply showing the TER of the funds:

An [REDACTED] portfolio typically holds 30% of the fund within third party specialist funds. These fund managers do charge and this is passed on to the client. Typically the associated fee is circa 0.3% (no VAT levied).

Based up on a portfolio of £1m. The cost breakdown is as follows:

[REDACTED] Service Fee: 0.925%

[REDACTED] Platform : 0.232%

VAT on Service Fee: 0.185%

The Total [REDACTED] fee on an investment portfolio is 1.156% ex Vat (1.34% inc Vat)

The Total cost of investment (TER) – which includes the cost of third party funds 1.64%

- xxi) One firm specifically mentioned that they need to be more transparent following RDR and MIFID II but then did not include the transaction costs associated with dealing in the funds or within the funds:

Example of costings:

0.8% +vat

Portfolio cost 0.3%-0.5%

There are no fees for rebalancing, switching buy or selling. Post RDR and Mifid we need to be fully transparent of costings and ongoing fees.

Overall you will see the portfolio will cost around 1.4%-1.5% total cost.

Conclusion and Remedies

In SCM's view, it is scandalous that so many within the UK investment industry appear to be breaking legislation specifically implemented to protect consumers, and allow them to know the true full cost of their investment; for the first time in decades.

We strongly believe that firms may not just be breaking the law, as prescribed by MiFID II but may also be guilty of 'False Representation' regarding their disclosure of costs and fees of investing. This would appear to exist as new enhanced costs and fees disclosures, often reveal the overall costs to be significantly higher than that communicated to potential investors. Many consumers may have relied on these false representations, regarding costs and charges, in their decision-making process to invest.

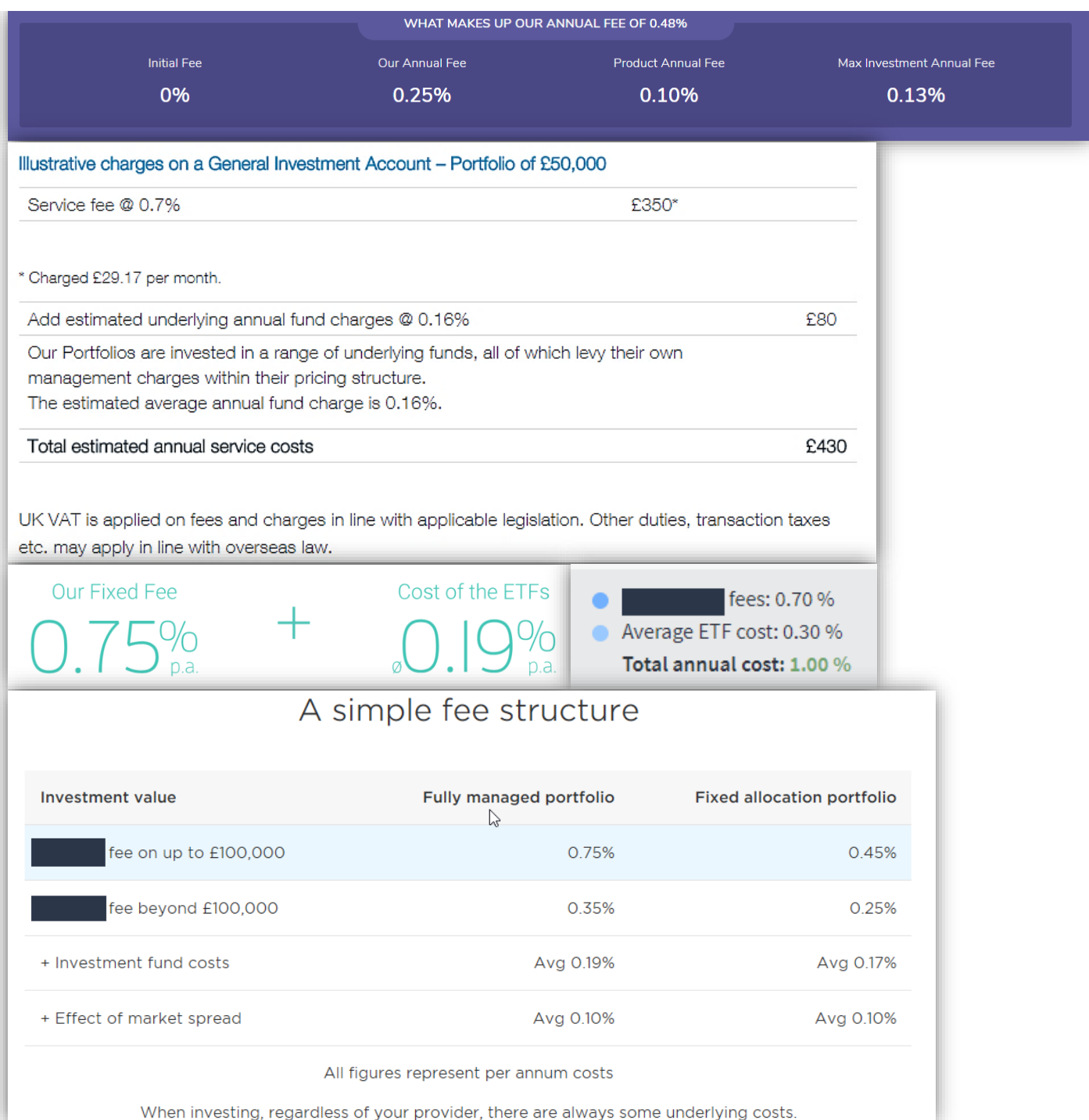
These investors may have suffered loss either from the investment having fallen since they invested, or having fallen more than one might expect as a result of the extra charges being taken out which they were unaware.

