Research into the costs of investment services

Findings and recommendations

The Netherlands Authority for the Financial Markets

The AFM promotes fairness and transparency within financial markets. We are the independent supervisory authority for the savings, lending, investment and insurance markets. The AFM promotes the conscientious provision of financial services to consumers and supervises the honest and efficient operation of the capital markets. Our aim is to improve consumers' and the business sector's confidence in the financial markets, both in the Netherlands and abroad. In performing this task the AFM contributes to the prosperity and economic reputation of the Netherlands.

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An AFM research into the costs of investment services that was conducted between January and November 2012 showed that there is a lack of clear and simple insight into the total costs of investment services. This means that consumers cannot easily evaluate the services provided, and cannot easily make a proper price/quality comparison. The AFM considers this lack of insight into the costs problematic, because costs can have a major effect on the return, and are therefore important for every consumer. With respect to the phrase ‘total costs of investment services’, in this report we mean both the direct costs of the investment services, such as transaction costs and advisory fees, and the indirect costs of investment products such as the ‘ongoing charges’ of mutual funds. Appendix 4 contains a glossary in which terms used in this report are explained.

Recommendations arising from the research

This report presents the AFM’s recommendations arising from an AFM research into the costs of investment services. The recommendations serve as advice from the AFM, and are related to the aim of promoting the insight of consumers into the costs of the investment services. The insight of consumers is promoted, among other things, by clear and complete information. In addition, the recommendations relate to the price structure of the investment services. The price structure is in the interests of the client if the price structure does not hinder the insight into the costs to be expected, if the costs to the consumer are explainable, and if the costs are in proportion to the costs incurred and efforts made by the investment firm and the price structure ensures that the interests of consumers are aligned with the interests of the investment firm. Finally, the recommendations relate to the amount of the costs. In the AFM’s opinion, the amount of the costs is in the interest of the target group if the costs and the risk of investing for the target group are in proportion to the expected return for a given level of risk, and the service is therefore interesting for the target group from a cost perspective. The service is not sufficiently in the interests of a client if the costs have such an effect on the result that the objective of the client cannot or will most likely not be achieved. The AFM expects that investment firms will have their services, which also includes the information provided, assessed according to the relevant statutory obligations in this report and that they will, if necessary, make adjustments. The AFM would also welcome it if investment firms would assess their services on the basis of the voluntary recommendations in this report, and make adjustments where they consider this is advisable.

Research findings

In the research, opportunities for improvement were identified at the investment firms involved in the reseach both in the transparency of the costs and in the amount of the costs. The research into the cost transparency showed that, among other things, the completeness, ability to be easily found, clarity of arrangement, and comprehensibility of the public information concerning the costs could in many cases be greatly improved. In addition, with regard to the public information, the target group did not always seem to be clearly defined. Finally, in many cases the information provided to clients concerning the costs was not clear.

The research into the price structure showed that, for the consumer, a comparison of the amount of the costs, with respect to the different products and service concepts offered, is difficult to make. Furthermore, in some cases it was uncertain whether the costs for the consumer are in proportion to the costs incurred and efforts made by the investment firm. It was noticeable that the amount of the costs varies considerably between the different service concepts. In this report, the term ‘service concept’, also referred to as ‘proposition’, means a way in which consumers can invest their capital by using the services of an investment firm. In many cases, the fund costs have a major effect on the total amount of the costs. Finally, in the opinion of the AFM, several service concepts appear to have costs that are high for a portion of the target group. As a result, the possibility exists that, due to the costs, the net return does not outweigh the level of risk.

Total cost of ownership as a solution to lack of insight into total costs

The specific recommendations in this report can assist investment firms to take a step towards providing clear and simple insight into the costs of investment services. The mere process of following up these recommendations does not instantly result in truly clear and simple insight into the <u>total</u> costs of investment services. Consumers in particular cannot easily obtain complete insight into the <u>total</u> costs of both the investment services (the direct costs), and the investment products in which investment could possibly take place (the indirect costs). The ability to obtain clear and simple insight into the total costs of investment services is important for consumers in enabling them to make a proper price/quality comparison between investment firms and service concepts, and in enabling them to evaluate the provision of services. This is important for the consumer's ability to make an informed choice, not only at the moment when an investment process is begun, but also during the provision of the services. The AFM considers this lack of insight into the costs problematic, because costs can have a major effect on the return and are therefore important for every consumer. The investment firm, on the other hand, also benefits from insight into the total costs. Insight into the total costs assists the investment firm specifically in its assessment of whether the costs for the target group and the costs for a specific client are in proportion to the expected return and the risk of investing. The AFM therefore proposes, in line with the recommendations in this report, to present these costs by means of the 'total cost of ownership' (TCO) measure, as a solution for this lack of insight into the total costs of investing. In the discussion paper 'Total cost of ownership in investment services', the AFM explains what it has in mind and it invites the market to think cooperatively about this issue in more detail, to start discussions about this issue and to assist in further outlining the TCO. This discussion paper is not only addressed to investment firms, but also to providers of mutual funds, providers of other types of investment products and providers of capital accumulation products with an investment component.

1 Introduction

In the period from January 2012 until November 2012, the AFM conducted a research into the costs of investment services. By 'costs of investment services', in this report we mean both the direct costs of the investment services, such as transaction costs and advisory fees, and the indirect costs of investment products such as the 'ongoing charges' of mutual funds. This report presents the AFM's recommendations arising from this research.[1] Appendix 4 contains a glossary in which terms used in this report are explained.

1.1 Reason for the research

Alerts and exploratory analysis indicated a lack of cost transparency

The AFM has received signals during recent years concerning hidden and excessively high costs observed with regard to the provision of investment services. In 2011, therefore, the AFM conducted an exploratory analysis of the transparency and the amount of costs in the provision of investment services. This exploratory analysis showed that consumers cannot easily obtain insight into the costs associated with investing. The exploratory analysis also showed that there may be service concepts that have costs that are high for the target group, and that are therefore not in the interest of the client. In this report, the term 'service concept', also referred to as 'proposition', is used by the AFM to mean a way in which consumers can invest their capital by using the services of the investment firm concerned. Within the different types of services provided to the consumer (investing on one's own behalf, investing with advice from the investment firm, and allowing the investment firm to perform the investments) the investment firm offers various service concepts with, for example, a different target group (e.g. on the basis of invested capital), a different type of service, or a different way of investing.

Capital accumulation and the costs of investing are important for consumers

Capital accumulation is increasingly more important for consumers. Not only are they possibly dependent on the return from capital accumulation products for the repayment of their mortgage debt, but also the investment risks for their pensions are shifting towards the consumers themselves. Consumers are expected to have an increasingly greater need to accumulate capital to fill gaps in their pension provisions. Investing - as one of the possibilities for accumulating capital - is therefore increasingly becoming a necessity for the average consumer. The improvement of products for – and advice on – capital accumulation is therefore one of the themes of the AFM for 2012; for an explanation, please see the 'Capital Accumulation Theme' inset on page 7.

Costs can have a major impact on the net return, and are therefore important for every consumer. This certainly applies for the long-term investor, which is shown by figure 2 on page 12.

Costs reduce the return for the consumer. The AFM realises that some costs, such as transaction costs, are incurred to increase the opportunity of a good return for the consumer. The AFM is aware that in addition to costs, other things are important to consumers, such as the quality of service, the risk management, and the return.

Cost awareness of consumers before and during the provision of investment services is low

An AFM consumer survey from 2012[2] shows that consumers consider the costs of investing important, but do very little in-depth examination of the costs before and during the provision of the services. Almost all consumers surveyed, 270 out of 283, consider costs to be a (very) important aspect of the services. Only 55 percent of the consumers, however, examined the costs in depth prior to investing. Consumers who use execution only services had examined the costs in depth more often (64 percent), whereas consumers who invest via an asset manger did this less frequently (36 percent).

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[1] *The original version of this report (Onderzoek kosten van beleggingsdienstverlening) is published in Dutch.*

[2] *AFM Consumer Monitor: costs of investing important, but usually unknown, spring 2012.*

The cost awareness of consumers during the provision of the investment services is also low. Almost half of the consumers (45 percent) cannot spontaneously name any of the cost items that they are paying for the investment services provided. In particular, consumers who invest with the aid of an investment adviser (62%) or asset manager (58%) cannot spontaneously name any of these costs. A fifth (18%) had no idea what costs they pay, even with help/prompting from others. Half of the consumers (50%) do not know how high the costs are that they pay on average per year. Mainly consumers who invest with the aid of an investment adviser (73%) or asset manager (62%) do not know the amount of the annual costs.

Capital Accumulation Theme

The AFM wants, above all, to carry out its supervision where the risks are greatest. The AFM uses the identified risks to determine the priorities in its supervision. The AFM selects the themes in its supervision on the basis of an analysis of the market. The theme 'Improving products for – and advice on – capital accumulation' (Capital Accumulation theme) is one of the AFM's themes for 2012. This research into the costs of investment services arises from the Capital Accumulation theme. For a further explanation of the Capital Accumulation theme, please see the Draft Agenda AFM 2013, September 2012.

The effects that the AFM wants to realise in 2013 within the Capital Accumulation theme are:

- Consumers become more aware of the importance of capital accumulation for the future, and become more critical of the advice and products provided to them in this context.
- Investment firms (banks and independent asset managers) take steps towards a sustainable business model. The costs of the services are proportional to the added value. With effect from 1 January 2014, investment firms will no longer receive commissions, but be paid directly by the client.
- Providers of capital accumulation products adopt principles for the development and distribution of products, to ensure that these products have added value for consumers and are only placed with the consumers for whom they are intended.
- In the development of new service concepts, i.e. the whole of the product and the service), the starting point adopted is the interest of the consumer. New and existing service concepts will have added value for the consumer. Service concepts without added value will be phased out.

1.2 Scope and approach of the research

Following the exploratory analysis, the AFM conducted an in-depth research into the costs of the investment services at fifteen investment firms during the period from January 2012 until November 2012. This research involved the most relevant costs[3] that are associated with the investment services and which reduce the return for the consumer. The research is therefore not only limited to the costs charged directly by the investment firm to the consumer, but also relates to all the costs that are charged to the consumer by others, such as a custodian, fund manager, and other product providers. The research covers the three types of investment services: execution only (consumers personally determine completely what they want to invest in), investment advice (consumers receive advice, but take the investment decision themselves), and asset management (an asset manager takes the investment decision on behalf of the consumer). Of course, the differences in the three types of services can be substantial, for example, concerning the target group, the investment policy, and how the client is served. The research involved all the service concepts offered by the investment firms studied for which the minimum invested capital is less than € 500,000.

In the research, for each service concept, the AFM assessed the cost transparency, calculated the amount and composition of the costs, and assessed the amount of the costs in combination with the target group. The research into cost transparency relates both to the public information prior to the provision of the services and to the information provided to clients during the

[3] The costs that are included in this research are mentioned in appendix 4, under 'cost item'.

provision of the services. Public information means the information from the investment firm that is immediately available for all potential clients, such as the information on a website. The amount and the composition of the costs are calculated on the basis of the price structure of the relevant service concept and example investors. With respect to the term 'price structure', the AFM means the composition of all the costs incurred by the investment firm that are charged to the consumer during the provision of the services. The example investors are based on assumptions about the distribution of the portfolio, the number of securities in the portfolio, the number of transactions, the average amount for each transaction, the trading location, etc. These example investors are kept the same for all the service concepts studied. The AFM has set up three 'standard' example investors with an invested capital of € 25,000, € 100,000, and € 400,000. The research made use of assumptions concerning the fund costs to calculate the amount of the costs. These assumptions concerning the fund costs are the same for all the service concepts studied. For all the service concepts and example investors, the total costs were calculated for the provision of the services per year, in euros and as a percentage of the average invested capital. Finally, the AFM assessed the findings to determine whether or not the total amount of costs corresponds with the target group of the service concept. On the basis of the calculated costs, the AFM studied the extent to which the investment firm takes sufficient account of the costs when determining the target group and the information provision about these costs. Appendix 1 provides a more detailed explanation of the scope and approach of the research.

1.3 For whom is this report intended?

This report is intended for financial enterprises that provide investment services, such as banks and investment firms that offer execution only services, investment advice, and/or asset management to private clients, financial service providers that provide investment services under the Wft Exemption Regulation ('nationaal regime') and investment firms acting as custodian. In this report the term 'consumers' means private clients, including both retail clients and private banking clients. The findings in this report do not relate to managers of collective investment schemes and providers of investment products, but the report could be relevant to them because some of the recommendations concern the insight that investment firms provide to consumers into the costs of funds, for instance. Managers of collective investment schemes and providers of investment products play an important role in providing the consumer insight in the total costs.

1.4 Next steps

Next steps for investment firms

The investment firms concerned have usually stated that they are in favour of providing insight into the costs for the consumer, and wholeheartedly support the objective of increasing this insight. In addition, the investment firms involved in this research have already implemented adjustments in their services, and have stated that they will make even more adjustments on the basis of the recommendations in this report. The implemented adjustments usually relate to changes in the information provided concerning the costs. Many investment firms are also currently reconsidering their price structures or have already done so. The AFM sees this as a positive development towards simpler price structures. The AFM will monitor the implementation of these additional adjustments with interest. The AFM welcomes the fact that investment firms recognise and endorse the importance of providing insight into costs for consumers, and that they have already taken steps to improve this insight.

The AFM would welcome it if investment firms would assess their services on the basis of the mandatory and voluntary recommendations in this report, and would adjust their services to meet the mandatory recommendations, and also adjust their services to meet the voluntary recommendations where they consider this is advisable. Such an assessment preferably requires an assessment of whether or not the investment firm is providing the consumer with sufficient insight into the costs of the investment services, and whether the costs are not too high for the target group and its clients. A suggestion regarding the information provided concerning the costs is that, among their (potential) clients, investment firms should check the extent to which (potential) clients are easily obtaining insight into the costs of the investment services, on the basis of the information provided. Such an assessment is preferably performed periodically rather than just once.

The specific recommendations in this report assist investment firms to take a step towards simple insight into the costs of investment services. However, implementing these recommendations will not instantly lead to simple insight into the total costs of investment services. The AFM therefore sees reason for considering the introduction of a standard criterion for costs that provides consumers with a clear and simple insight into the total costs, and enables the comparison of the total cost of various services with each other. The AFM proposes the introduction of a total cost of ownership (TCO) measure, as a possible solution for the lack of simple insight into the total costs of investing. In the discussion document entitled 'Total cost of ownership in investment services', the AFM explains what it has in mind and it invites the market to think cooperatively in more detail, to start discussions about this issue and to assist in further outlining the TCO.

Next steps for AFM

The AFM will start a follow-up research into the transparency and the amount of the costs of mutual funds (ongoing charges, transaction costs within the fund and entry and exit fees). The research has shown that the effect of the fund costs on the total costs for the consumer is usually very large (if investment is entirely in funds, the fund costs in the AFM's calculations usually amount to more than 80% of the total costs), while the mutual fund providers do not provide (clear and simple) insight into all the costs of mutual funds. They are required in any case to state the 'ongoing charges' in the Key Investor Information Document, but this cost criterion does not include all the costs of the fund. Examples of costs that are not included in the 'ongoing charges' are the transaction costs within the fund. This lack of simple insight into the total fund costs results in the situation where consumers are not able to properly assess the funds, and cannot properly compare the funds with each other. This could then cause the client to take an uninformed and potentially wrong investment decision.

The earlier mentioned AFM consumer survey has shown that consumers consider the costs of investing important, but do very little in-depth examination of the costs before and during the provision of the services. In its communications to consumers, including through the AFM website, the AFM will therefore pay additional attention to the importance of costs and ways to increase the insight into the costs of investment services.

2 Summary of findings

At the investment firms studied, the research identified points of attention concerning both the transparency of the costs, the price structure and the amount of the costs.

- The research into the cost transparency shows that the clarity and completeness of the public information concerning the costs could be greatly improved in many cases. Investment firms, for example, often provide little explanation about the costs that will be charged to the consumer. For instance the costs associated with investing in mutual funds are often not mentioned. This while a lot of service concepts invest in mutual funds, and the costs for this comprise a large proportion of the total costs. In addition, with respect to the public information, the target group did not always seem to be sufficiently defined. Finally, the information provided to clients during the provision of services concerning the costs of the investment services was, in many cases, not clear.
- The research into the price structure shows that the total amount of the costs of different service concepts is difficult to compare, and therefore, consumers will have difficulties comparing the amount of the costs. This is because, among other things, the price structures of service concepts vary greatly, and in some cases a highly differentiated price structure means that the calculation of (an estimate of) the amount of the costs is very difficult. A price structure that consists of many different cost items is called a differentiated price structure in this report. Furthermore, in some cases it is unclear whether the costs for the consumer are in proportion to the costs incurred and efforts made by the investment firm.
- It is noticeable that the amount of the costs vary widely between service concepts and investment firms, and in many cases the fund costs have a major effect on the amount of the costs. Finally, several service concepts appear to have costs that are too high for a portion of the target group.

For each type of service (execution only, investment advice, and asset management), figure 1 shows which cost items will be charged, and the extent to which consumers receive insight into these costs. The research calculated and estimated the following 12 cost items: deposit costs, management fees, advisory fees, all-in fee, subscription fees, performance fees, transaction costs, custodial fees, corporate actions, fund costs due to 'ongoing charges', fund costs due to transaction costs in the fund, and fund entry and exit fees. In practice, the consumer may still be faced with additional cost items, such as costs associated with investing in alternative investments such as hedge funds and private equity. The calculated amount of the total costs is shown by the height of the bar chart and can be read on the left-hand axis of the figure. The colours in the figure indicate the degree to which the consumer receives insight into the different parts of the total costs:

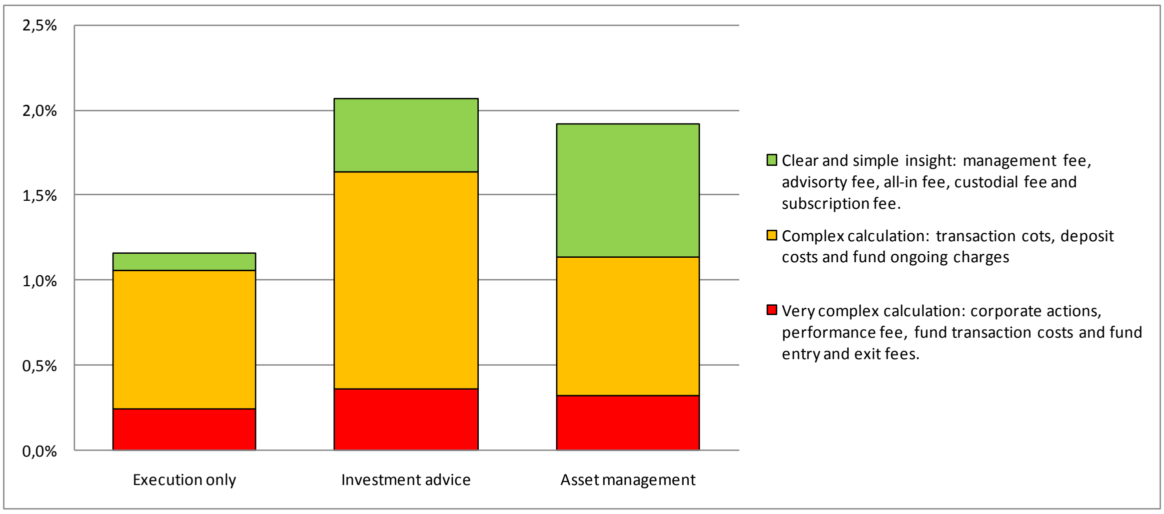
- Cost items shown in red are very difficult for consumers to obtain insight into. One possible explanation for this is that the calculation of (or an estimation of) the amount of costs is highly complex, for example because the amount of these costs is determined by circumstances over which consumers have no influence themselves. An example of this is the costs that are charged for corporate actions, such as payments of dividends or coupons. The costs partially depend on the amount of the payment and the consumer has no influence on this amount. It also appears that investment firms insufficiently facilitate consumers to obtain insight in these cost items. Another reason why consumers have difficulty in obtaining insight in these cost items is that they are unknown for the consumer. Information about these cost items is not or is insufficiently available for the consumer, such as information about transaction costs in funds. Transaction costs in funds means the costs of transactions performed in the fund by the fund manager. Cost items shown in yellow are difficult for consumers to obtain insight into. This could be because information about these cost items is not included in the public information of the investment firm, or because the calculation of (or an estimate of) the amount of these costs is complex. One example of information on cost items that is generally not included in the public information of the investment firm is information about the ‘ongoing charges’ of mutual funds. The ‘ongoing charges’ of mutual funds show the costs that are withdrawn from the fund during the course of a year, and are included in, for example, the Key Investor Information. An example of a complex calculation is the calculation of transaction costs charged by the investment firm, which depends on several variables, including the number of transactions, the transaction amount, and the performance location.

- Cost items shown in green are easy for the consumer to obtain insight into, for example because insight into these costs requires a relatively simple calculation or no calculation at all. An example of this is a subscription fee that is regularly charged as a fixed amount. The information about these costs is in most cases made clearly available in public information sources.

The figure shows that it is difficult for the consumer to obtain insight into a large proportion of the total costs. For a small proportion of the total costs it is even very difficult or impossible for the consumer to obtain insight into the total costs.

The figure shows the average costs for each type of service. The costs consist of a sum of the direct costs of the investment services, such as transaction costs and advisory fees, and the indirect costs of investment products, such as the ‘ongoing charges’ of mutual funds. However, in practice, investment firms and service concepts can have a significantly different amount of costs. The extent to which consumers obtain insight into the specific cost items is an estimated average. Individual investment firms and service concepts can vary considerably from each other in this context. An example of these differences is that with respect to some service concepts it is very difficult for consumers to obtain insight into the transaction costs, while in other service concepts consumers can easily obtain insight into the transaction costs. These differences between individual investment firms and service concepts can be caused by the differing construction of the price structure, for example, the number of different transaction prices. These differences can also be caused because the clarity of the information provided differs; for example, whether or not the prices are made available on the website. The findings are explained in more detail in Appendix 2, Findings.