Investors may therefore have a legal remedy to rescind their contracts with the investment firms and to claim damages for any loss suffered.

The overall situation could be radically improved through three simple measures:

1. The FCA publicly states that it will be tough over the coming months (not years) on firms and individuals not complying with the rules regarding costs and charges within MiFID II.
2. The FCA publicly states that it will use its regulatory powers including the temporary or permanent bans of individuals; and maximum fines of up to 10% of annual turnover or at least €5m for firms found to be intentionally avoiding disclosing their fees and charges, as required by MiFID II.
3. The FCA publicly states that it will work with consumer groups and the industry to quickly produce a suggested fees and charges template, compliant with MiFID II, and which all firms are encouraged to show within the most prominent pages of their website, and/or within the most prominent communications sent to clients, prior to account opening/investment.

Annex 1 Screenshots of 'Robo-Advisers' fees and charges



I'd like to invest

£ 15000

Your typical fee will vary according to your selected investment strategy:

Fixed Income

Yield

Balanced

Growth

Equity

Actively implemented

£269 per annum or **1.79%** of your investment

This consists of your

Fund fee 1.54% per annum

Account fee 0.25% per annum

Passively implemented

£194 per annum or **1.29%** of your investment

This consists of your

Fund fee 1.04% per annum

Account fee 0.25% per annum

Everyone pays one flat, yearly fee of 0.75%

So if you have £ 200 invested



We will charge around **£0.13** per month

Traditional fees might be **£0.25 - £0.67** per month

[View a full explanation](#)

Fees

Our fees are structured to make it possible for you to invest little and often, whether it's £5 a month or £500.

Subscription fee

Charged monthly

£1

Free
for first 3 months

Platform fee

Charged annually, billed
monthly

0.45%

No trading
or transaction costs

Fund provider fees

Charged annually, billed
monthly

0.23%
average

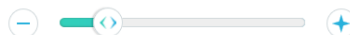
No withdrawal
or exit costs [i](#)

Investment charges	Percentage of lump sum / portfolio value	Typical cost of an investment of 10,000
Initial investment charge ^[1]	0.25%	£25
Ongoing advice charge ^[3]	0.5%	£50 ^[2]
Platform charge	0.25%	£25 ^[2]
Underlying fund charges	0.18% ^[3]	£18 ^[2]
TOTAL	0.25% initially. c.0.93% ongoing p.a.	£25 initial £93 ongoing ^[3]

^[1] Applies to initial and subsequent investments ^[2] These values may go up or down depending on the future value of your investment portfolio. ^[3] Please note, the exact investment management charges you pay will vary depending on the underlying investments in your portfolio. This figure reflects the average underlying fund charge our clients are currently paying (as at June 2017). Ongoing investment charges are based on the value of the portfolio at the time and applied monthly.