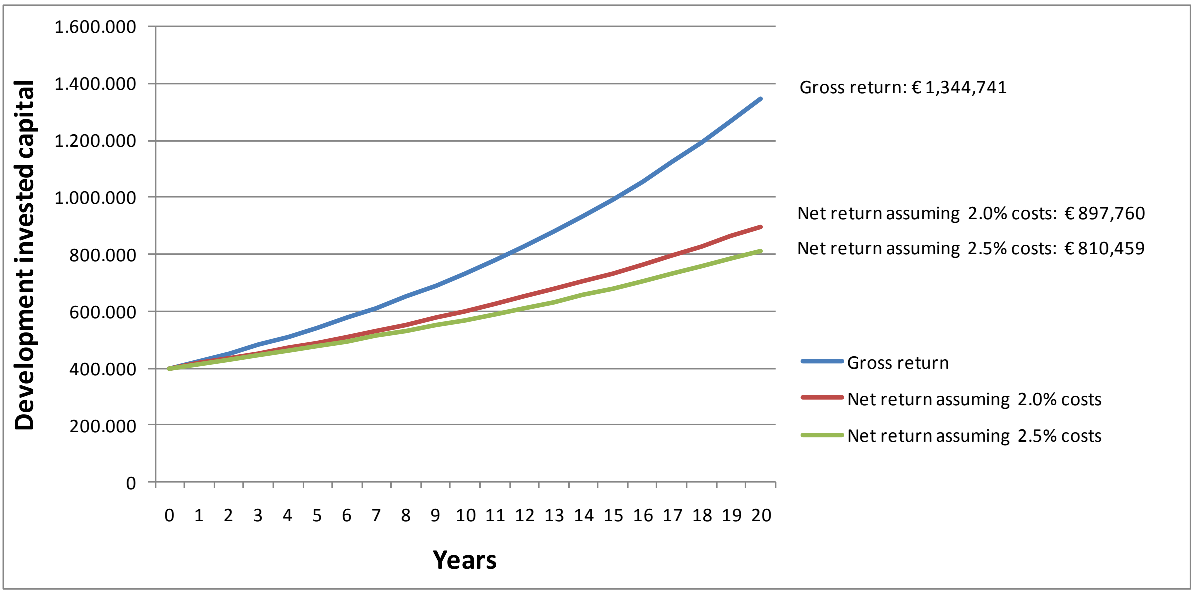
Figure 1: Insight into costs of investment services on the basis of public information



Source: AFM; the identified cost items relate to costs that the consumer pays to the investment firm, unless it is indicated that these concern fund costs.

Figure 2 shows the effect of costs on the net return of the investment portfolios of consumers. Costs have a major impact on the net return. This certainly applies to long-term investors. When the costs of a consumer are lowered from 2.5% to 2.0% of the invested capital, this results after ten years of investing in an additional return of approximately €30.000, assuming an inital inlay of €400.000 and a 6.25% annual return. After twenty years the same cost reduction results in a gain of approximately €87.000. The effect of a cost reduction becomes stronger when the investment horizon increases. Of course are, apart from the costs, other factors important for the consumer as well, such as the quality of the service provision, the risk management and the gross return.

Figure 2: Effect of too high costs for investment services



Source: AFM

3 Recommendations

This section presents the recommendations arising from the research into the costs of investment services. The recommendations, if relevant, have been submitted as feedback to the investment firms studied. These recommendations result from the findings and are also interesting for investment firms that have not been studied, therefore the recommendations are being made public to all investment firms by means of this report. This section presents in succession, the recommendations concerning the cost transparency, the price structure, and the amount of costs.

Status of the recommendations

In its role as supervisory authority, the AFM looks beyond the mere obligations resulting from laws and regulations. Therefore the report also includes recommendations that are not based on laws and regulations. The word ‘preferably’ is included in the recommendations that are not based on laws and regulations. Investment firms are not obliged to follow these recommendations in which the word 'preferably' is included. The AFM considers these recommendations as good examples that can help the investment firms to focus on the client's interests.

There are also a number of relevant obligations resulting from laws and regulations, which are included in this chapter. In case investment firms fail to comply with the statutory standard, the AFM can therefore consider enforcement action. The AFM assesses, in each individual case, whether or not an investment firm is complying with the statutory obligations.

3.1 Recommendations on cost transparency

Simple insight into the costs of investment services is important for consumers, not only to be able to make a proper price/quality comparison between investment firms and service concepts, but also to be able to make an assessment/ of the services. This is important for the consumer not only to be able to make an informed choice when it comes to investing, but also to enable an informed choice to be made during the provision of the services. This section first explains the recommendations concerning public information prior to the service being provided and secondly the recommendations concerning information provided during the provision of the services. The recommendations are intended for banks, investment firms and custodians. Although custodians are responsible for the information provided about the costs, the AFM would also welcome it if investment firms take the responsibility, where necessary, to request custodians with which they cooperate to implement adjustments in the information provision.

3.1.1 Public information available prior to the provision of the services

The research assessed whether the public information provides a proper picture of the costs of the investment services. Public information means the information from the investment firm that is immediately available for all potential clients, such as information on a website. Information that is requested by potential clients from the investment firm, or information the potential client receives directly from the investment firm, is not considered as public information in this report. Public information in this report is therefore not the same as all the pre-contractual information available.

The basis for the assessment of the public information was primarily the insight into the costs for the consumer, and not the relevant laws and regulations. The research assumed that consumers, in the orientation phase, can only get a thorough insight of the costs of investment services if the public information provided by the investment firm concerning the costs prior to the provision of services is clear. The information is clear if, among other things, it is easy to find and also clearly laid out, and comprehensible. The research also assumed that the consumer, in the orientation phase, could only form a proper picture of the costs of investment services if the information is complete.

In the research, the public information concerning the costs was assessed because this information enables consumers to obtain information immediately, in the orientation phase, concerning the costs. Full public information concerning the costs makes it possible for consumers to already obtain a total overview of the costs in the orientation phase. Clear public information makes it easier for the consumer, in the orientation phase, to obtain insight into the costs and to compare the costs of various investment firms and service concepts, and motivates consumers to obtain this information. In the orientation phase, consumers can, for example, benefit from publicly available information that enables them to estimate whether a service concept may or may not be interesting for them. Consumers then do not have to conduct in-depth examination of service concepts that are not interesting for them, and can be additionally alert for service concepts that might not be interesting for them.

Statutory obligations concerning information concerning the costs prior to the provision of services

- Pursuant to Section 4:19 (2) of the Financial Supervision Act (Wft), all information provided or made available by a financial enterprise to clients concerning a financial product, financial service or ancillary service must be correct, clear and not misleading. The AFM is of opinion that information is clear and not misleading when the information is comprehensible and easy to find. By the opinion of the AFM, the information needs to be well-balanced in order to prevent that the consumer is being misled or does not understand the information. When for example an investment firm explicitly points out the advantages of a product on its website, the AFM expects that the investment firm explicitly point out certain risks. The market will be consulted about this interpretation of Section 4:19 of the Wft later this year. The recommendations that are outlined below overlap the statutory standard Section 4:19 (2). An investment firm should therefore assess whether or not it complies with the statutory standards set in Section 4:19 (2).
- Pursuant to Section 4:20 of the Wft, prior to advising, providing an investment service, providing an ancillary service, or the creation of an agreement concerning a financial product that is not a financial instrument, an investment firm or financial service provider must provide information to the consumer, or the client if it concerns a financial instrument or insurance, as far as this is reasonably relevant for a proper assessment of this service or product. The investment firm or financial services provider is not obliged to make this information publicly available.
- Pursuant to Section 58a:1 and Section 58e:1 of the Decree on Conduct of Business Supervision of Financial Undertakings under the Wft (*Besluit Gedragstoezicht financiële ondernemingen Wft* - BGfo), prior to the provision of an investment service or ancillary service to a non-professional consumer, the investment firm must provide information about the total price of the services including all associated costs and, if no exact price can be provided, the basis for the calculation of the total price. The investment firm has no obligation to make this information publicly available.
- Pursuant to Section 65a of the BGfo, a provider of units in a collective investment scheme, or a provider of investment services concerning units in a collective investment scheme, must provide the Key Investor Information to the client free of charge well before the time of a subscription to units in a collective investment scheme. The provider of units in a collective investment scheme, or a provider of investment services concerning units in a collective investment scheme, is not obliged to make this information publicly available.

Recommendations relating to the public information concerning the costs

These recommendations apply to the public information about the costs. Most recommendations can also be applied to all provided pre-contractual information.

The information concerning the costs should preferably be made available in the public information

- The information concerning the costs of the investment services should preferably be included in the public information, such as information on a website. In addition, this information should be easy to find by the consumer, for example through an explicit reference or the use of explicit headlines.
- The information concerning the costs charged by the custodian(s) should preferably be included in the public information, such as information on a website. Although custodians are responsible for the information provided about the costs, making this information available on the website of the investment firm improves the insight in the costs for the consumer.
- The information concerning the indirect costs, such as costs charged by product providers, should preferably be included in the public information, such as information on a website.

- If the public information does not include all the information concerning the costs, include a clear reference to the place where this information can be found. When (part of) the information about the costs is not publicly available, it should not result in the public information being unbalanced.

The public information concerning the costs should preferably be presented clearly

- The public information concerning the costs should preferably be presented clearly, for example, by using sub-headings.
- The public information concerning the costs should preferably be presented together, for example on a single web page or in a single brochure.
- If an investment firm chooses to present the information for several service concepts in a single brochure, and the costs that apply for several service concepts are only identified once, it is preferable for the investment firm to include clear references to this information together with the service concepts. This enables consumers to have an overview of which costs are applicable for the service concept, and be able to form their own picture of the total costs.

The public information concerning the costs should preferably be presented comprehensibly

- The public information concerning the costs should always state whether the prices include or do not include VAT, and preferably present the prices including VAT.
- The public information concerning the costs should preferably include how the costs are calculated, for example, as a percentage of the invested capital. Preferably, additional information is provided concerning how and at what moment exactly the invested capital will be determined which enables the consumer to calculate the costs themselves.
- The public information concerning the costs should preferably include the time at which the costs will be calculated and charged to the consumer.
- The public information concerning the costs should preferably minimise the use of jargon. Moreover, pursuant to Section 4:19 (2) of the Wft, terms in the public information that may be difficult to understand for the average consumer must be explained understandably.
- The public information concerning the costs should preferably explain which costs the consumer must pay and what services these costs represent. An example of these costs is the custodial fees: it is not always explained to the consumer what services the custodial fees represent.
- The investment firm should preferably make additional efforts to provide consumers with explanations concerning the costs, such as providing an explanation of which (direct and indirect) costs the consumer will face with respect to investment services, an explanation of terms used in the investment services, and the use of video and means of communication other than text to provide explanations for consumers.

The information concerning the costs should preferably be made available in the public information as completely as possible

- The information concerning the indirect costs, such as the costs charged by the providers of investment products, should preferably be completely available in public information of the investment firm. This information includes the following aspects:
    - The investment firm's public information concerning the costs should preferably <u>identify</u> all costs of investment products. This for instance implies that not only the 'ongoing charges' of mutual funds are identified. The 'ongoing charges' of mutual funds show the costs that are withdrawn from the fund during the course of a year and are included in, for example, the Key Investor Information Document. However, the ongoing charges do not include all the costs of funds. Other costs that are identified in the Key Investor Information Document are for example the one-off costs that are charged before or after the investment (such as the entry and exit fees), and the costs that are withdrawn from the fund under certain specific conditions, such as performance fees. Costs of funds that are not identified in the Key Investor Information are, for example, the transaction costs within the fund.

- The public information concerning the costs should preferably include an estimate of the average total costs for the different types of investment products. In addition, the investment firm preferably indicates a range within which the costs will vary under normal market conditions. For mutual funds a distinction can be made between for example equity funds versus bond funds, and actively versus passively managed mutual funds.
- The investment firm should preferably make the amount of the costs for each investment product available as completely as possible in the public information by using the information concerning the costs provided by the investment product's provider. For fund-specific information, for example, there can be reference to an application of a database in which the costs per fund are shown, as included in the Key Investor Information Document.

The target group for service concepts should preferably be made as clear as possible in the public information

- The investment firm should preferably explain, in the public information, for which consumers a service concept is or is not suitable, from a cost perspective. From a cost perspective, for example, a service concept could indeed be interesting for a consumer with an invested capital that is more than € 100,000, and not interesting for a consumer with an invested capital that is less than € 100,000. The reason for this, for example, is that the investment firm charges a high fixed amount, such as a subscription fee expressed in euros, which means consumers with low invested capital incur high costs relative to their invested capital.
- The information concerning the target group should preferably be accessible for consumers in a location that is easy to find, such as on the website. The investment firm should preferably not limit itself to only presenting the minimal amount of the invested capital if the service concept is also probably not suitable for specific consumers on other grounds, from a cost perspective. Examples of these grounds are the performance of (very) many transactions if the transaction costs in the service concept are relatively high, and a defensive risk profile of the consumer if the total costs in the service concept are relatively high.
- When consumers are offered a choice between different price structures within a service concept, the investment firm should ensure that the information provided on these price structures is clearly set out. Clear information provision means, among other things, that the distinction between the different prices for consumers is explained and that the information provided shows for which consumers a price structure is and is not suitable.
- When different price structures are offered within a service concept, the investment firm should preferably make efforts initially and continuously to allow the consumer to select the price structure that is most favourable for the consumer. The investment firm can, for example, use an application that provides insight into the most favourable price structure for the consumer.

The consumer should preferably be assisted prior to the provision of the services by making clear what costs can be expected

Investment firms should preferably make extra efforts to assist consumers by making the costs to be expected clear, for instance by:

1. Using numerical examples to make the calculation of specific prices clear to the consumer;
2. Making the costs incurred of recent years representatively clear, for example, by use of a model portfolio;
3. Making the expected costs clear, for example, for typical people and in different scenarios; and
4. Using applications to provide consumers with the opportunity to obtain insight into the amount of the total costs and how the amount of the expected costs changes as the investment behaviour changes.

3.1.2 Information provided during the provision of the services to clients

The research assessed whether the information available during the provision of the services provides the client with a proper picture of the costs of the investment services. The starting point for this assessment was primarily the insight into the costs for the client. The research assumed that the consumer can obtain a proper picture of the costs of investment services, if the information provided by the investment firm concerning the costs for the services during the provision of the services is clear and complete, and if, during the provision of the services, the client of the investment firm regularly receives information showing which costs have been charged.

Statutory obligations for the information concerning the costs during the provision of the services

- Pursuant, for example, to Section 4:19 (2) of the Financial Supervision Act (Wft), all information provided or made available by a financial enterprise to clients, including advertisements, concerning a financial product, financial service or ancillary service must be correct, clear and not misleading.
- Pursuant to Section 4:20 (3) Wft, during the term of a contract regarding a financial product, a financial service, or ancillary service, the investment firm shall inform the consumer, or where it concerns a financial instrument or insurance, the client, with timely information regarding material changes in the relevant information as referred to in Section 4:20 (1) Wft. This is the information that is included in Section 58a and Section 58e BGfo, as explained earlier.
- The reciprocal rights and obligations of the investment firm and the client are subject to Section 4:89 of the Wft in conjunction with Sections 168 and 168a of the BGfo. It is incorporated in these Sections that an investment firm conclude an agreement with each client that shall be recorded on paper or on another durable medium. The agreement contains at minimum the reciprocal rights and obligations of the client and the investment firm. These include the costs that are being charged to the client distinguished by type as well as the underlying calculations. The client also needs to be informed in a extensive, accurate and comprehensive way about the existence, the nature and the amount of provisions or, in case the amount cannot be retrieved, the way of calculating the provision, prior to the provision of the respective service.
- An investment firm that has transacted an order relating to a financial instrument at the expense of a client for a non-professional investor who does not seek to implement a decision in relation to the management of a personal capital, pursuant to Section 69 of the BGfo, must provide the client with notification of the execution of the order without delay and no later than the first business day following the execution of the order. This notification includes information concerning the total costs that have been charged, and a specification of these costs if the non-professional investor requests this specification.
- An investment firm that manages a personal capital, pursuant to Section 70 of the Bgfo, must provide the client with a regular statement of the asset management activities that have been performed on the client's behalf, unless this statement has already been provided by a third party. Insofar as this regular statement relates to the capital of a non-professional investor, it will include, where applicable, the total amount of costs for the reporting period with a separate specification of at least the total management fees and the total implementation costs and, where applicable, a notification that a more detailed specification will be provided if requested.

Recommendations on the information concerning the costs during the provision of the services

Provide all clients with clear and preferably regular information concerning the costs incurred

- The information on the costs incurred should preferably provide an explicit breakdown of the costs. The costs should preferably not be exclusively incorporated in other information and should therefore be identifiable for the client as costs. One example in which this is not the case is the incorporation of transaction costs in the transaction amount without explicitly identifying the transaction costs.
- The investment firm should provide – preferably on a regular basis, and at least annually – all its clients with information on all costs incurred in a specific period. This information for the period concerned should preferably include:
    - the costs that have been charged for the investment services, the amount of these costs, and the total amount of the costs charged for the investment services.
    - the costs that have been incurred for investing in investment products, the amount of these costs, and the total amount of the costs charged.
    - an explanation of the calculation method for the costs, if the calculation method for the costs difficult to understand for the average consumer.

- When an investment firm offers its clients online access to their investment portfolio, it should also provide an overview of the costs that are realised over a certain period.

3.2 Recommendations on price structure

In this report, the term ‘price structure’ means the composition of all the costs incurred by the investment firm that are charged to the consumer during the provision of services. The price structure can consist, for example, of an all-in fee, or of many different cost items. A price structure that consists of many different cost items is called a differentiated price structure in this report. A highly differentiated price structure hinders the consumer’s insight into the expected and incurred costs. Moreover, service concepts with a highly differentiated price structure have more difficulty in presenting the information concerning the costs clearly for the consumer. The recommendations in this section relate to the price structure and are intended for banks, investment firms, and custodians. Custodians are responsible for the price structure of the costs that are charged by them. The AFM also expects investment firms that use a custodian to make efforts to avoid a highly differentiated price structure for their clients. The AFM welcomes it if investment firms take the responsibility to request the custodian to implement adjustments in the price structure, where necessary.

A highly differentiated price structure should preferably be simplified

- The investment firm should preferably simplify a highly differentiated price structure as much as possible. Examples of ways to simplify the price structure are:
    - restricting the number of different regions for which a separate transaction price is charged.
    - not charging the corporate actions separately. The prices for corporate actions often consist of different cost items, and composite and graduated prices and the amount of the costs often depend on the amount of for example coupon and dividend payments. It is therefore difficult for consumers to estimate what the total amount of costs is for the corporate actions. The research shows that usually these costs only constitute a small proportion of the total costs. Investment firms could therefore consider including this cost item in a different price, such as advisory fees, management fees, or custodial fees.

Ensure that the costs are preferably explainable and in proportion to the costs incurred and efforts made by the investment firm

- The costs that the consumer pays should preferably be in proportion to the costs incurred and efforts made by the investment firm, so that the costs for the consumer are not too high. The costs can be too high, for example, if the costs for the consumer increase linearly with the invested capital of the consumer, while the costs incurred and efforts made by the investment firm for the various consumers are (almost) the same. If the price structure is not suitable for the entire target group, the investment firm can, for example, use graduated scales in the pricing, or set a maximum variable fee, so that the costs for the consumer are in proportion to the costs incurred and efforts made by the investment firm. The investment firm should preferably ensure that this does not lead to a highly differentiated cost structure.
- The amount of the different cost items, such as custody fees and transaction costs, should preferably be in proportion to the costs incurred and efforts made by the investment firm. When, for example, the advisory fee or management fee is included in the transaction costs, the investment firm could have the undesirable inducement to advise the client to perform additional transactions or perform additional transactions for the client. When, for example, the investment firm charges the consumer more favourable prices, such as transaction costs and custodial fees, for products offered by the financial institution of which the investment firm itself is part rather than for other products, the consumer may expect that this is caused by the difference between the costs incurred and efforts made by the investment firm for the two products. If this is specifically not the case, there may be an undesirable inducement to promote the products offered by the financial institution of which the investment firm itself is part, rather than other products.
- The investment firm includes preferably the costs in its selection of a custodian, provider of investment products or investment product. These costs should be in proportion to the services and products provided.

- The method of calculating the costs should preferably not harm the interests of the consumer. If, for example, an investment firm uses a performance fee without a high watermark, it is possible that, in the long term, the consumer will be charged a performance fee without any commensurate return being provided. A high watermark means that the consumer only needs to pay a performance fee for a period if any losses from previous periods have first been made good. A high watermark eliminates this risk, whereby, at the same time, a situation must be avoided in which, after a period of negative investment results, the investment firm no longer has any inducement to actively manage the capital of the consumers.

Ensure that the interests of clients are preferably not harmed by the time at which costs are charged

- The investment firm should preferably not charge the consumer in advance for costs of services rendered over a long period, because this can create an undesirable obstacle for the consumer to terminate the service.
- The investment firm should preferably charge different costs at only a few different moments, because this is clearer for the consumer.

3.3 Recommendations on the amount of the costs

This section contains the recommendations arising from the research into the amount of the costs in relation to the target group of the service concept. Costs affect the expected net return, and must be included in the consideration of which service concept is useful for the client concerned. After all, as a result of the total cost level, the service concept may not be useful for certain types of investors because the expected net return is outweighed by the risk that is run by investing. It is in client's interest that the investment firm ensures that the service concept concerned has added value for the client.

Statutory obligations concerning the amount of the costs

- Pursuant to Section 4:90 of the Wft, an investment firm commits itself, when providing investment services or ancillary services, to safeguard the best interests of its clients in a fair, reasonable and professional manner, and commits itself, also when performing investment activities, to act fairly, reasonably and professionally and to refrain from conduct that is detrimental to the integrity of the market.