CALCULATE YOUR FEES

How much will you invest?



£ 5000

Account size	£1+	£15k+	£50k+
fee	0.7%	0.6%	0.5%
Average fund charge	0.19%	0.19%	0.19%

Annex 2 Screenshots of a fund, the Janus Henderson UK Absolute Return Fund Class I, fees and charges via various DIY platforms

The actual annual cost of the fund as per its MiFID II disclosures, amounts to **3.37% pa (being 1.06% pa ongoing cost + 0.79% pa transaction cost + 1.53% pa incidental cost)**:

MiFID Information					
Cost & Charges					
Reporting Date	29/09/2017	One Off Entry Cost	0.50%	One Off Typical Exit Cost	0.00%
Ongoing Cost	1.06%	Transaction Cost Ex Ante	0.79%	Incidental Cost Ex Ante	1.53%

Source: FE Analytics

Platform screenshots:

CHARGES AND SAVINGS

Initial charges

Initial charge: 5.00%

Initial saving from: 5.00%

Dealing charge: Free

Net initial charge: 0.00%

[How initial savings affect the buy price](#)

Annual charges

Performance fee: Yes [View risks](#)

Ongoing charge (OCF/TER): 1.06%

Ongoing saving from: 0.00%

Net ongoing charge: 1.06%

Charges

Annual Management Charge (AMC) ?	1.00%
Ongoing Charges Figure (OCF) ? (on 31/12/2017)	1.06%

Key Facts

Fund Launch Date	14/04/09
Asset Class	Hedge
Sector	IA Targeted Absolute Return
FE Risk Score	20
ISIN	GB00B5KKCX12
Citicode	F9A5
AMC	1.00%
Ongoing Charge	1.06%

Select display options >
Price
Fund Info
Performance (%)
Discrete Perf.
Calendar Perf.
Risk
Charges
Documents

Name
AMC
Ongoing Charge

ADD + Janus Henderson UK Absolute Return I Acc
1.00%
1.06%
[chart >](#)
[factsheet >](#)

Charges

Standard initial charge	5.00%
Initial charge via	0.00%
Additional bid/offer spread	0.00%
Annual management charge	1.00%
Ongoing charges figure	1.07%

There is a performance fee of 20% over UK Base Rate with a High Water Mark.

Product Charges

Ongoing charge/TER (%)	1.06
Performance fee	Yes View Key Investor Information Document
Negotiated fund manager discount (%)	–
Fund provider buy charge (%)	0.00
Fund provider sell charge (%)	0.00
Minimum investment (£)	25

Please note service fees will apply, you can find out more [here](#).

Fees & Documents

Annual charge

Product Charges	
Ongoing charge (%)	1.06
Performance charge	Yes
Fund Provider Buy Charge (%)	0.50
Fund Provider Sell Charge (%)	3.00
Minimum investment	£500,000

Please note, other platform/service related charges may apply. Please refer to the Client terms.

Fees and Expenses

Sales Charges (Maximum)	
Initial Charge	0.50%
Initial charge	- GBP
Exit Charge	-
Switching Fee	0.00%
Annual Charges	
Management (Max)	1.00%
Total Expense Ratio	1.06%
Ongoing Charge	1.06%
Performance Fee	20.00%

Purchase & Other Information

Min.investment	£20.00
Min.top-up	£20.00
Standard (Fund Manager) Initial Charge	5.00%
Initial Charge	0.00%
Annual Rebate	-
Ongoing Charges	1.06% at 31/12/2017
Performance Fee	20% relative to the hurdle rate and high water mark
Compliant	
Dividend dates	Jun 01, Dec 01
For sale in	United Kingdom,

Charges

TER ? / OCF ?	1.06%
Initial Charge ?	0%
AMC	1.00%
Performance Fee	20% relative to the hurdle rate and high water mark



The value of investments can go down in value as well as up, so you could get back less than you invest.

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