Recommendations concerning the amount of the costs

Ensure that the costs of investing for the target group are preferably in proportion to the expected return for a given level of risk

- The investment firm should preferably assess, on a regular basis, whether the amount of the total costs for the target group are in proportion to the expected return for costs, in view of the risk of investing. It is undesirable if the expected net return for (part of) the target group does not outweigh the risk. This is for instance not the case when the savings rate is higher than the expected net return (for a part) of the target group. The AFM believes it is important that in this assessment of the amount of all the costs, the investment firm includes both direct costs and indirect costs that are charged to the consumer. If the costs for (a part of) the target group lead to an expected net return that is not in proportion to the risk of investing, the AFM expects that the pricing will be adjusted so that the costs (for this part of the target group) are reduced, or that the target group will be adjusted. For example, a service concept is accessible for a consumer with an invested capital of € 10,000, but the costs for a consumer with € 10,000 of invested capital are higher than the expected return for this consumer. In view of the costs and the risk, the service concept in this example is probably only interesting for a consumer with an invested capital of € 25,000 or more. In this example, the pricing could be adjusted, thus making the service concept interesting from a cost perspective for a consumer with € 10,000 of invested capital, or the target group could be adjusted so that the service concept is only accessible for consumers with an invested capital of € 25,000 or more.

Ensure that the costs of investing for the client are preferably in proportion to the expected return given the level of risk

- The investment firm should preferably inform consumers prior to the execution only service concerning the choices in the consumer's trading behaviour which may have a major effect on the amount of the costs. An example of this is the consumer's choice to perform (very) many transactions.
- The investment firm should, when providing investment advice and asset management services, preferably make assessments, prior to and regularly during the provision of the services, as to whether the service is interesting for the consumer from a cost perspective and shares the outcome with the consumer. From a cost perspective, the service is interesting if the costs for the consumer are in proportion to the expected return given the level of risk. This is for instance not the case when the savings rate (for a part) of the target group is higher than the expected net return. The AFM believes it is important that the investment firm includes the amount of all the costs, both the direct costs and the indirect costs, when considering whether or not the service concept is interesting for a consumer.
- The investment firm, when providing investment advice and asset management services should – preferably prior to the provision of services – warn consumers if the service might not be interesting from a cost perspective.
- During the provision of services, the investment firm should warn consumers in investment advice and asset management services if the service is no longer interesting from a cost perspective.

Ensure that all the costs are preferably included in an evaluation of the costs for the consumer

- The investment firm should preferably include both the direct and indirect costs in an evaluation of the costs for the consumer or the target group. In addition, in an evaluation of the costs for the consumer or the target group, the investment firm should preferably include not only the most visible costs, but also (if possible) the costs that occur less frequently and/or that are less visible, such as the debit and credit interest rates and the exchange rates used.

3.4 Total cost of ownership (TCO)

The specific recommendations in this section assist investment firms to take a step towards a clear and simple insight into the costs of investment services. However, implementing these recommendations will not instantly lead to a clear and simple insight into the total costs of investment services. The most important reason for this is that there is a lack of clear and simple insight into the total costs, both the direct costs of the investment firm and the indirect costs of the providers of investment products, which means that the consumer cannot easily assess the service, and cannot easily make a proper price/quality comparison between investment firms and service concepts. Simple insight into the costs of investment services and the costs of the products as well as the sum of these costs is important for consumers in enabling them to make a proper price/quality comparison between investment firms and service concepts, and to be able to make an assessment of the services and the total package. This is important for the consumer, not only to enable him to make an informed choice when it comes to investing, but also to enable him to make an informed choice during the provision of the services. The AFM considers this lack of insight into the costs problematic, because costs can have a major effect on the return, and are therefore important for every consumer. The investment firm will also benefit from having insight in the total costs. Insight in the total costs helps the investment firm in its assessment of whether or not the costs of the target group and the costs of a specific client are in proportion to expected return given the level of risk. The AFM therefore proposes, in line with the recommendations in this report, a total cost of ownership (TCO) measure as a solution for this lack of insight into the total costs of investing prior to and during the provision of the services. In the 'Total cost of ownership in investment services' discussion document, the AFM explains what it has in mind, and it invites the market to think cooperatively about this proposal in more detail, to start a discussion ,and to assist in in further outlining the TCO. This discussion paper is not only addressed to investment firms, but also to mutual fund providers, providers of other types of investment products and providers of capital accumulation products with an investment component.

Appendix 1 Design of AFM research

In this research the AFM has focused on the costs of investment services. However, assessing the investment services requires more than just an assessment of the transparency of the costs, an assessment of the price structure and an assessment of the target group of the service concept in combination with the amount of the costs. The quality of the services, risk management, and the return obviously also play important roles. This appendix successively explains the scope, the approach, and considerations taken in the approach of the research into the costs of investment services.

Scope of the research

The research covers the most relevant costs that affect the return for the consumer. The term 'costs' in this report means both the direct and the indirect costs that are associated with investment services. Direct costs are costs that the investment firm itself charges to the consumer. Direct costs depend on the pricing of the investment firm and how the consumer invests, or how investments are made for the consumer. Examples of direct costs are transaction costs, custodial fees, and management fees. Indirect costs are the costs that the product provider, such as a provider of funds, charges. Indirect costs depend on the pricing of the product provider, how the product provider invests, and how the consumer invests, or how investments are made for the consumer. Examples of indirect costs are the costs associated with investing in a fund, such as the ongoing charges, the transaction costs in the fund and the entry and exit fees, and the costs associated with investing in structured products, such as the structuring fee. Appendix 4 (under ‘cost items’) contains an overview of all the cost items that are covered in this research.

Fifteen investment firms were selected for the research, including banks and independent asset managers. The selected investment firms differ both in terms of size (in number of consumers, and amount of the invested capital), and the type of institution (independent or part of a bank), and serve diverse types of consumers. The research covers all three types of services: execution only, investment advice, and asset management. For each selected investment firm, the research includes all service concepts offered by the investment firm for which the minimum invested capital is less than € 500,000. The research restricts itself to investment services to consumers who do not qualify as professional consumers. The term ‘consumers’ means both retail consumers and private banking clients. A total of 57 service concepts were studied.

Research methodology

The AFM specifically focused on two questions in the research. First, to what extent are the costs presented transparently. And secondly, what do the amount and the composition of the costs of the various service concepts look like, and how do they relate to the target group of the service concept.

Cost transparency

The research into cost transparency is divided into a research of the public information prior to the provision of services, and a research into the information provided to consumers during the provision of services. For the subsection on public information prior to the provision of services, the AFM conducted studies, for each service concept, into public information concerning the costs such as the information provided on the website, price lists and information brochures, and the target group as shown on the website. For the subsection on information provided to consumers during the provision of services, the AFM assessed, for each service concept, the target group as reported by the firm to the AFM and reports supplied by the investment firm to the AFM that report among others the costs. However, the research primarily focused on information about the costs as provided in the public information. To enable assessment of the cost transparency, the information provided was assessed on the following elements: ability to be easily found, completeness, clarity of arrangement, comprehensibility, accuracy, complexity of the price structure, information provided about the target group, and reporting to consumers about the costs during the provision of services.

Amount of the costs and the target group

In assessing the amount of the costs and the service concept's target group, both the level of costs (expressed as percentage of the invested capital) and the relationship with the target group of the service concept were taken into account. The investment firms have indicated to the AFM what the target group of service concept is, and for which consumers the service concept is suitable and for which consumer it is not. The AFM calculated the total amount of the costs for this target group.

To calculate the amount and the composition of the costs, the AFM has developed an overview containing all the cost items. For every cost item, fixed costs, variable costs, graduated scales, minima, maxima, etc, were taken account of. This overview was completed for each service concept and presented for review to the concerning investment firm.

In addition, the AFM designed example investors. These example investors equal for all the studied service concepts. In developing the example investors, the AFM made assumptions about a great number of characteristics, such as the distribution of the portfolio, the number of securities in the portfolio, the number of transactions, the average amount for each transaction, the trading venue, etc. The research made use of assumptions concerning the fund costs to calculate the amount of the costs. These assumptions concerning the fund costs are the same for all the studied service concepts. All the assumptions were checked with a large proportion of the studied investment firms.

The AFM has set up three 'standard' example investors with an invested capital of € 25,000, € 100,000, and € 400,000. In addition, the AFM set up 15 or 16 variations of each of these standard example investors. This has resulted in a total number of 50 example investors. In doing this, a distinction was made between four different combinations of types of instruments in which is invested within service concepts. A distinction is made between service concepts that only invest in individual securities, service concepts that invest in both individual securities and mutual funds, service concepts that only invest in actively and passively managed mutual funds, and service concepts that only invest in passively managed mutual funds. If an example investor is not applicable to a service concept, the costs of this specific example investor are not calculated. This is the case, for example, if the invested capital of the example investor is less than the minimum invested capital required for the service concept, or if the example investor invests in products which cannot be invested in, with the service concept chosen.

Considerations taken in the research methodology

Assumptions of fund costs rather than realised fund costs

The research focuses on the costs of investing from the perspective of the consumer. Fund costs can have a major effect on the final amount of the costs for the consumer and are therefore included in the research. However, the research made use of assumptions concerning the fund costs to calculate the amount of the costs instead of the actual costs of the funds of the investment firm in which there is investment. The fund costs can differ (widely) for each individual fund. The AFM therefore opted, in the assumptions concerning the ongoing charges, to distinguish between actively and passively managed mutual funds, equity mutual funds and bond mutual funds, and domestic and foreign mutual funds. Besides assumptions concerning the ongoing charges, the AFM made assumptions concerning the amount of the distribution fees, transaction costs within the fund and entry and exit fees. The reason that the research used assumptions about the fund costs instead of the realised fund costs is due to the excessive size of a research into the realised fund costs. Because assumptions are used, the calculated fund costs can therefore be higher or lower than the fund costs of an (average) client of an individual investment firm.

Trading behaviour of example investors instead of clients

The research made use of the trading behaviour of example investors, instead of the trading behaviour of clients, to calculate the amount of the costs. The assumptions about the trading behaviour of the 50 example investors are based on market averages and not on the clients of individual investment firms. The calculated costs may therefore be higher or lower than the costs of an (average) client of an individual investment firm. The AFM recognises that each investment firm has its own investment strategy and that the manner in which the portfolio is composed can differ for each investment firm, service concept, and client. A number of investment firms involved have also stated that the way in which investments are made also depends on the stock exchange climate. Nevertheless, the AFM opted to calculate the costs of the investment services on the basis of the trading behaviour of example investors. The most important reason for this is that the results of the research can only be compared with each other when working with example investors. In addition, the selection of representative clients to enable determination of the trading behaviour for each service concept is simple for some service concepts, as in the case of standardised asset management, but is complicated for other service concepts, as in the case of execution only services that focus on a broad target group. Of course, investment firms can themselves calculate the costs of the investment services on the basis of the trading behaviour of their clients and compare the results with the costs for the example investors.

Appendix 2 Findings

This section presents the most important findings from the research into the costs of investment services. The findings presented are not an exhaustive list of the findings identified in the research. This appendix successively presents the findings concerning the cost transparency, the price structure, and the amount of the costs. The findings on cost transparency are subdivided into findings on public information and findings on the information provided to clients during the provision of services.

Findings on cost transparency

The information concerning costs was assessed using an assessment framework. The assessment framework was applied to all the service concepts involved in the research. The assessments using the assessment framework show the extent to which the information concerning the costs is in the interest of the client. The assessments using the assessment framework therefore do not show whether or not there is any infringement of laws and regulations.

It is notable that the difference in cost transparency is large. There is a large difference in the degree to which the information concerning the costs of the service concepts of the various investment firms provides insight into the costs. The degree of transparency concerning the costs can also differ greatly between the different service concepts of a single investment firm.

Public information prior to the provision of the services

The public information was assessed on the basis of eight criteria: the ability to be easily found, clarity of arrangement, comprehensibility, completeness and correctness of the information, the complexity of the price structure, the information provided about the target group, and the information about the costs provided during the provision of services. The public information concerning the costs was assessed by the AFM as being insufficient in more than half of the cases. As explained, the assessment 'insufficient' indicates that the information concerning the costs, with respect to it being in the interest of the clients, is insufficient, but this assessment does not indicate that the information concerning the costs constitutes an infringement of laws and regulations.

Information concerning the costs is difficult to find in the public information

The information concerning the costs is, in many cases, difficult for the consumer to find in the public information, which makes it difficult for consumers in the orientation phase to obtain information directly concerning the costs. The information is also difficult to find because:

- In a limited number of cases, there is no public information available concerning the costs, such as on the website. Moreover, in some of these cases there is no reference to information concerning the costs, which means the consumer does not know what he must do to be able to access the information concerning the costs.
- With respect to all the independent asset managers that were studied, the price lists of the custodians were not available on the website of the investment firm. In the meantime a number of independent asset managers have now placed this information on their websites.
- The public information contained in many cases only limited information concerning the costs of investment products (the indirect costs). One example of this is the statement of an advisory fee related to a service concept that fully invests in mutual funds without mentioning the costs associated with investing in mutual funds.
- In general, the information concerning the costs is, in many cases, easy to find in the public information, but references to in-depth information concerning the costs are missing in many cases or are unclear. One example of an unclear reference is a reference – in a brochure of a service concept – to the home page of the investment firm without specifically identifying where on the website the consumer can find the information.

Information concerning the costs is reasonably clear in the public information

Clear information concerning the costs makes it easier for the consumer, in the orientation phase, to obtain insight into the costs and to compare the costs of different investment firms and service concepts. The research shows that, in many cases, investment firms present the public information concerning costs in a manner that is at least reasonably well-organised. It is notable, in the research, that with respect to service concepts that have a relatively highly differentiated price structure, the investment firms have more difficulty in presenting the information concerning the costs in a clearly organised manner than with service concepts with a relatively simple price structure. This is caused, for example, because the price brochure is very large, as a result of the differentiated price structure. A very large price brochure incurs the risk that the consumer can't see the wood for the trees. It is also notable in the research that a limited number of investment firms present the costs of different service concepts in a single price brochure, but that this brochure does not indicate which costs will be charged in relation to which service concept.

Information concerning the costs is insufficiently comprehensible in the public information

Comprehensible information concerning the costs makes it easier for the consumer in the orientation phase to obtain insight into the costs and to compare the costs of different investment firms and service concepts. The research shows that investment firms present the public information concerning costs in an insufficiently comprehensible manner, in many cases. The information is insufficiently comprehensible in particular because:

- In a number of cases prices do not include VAT instead of including VAT. In some cases this is explicitly stated, which means the consumers themselves can calculate the price including VAT. In a number of these cases, VAT must be calculated on a portion of the price, which makes the calculation of the price including VAT more difficult for the consumer. In other cases it is not clear from the information that the price shown does not include VAT, and the consumer therefore does not have an accurate picture of the amount of the costs. It is striking that some of the investment firms that were studied still show prices not including VAT instead of including VAT.
- In a number of cases the manner in which the costs are calculated was not clearly included, and/or the time at which the costs will be calculated and charged to the consumer was not included. The method of calculating the costs is therefore not clear for the consumer. For example, it is not clear how and when the invested capital is determined for the calculation of the custodial fee (which is calculated as a percentage of the invested capital).
- In a number of cases, there is extensive use of jargon, without including an explanation of the jargon for the consumer.
- For a number of cost items (such as transaction costs, management fees, custodial fees, etc.), the different investment firms use different names, making it very difficult to compare the costs with each other. One example of this is the fee for performing asset management: the names management fee, expense fee, fixed fee and service fee are all used for this same type of fee.

Information concerning the costs is not complete in the public information

In many cases the information concerning the costs is not complete in the public information. Relevant information concerning the costs is missing, which makes it impossible for consumers in the orientation phase to obtain a total overview of the costs. The information is incomplete in particular because:

- In a number of cases, the independent asset managers do not or not clearly state that both the independent asset manager and the custodian charge costs to the consumer, which means that consumers can wrongly assume that the costs charged by the independent asset manager comprise the total costs.
- In many cases, the information concerning the costs of investment products, such as mutual funds and structured products, are not complete enough to allow the consumer to obtain a total overview of the costs of investment products. During the research, a number of investment firms indicated that they themselves did not have full insight into the costs of investment products because the information provided by the providers of investment products is not complete. Information concerning the costs of investment products is particularly relevant for the consumer if the consumer fully invests in investment products. The information concerning the costs of investment products is incomplete in particular because:

- In a limited number of cases, the investment firm does not clarify the information provided by the provider of investment products concerning the costs of a specific investment product.
- In many cases, the investment firm does not provide any estimate of the average costs for the different types of investment products, such as equity funds versus bond funds, and actively managed funds versus passively managed funds.
- In many cases, the investment firm does not state the existence of other fund costs except the ongoing charges, and of the other costs of investment products except the TER.
- In no case at all does the investment firm provide an indication of the amount of the other fund costs except the ongoing charges and the other costs of investment products except the TER.
- In a limited number of cases, the investment firm does not recognize the fact that the consumer incurs costs for entry into and exit from mutual funds, such as entry and exit fees.

Public information concerning the costs appears to be correct

No alerts emerged from the research that would indicate that the public information provided by the investment firms concerning the costs is not correct. However, the research did reveal that a number of investment firms could provide discounts to specific consumers, which means the prices agreed with the consumer can differ from the prices in the public information. This does incur the risk that clients who proactively ask for discounts may receive a discount, whereas a similar client who does not proactively ask for discounts, will receive no discount.

The target group of service concepts is insufficiently explained in the public information

In a limited number of cases, it is insufficiently explained which consumers a service concept is actually suitable or is not suitable, from a cost perspective. The target group is not always sufficiently explained in the public information in particular because:

- In many cases, the public information concerning the target group is limited to a presentation of the minimum amount of the invested capital and the type of instruments in which the capital is or can be invested.
- In cases in which consumers are offered a choice between different price structures within a service concept, the distinction between the different prices for consumers is usually clearly defined, and it is generally sufficiently explained for whom the different prices are and are not suitable. However, in many cases the consumer receives limited assistance in selecting to the most favourable price structure for that consumer's particular situation.

Information provided to clients during the provision of services

Information provided to clients during the provision of services is not clear

The information provided to clients during the provision of services is not clear in many cases because:

- In a number of cases, in execution only services and investment advice services, the costs are not explicitly stated. This is the case, for example, if the transaction costs are not explicitly stated, but are included in the transaction amount. The costs are therefore not recognisable for the client.
- In a number of cases it is unclear which costs are included in the periodic portfolio reports and which not, for example because only the word 'provision' is mentioned.
- In many cases no explanation is provided on the calculation method of the costs. The client is therefore not able to review the costs.
- In many cases it is unclear which costs result from mutual funds and other investment products and what the amount of these costs is. Therefore the client has no clear and simple insight in the total costs of investment products and as a result in the total costs of the investment services.
- In execution only and investment advice services, in many cases the investment firm does not provide a regular statement to its clients concerning the composition and the amount of all costs incurred in a specific period. Usually, for each transaction and for each other cost item that is charged, these clients only receive a statement that includes the report of the costs. This means the client has no clear and simple insight into the total costs of the service.

Findings on price structure

Amount of total costs difficult to compare with each other

Due to the extensive variety of price structures, the amount of the total costs of service concepts and investment firms are difficult for the consumer to compare. Price structures range, for example, from an all-in fee to a (highly) differentiated price structure. A highly differentiated price structure can be caused, for example, by the fact that many different cost items are charged to the consumer. We see this variety of price structures not only between different investment firms but also between service concepts within the same investment firm. Obviously there is an area of tension in this context between, on the one hand, a simple price structure with which the consumers can easily obtain insight into the total costs, but less insight into the underlying costs. Moreover, the price is based on averages, which means that this price could be favourable for one consumer and unfavourable for another consumer. On the other hand, a highly differentiated price structure obscures a clear and simple insight into the total costs, but it does provide insight into the underlying costs, and the costs are (more) geared to the specific consumer ('the polluter pays'). The research also showed that, as an alternative to the choice between a simple and highly differentiated price structure, investment firms use different price structures for different target groups within a single service concept.

Amount of prices for cost items difficult to compare with each other

Several investment firms use different calculation methods for the same cost items. This makes the amount of specific cost items of service concepts and investment firms difficult for the consumer to compare. An example of this is that one investment firm has a single transaction price for European equities, while another investment firm has a separate transaction price for Euronext equities and a separate transaction price for European equities without Euronext. Another example is that at one investment firm a cost item such as custodial fees is a fixed fee (in euros), while at another investment firm it is a variable fee (in %), and at yet another investment firm it is both a fixed and a variable fee. In addition, graduated scales, exceptional situations, minimum and maximum prices can apply to the prices.

It is not certain whether the costs for the consumer are in proportion to the costs incurred and efforts made by the investment firm

The research focused on the costs for the consumer and not on the costs that the investment firm incurs. On the basis of the research, therefore, it is not possible to assess whether the costs for consumers are in proportion to the costs incurred and the efforts made by the investment firm. Therefore the question of whether the consumer pays too high costs for the services has remained unanswered.

A number of things were, however, noticeable in the research that raise doubts about the question of whether or not the consumer does, in some cases, pay costs that are too high for the service.

- The research observed large differences in the amount of the total costs, the amount of the prices for each cost item, such as management fees and transaction costs, and the amount of the prices of the custodians. These results raise the question of whether these differences are caused exclusively by the costs incurred and efforts made by the investment firm. If this is the case, the client's interests are not harmed if the costs for the consumers are also in proportion to the expected return, and other aspects of services provided conscientiously are met. Examples of these differences in the amount of the costs are:
    - The calculated total costs for an independent investor with € 25,000 of invested capital vary for the studied service concepts, for example, from 0.1% of the invested capital for a service concept that only invests in individual securities, to 2.0% of the invested capital for a service concept that invests both in individual securities and in funds.
    - The calculated transaction costs for an investor in investment advice with € 25,000 of invested capital and the same number of transactions vary for the service concepts studied that charge transaction costs, for

example, from 0.2% of the invested capital for a service concept that fully invests in individual securities, to 0.6% of the invested capital for a service concept that invests both in individual securities and in funds.

- It was noticed in the research that investment firms usually provide little explanation as to why specific (amount of) costs are charged to the consumer. The research shows, for example, that the performance fee that some investment firms charge has a large effect on the amount of the costs, and the amount of these costs might be underestimated by the consumer. The calculated performance fee for an investor with € 400,000 invested capital in asset management varies for one of the studied service concepts with the average expected return[4], for example, up to 0.5% of the invested capital and thus 36% of the calculated total costs, for a service concept that only invests in individual securities. The research also shows that the custodial fees that some parties charge have a considerable effect on the amount of the costs, while it is not explained why this amount of costs is charged. The calculated custodial fee for an independent investor with € 400,000 of invested capital is for one of the studied service concepts, for example, 0.2% of the invested capital and thus 51% of the calculated total costs, for a service concept that only invests in individual securities.
- A price structure in which the costs for the consumer will increase linearly with the invested capital of the consumer can lead to a situation where consumers with relatively high invested capital will possibly pay costs that are too high for the services rendered. This can be the case if the costs incurred and efforts made by the investment firm for the consumers with various amounts of invested capital are (almost) the same. In the research, for example, a service concept was studied that was offered to a broad target group and has a linear price structure that consists of a management fee of 1% on the invested capital. An investor with € 25,000 invested capital then pays costs of € 250 annually. An investor with € 400,000 invested capital then pays costs of € 4,000 annually. In this situation, the consumer with € 400,000 invested capital is possibly paying costs that are too high for the services rendered.
- A number of investment firms charge consumers more favourable prices, such as transaction costs and custodial fees, for products offered by the financial institution of which the investment firm itself is part, than for other products. On the basis of this research, it is not immediately proven that this is caused by the difference between the costs incurred and efforts made by the investment firm for the two products.

Costs are charged prior to the provision of the services and over a long period

It is noticeable in the research that some investment firms charge costs prior to the provision of the services and over a long period. This policy can form an obstacle which deters consumers from switching to another investment firm. An example of this is the charging of the custodial fees at the beginning of the year for the whole year, which means the client has paid the custodial fees for the entire year and therefore will be less inclined to change services during the year. It was also noticed in the research that some investment firms charge costs at many different times, such as monthly, quarterly, and annually. The question is whether this increases the consumer's insight into the costs.

Findings on amount of costs

The research used example investors to enable comparison of the amount of the costs of service concepts and investment firms between each other. The assumptions about the trading behaviour of these example investors are based on market averages and not on the clients of individual investment firms. The costs calculated by the AFM can therefore be higher or lower than the costs of an (average) client of an individual investment firm.

Appendix 3 shows the average amount and composition of the costs in the form of graphs. The quality of the services of investment firms is not assessed in this research. Therefore, on the basis of this research, it is not possible to determine whether the differences in costs are caused by differences in the quality of the services. The choice of an investment firm will

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[4] The expected return in the research is based on table 0 from the appendix to the Further Regulation on Conduct of Business Supervision of Financial Undertakings under the Wft (Nadere regeling gedragstoezicht financiële ondernemingen Wft - Nrgfo).

partly depend on the characteristics and needs of the consumer. Obviously, the costs for the consumer must always be in proportion to the expected return, and the other aspects of a service provided conscientiously, such as a suitable service, must also be met.

The research has shown that a limited number of costs are difficult to quantify, but that these costs indeed have or can have an effect on the amount of the total costs. An example of this is the spread between the bid and offer price that a consumer must pay for the buying and selling of individual securities and index trackers. It was also noticeable in the research, for example, that investment firms use principles that are significantly different from each other for determining the credit interest rate on the investment account, and the amount of this credit interest may not always be in line with the market. The same also applies for the debit interest rate. It was also noticeable in the research that it was usually insufficiently explained how investments in foreign currencies were dealt with and which (indirect) costs were associated with these investments.

Amounts of total costs vary widely

The amounts of the total costs of the different service concepts vary widely.

- The costs calculated as a percentage of the invested capital are different for the three different types of services: execution only, investment advice, and asset management. The costs of execution only services are substantially lower than the costs of investment advice and asset management services. This is a logical consequence of the type of service: in the case of investment advice, the consumer receives advice on the investment decisions to be made, and in the case of asset management, an asset manager takes the investment decisions on behalf of the consumer. With respect to execution only services, this is not the case, so that the services can be offered at a lower cost..
    - The average amount of the calculated costs for an investor with € 25,000 in execution only services is 1.3% of the invested capital (1.1% with an invested capital of € 100,000, and 1.0% with an invested capital of € 400,000).
    - The average amount of the calculated costs for an investor with € 25,000 in investment advice services is 2.5% of the invested capital (2.0 % with an invested capital of € 100,000, and 1.6% with an invested capital of € 400,000).
    - The average amount of the calculated costs for an investor with € 25,000 in asset management services is 1.8% of the invested capital (2.0 % with an invested capital of € 100,000, and 1.9% with an invested capital of € 400,000).
- The amount of the total costs as a percentage of the invested capital usually decreases with an increase of the invested capital. The amount of the total costs of the three standard example investors with € 25,000, € 100,000 and € 400,000 invested capital decrease with an increase of the invested capital. The total costs as a percentage of the invested capital decrease generally if the invested capital increases, but the total costs in euros increase if the invested capital increases. This result is logical if the costs incurred and efforts made by the investment firm for the different example investors increase with the invested capital, but increase less than less than linearly. In this research, the costs incurred and efforts made by the investment firm were not studied.
    - The amount of the total costs as a percentage of the invested capital decrease in execution only services with an increase of the invested capital, see above, but the calculated absolute annual costs increase from € 333 (invested capital € 25,000), to € 1,113 (invested capital € 100,000), and to € 4,133 (invested capital € 400,000).
    - The amount of the total costs as a percentage of the invested capital decrease in investment advice services with an increase of the invested capital, see above, but the calculated absolute annual costs increase from € 633 (invested capital € 25,000), to € 2,045 (invested capital € 100,000), and to € 6,526 (invested capital € 400,000).
    - The amount of the total costs as a percentage of the invested capital move in asset management services with an increase of the invested capital, as above, but the calculated absolute annual costs increase from € 451 (invested capital € 25,000), to € 2,026 (invested capital € 100,000), and to € 7,754 (invested capital € 400,000).

- The costs as a percentage of the invested capital are different for the different type of service concepts, depending of the combination of instruments in which is invested. For the different types of service concepts, a distinction is made between service concepts that exclusively invest in individual securities, service concepts that invest in both individual securities and in mutual funds, and service concepts that only invest in (actively and passively managed) mutual funds.
- The differences in costs as a percentage of the invested capital are often caused by the fund costs, in particular.
    - The calculated amount of the costs for an investor with an invested capital of € 400,000 in investment advice services, for example, average 1.3% of the invested capital for the service concepts that fully invest in individual securities, 1.7% for the service concepts that invest in both individual securities and invest in funds, and 1.9% for the service concepts that fully invest in funds.
- In execution only services, the service concepts that fully invest in funds are relatively expensive for example investors with invested capital of € 100,000 and € 400,000.
    - The average amount of the calculated costs of service concepts in execution only services that fully invest in mutual funds for an investor with € 100,000 (or € 400,000) are 1.6% (or 1.6%) of the invested capital, 1.3% (or 1.2%) of the invested capital in service concepts that invest in both individual securities and in mutual funds and, 1.3% (or 1.2%) of the invested capital in service concepts that only invest in individual securities.
- In investment advice services, the number of service concepts for each type of service concept is too small to enable judgements to be made.
- In asset management services, the service concepts that invest in both individual securities and in mutual funds are relatively expensive [5].
    - The average amount of the calculated costs of the service concepts in asset management services that invest in both individual securities and in mutual funds for an investor with € 100,000 (or € 400,000) are 3.0% (or 2.7%) of the invested capital, 1.9% (or 1.9%) of the invested capital in service concepts that only invest in mutual funds, and 1.8% (or 1.7%) of the invested capital in service concepts that only invest in individual securities.
- The investment advice service concepts for consumers with an invested capital of € 25,000 have on average high costs as a percentage of the invested capital.
    - The average amount of the calculated costs of the service concepts in investment advice services for an investor with € 25,000 invested capital is 2.5% of the invested capital, and with € 100,000 is 2.0% of the invested capital, and with € 400,000 is 1.6 % of the invested capital.

Amount of prices for each cost item varies widely

The research shows that the amount of the prices for the different cost items vary widely. Appendix 3 shows, in the form of graphs, the average amount and composition of the costs for each type of service (execution only, investment advice, and asset management). In addition, the amount of the prices for cost items that are not calculated, but are actually comparable with each other, also seems to vary widely. An example of this is the costs for the transferring of securities.

- The prices for transferring domestic securities vary widely. A number of investment firms charge € 25 for each fund line, and other investment firms charge € 5 for each fund line. The majority of investment firms charge a different price for foreign securities. The prices for transferring foreign securities can be up to € 75 for each fund line.

Amount of prices of custodians varies widely

The amount of the prices that the custodians charge the consumer varies widely for the investment firms that use a custodian. The research shows that one custodian charges different prices to clients of different asset managers and that these differences can be substantial. This applies particularly for transaction costs. This is noticeable for the consumer, since the services seem

[5] The number of service concepts for each type of service concepts is limited, which means the results are only a general figure for the differences in the amount of the costs for the type of service concepts.

similar, and on this basis it could be expected that the differences between the prices would be limited. The calculated transaction costs that different custodians charge an investor can also vary from each other.

- The calculated transaction costs that the custodian charges an investor with € 400,000 invested capital in asset management vary from 0.1% to 0.4% of the invested capital for the service concepts studied, which only invest in individual securities and use the same custodian.
- For a service concept that was studied, which invests in both individual securities and in funds, the calculated transaction costs for an investor with € 400,000 invested capital in asset management, the various custodians charge the investor 0.7%, 0.9%, or 1.0% of the invested capital.

Difference in amount of total costs between example investors limited

The research made use of a total of 50 example investors[6], but the total costs of these example investors for the majority of service concepts differ little from each other. Exceptions to this are the example investors who perform many and very many transactions. These example investors incur, of course, substantially higher costs than the other example investors. Figure 10 In Appendix 3 illustrates, in the form of a graph, the total costs of the different example investors for a service concept.

Investment advice is, in the case of a higher amount in invested capital, cheaper on average than asset management

The research showed that, in the case of a higher amount in invested capital, investment advice is cheaper on average than asset management. This applies particularly for the standard example investor with an invested capital of € 400,000. It is striking that investment advice is cheaper on average than asset management, because investment advice generally requires more working hours for each consumer than asset management. In the case of investment advice, the client issues an order for a transaction, which means that the advice must be communicated to the client, while in asset management the investment firm itself issues the order for a transaction.

- The calculated total costs for an investor with € 400,000 invested capital are 1.6% of the invested capital in investment advice and 1.9% of the invested capital in asset management services (for an investor with € 25,000, the calculated total costs are respectively 2.5% and 1.8%. For an investor with € 100,000 invested capital, the calculated total costs are respectively 2.0% and 2.0%).

Fund costs have a major effect on the amount of the costs

The fund costs have a major effect on the amount of the total costs of investing. This effect is greater as the consumer invests more in funds and as the consumer invests more in actively managed funds. The AFM's calculated effect of fund costs on the amount of the costs does, of course, depend on the assumptions made by the AFM about the amount of the fund costs. Investment firms, in practice, can select more expensive or cheaper funds. In the case of service concepts that fully invest in (actively managed) funds, the fund costs usually make up (by far) the largest proportion of the amount of the costs. In execution only services there are even service concepts that fully invest in funds and for which the investor only pays fund costs. Such service concepts can be profitable for an investment firm because of the distribution fee that the fund pays to the investment firm.

- The calculated average amount of the fund costs (ongoing charges, transaction costs and entry and exit fees) of the service concepts in execution only services that invest in both individual securities and in mutual funds for an investor with an invested capital of € 25,000 is 71% of the total costs (74% of the total costs with € 100,000 invested capital, and 78% of the total costs with € 400,000 invested capital).
- The calculated average amount of the fund costs (ongoing charges, transaction costs and entry and exit fees) of the service concepts in execution only services that only invest in mutual funds for an investor with an invested capital of € 25,000 is 87% of the total costs (92% of the total costs with € 100,000 invested capital, and 93% of the total costs with € 400,000 invested capital).

[6] *For an explanation, please see Appendix 1 Design of AFM research*

Corporate actions have a (very) small effect on the amount of the costs

A notable finding from the research is that the costs for corporate actions usually have a (very) small effect on the amount of the costs, while the information provided concerning the costs for corporate actions is very extensive. Corporate actions are costs such as the costs for repayment of bonds, paying out dividends, and buying and selling of claims. Due to the highly differentiated price structure of corporate actions, it is difficult for the consumer to estimate what the composition and amount of the costs for corporate actions will be.

- The calculated costs for corporate actions for the studied service concepts do not exceed 0.1% of the invested capital. This applies both in execution only, investment advice, and asset management services, as well as applying to investors with € 25,000, € 100,000, and € 400,000 invested capital.

Findings on the target group

A number of service concepts have costs that are too high for a portion of the target group

The research has shown that, for a number of service concepts, the costs of the investment services for specific example investors are not in proportion to the expected return. The target group of these service concepts is therefore not properly defined on the basis of the costs. In the research, the costs of the investment services were compared to the expected return [7], but, for example, no account was taken of inflation and capital gains tax. The research also showed that, with a number of service concepts, the costs of the investment services for (some of) the example investors are only (very) slightly lower than the expected return. It is therefore questionable whether consumers benefit from such service concepts.

The research has shown that high costs of a service concept for the target group are usually influenced by the following factors. These factors are related to trading behaviour that has a major effect on the amount of the costs, and to the portion of the target group that is relatively sensitive to the amount of the costs:

1. Performing (very) many transactions leads to relatively (very) high transaction costs. This applies especially to performing (very) many options transactions. Obviously the transaction costs in the first instance reduce the return, but these costs are incurred to increase the opportunity of a good return for the consumer.
2. Performing (very) many transactions leads to relatively (very) high indirect costs, such as premiums and deductions with mutual funds.
3. A consumer who invests in actively managed funds has higher costs than a consumer who invests in passively managed funds. This difference in costs must therefore be compensated by the higher return of actively managed funds compared to the return of passively managed funds.
4. A defensive consumer has, under normal market conditions, a lower expected return than an offensive consumer, and the expected return will therefore more quickly outweigh the costs of investment services.
5. A consumer with invested capital that is relatively low compared to the minimum invested capital of the service concept, and who (partially) pays fixed costs, has a greater risk that the expected return will not outweigh the costs of the investment services.

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[7] *The expected return in the research is based on table 0 from the appendix to the Further Regulation on Conduct of Business Supervision of Financial Undertakings under the Wft (Nadere regeling gedragstoezicht financiële ondernemingen Wft - Nrgfo).*

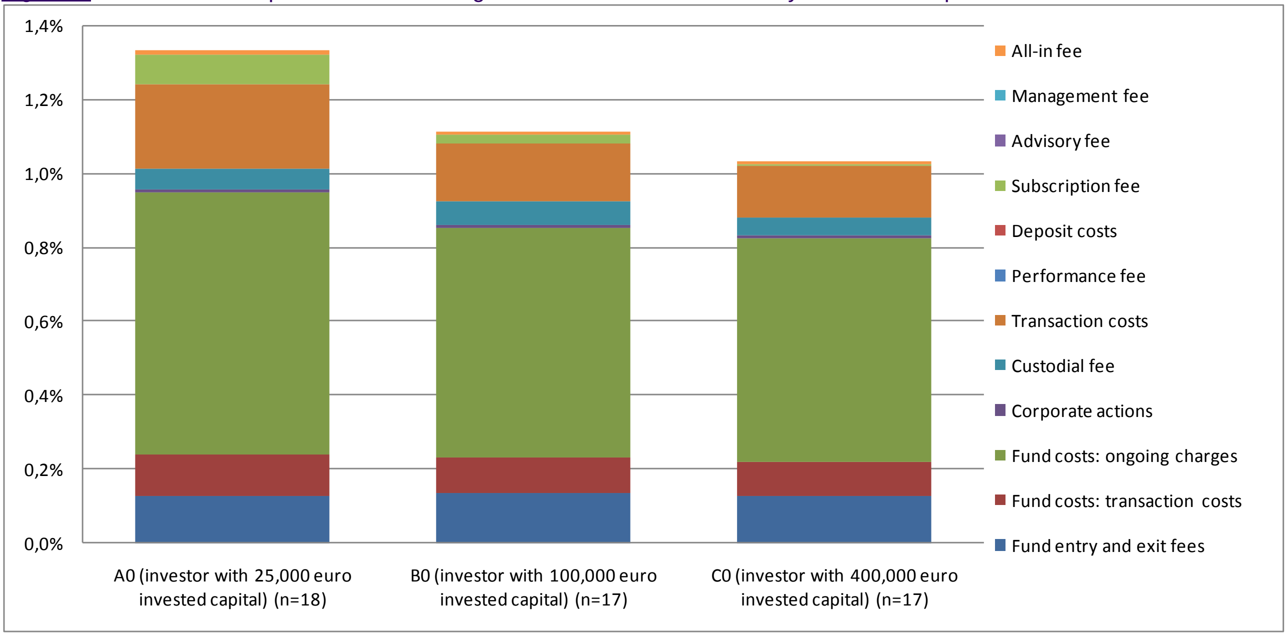
Appendix 3 Graphical presentation of amount of the costs

This Appendix shows the average amount and composition of the costs for the execution only service concepts group, the investment advice service concepts group, and the asset management service concepts group. These figures provide an overall picture of the average amount and composition of the costs, and the extent to which the amount of the costs depends on how the investments are made. However, it should also be noted that that the costs shown are based on assumptions that are the same for all the types of services and for all the investment firms: thus no account is taken of the actual number of transactions (a consumer or investment firm can have performed (on average) many more or many fewer transactions than is assumed) or the actual fund costs (a consumer or investment firm can have selected (on average) much more expensive or cheaper funds than is assumed). Moreover, although 50 example investors were studied, the characteristics of the consumer can differ from the example investors. Thus, for example, only invested capital of € 25,000, € 100,000, and € 400,000 was taken into account.

The figures are based on the service concepts offered by the 15 studied investment firms for which the minimum invested capital does not exceed € 500,000. Only the standard example investors are included in the figures. The figures indicate, by means of 'n = [...]' the number of service concepts to which that element applies. In a number of cases, the number of applicable service concepts is small, so that the results only indicate an overall figure of the differences in the amount of the costs. In the figures, A0 represents the standard investor with an invested capital of € 25,000, B0 the standard investor with € 100,000 invested capital, and C0 the standard investor with € 400,000 invested capital. In the figures, 'individual securities', 'individual securities and funds', 'funds' and 'passive funds' refer to the different combinations of instruments in which is invested.

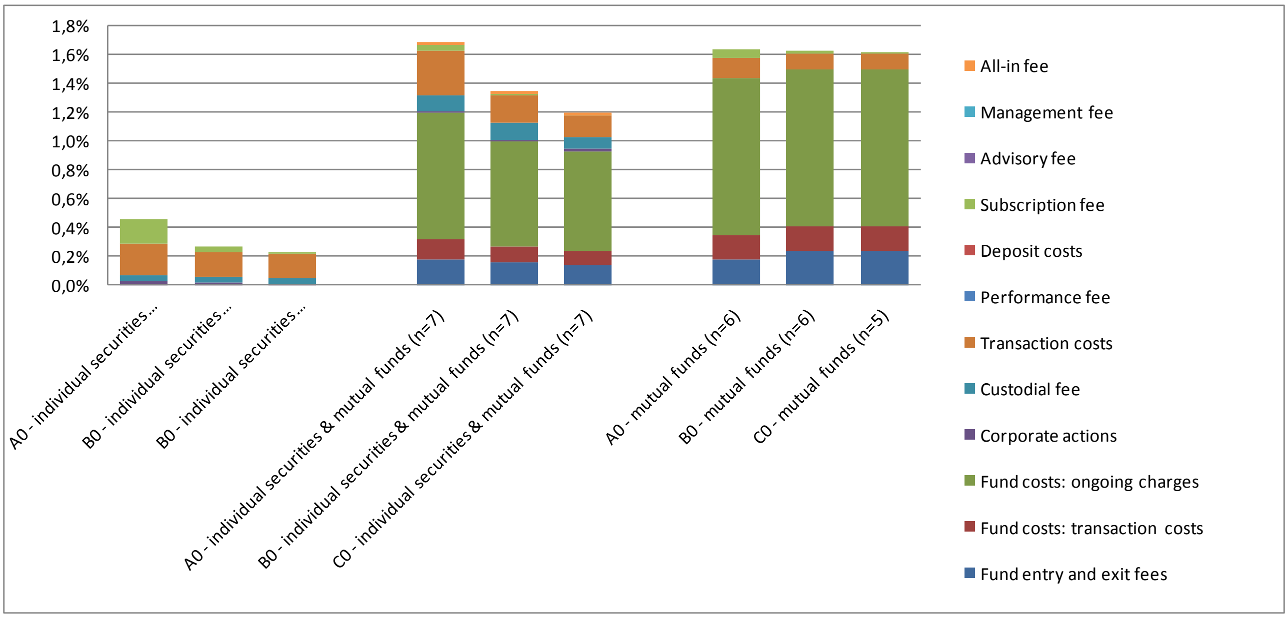
See Appendix 1 for an explanation of the scope and approach of the research.

Figure 3: Amount and composition of the average costs of all the execution only service concepts



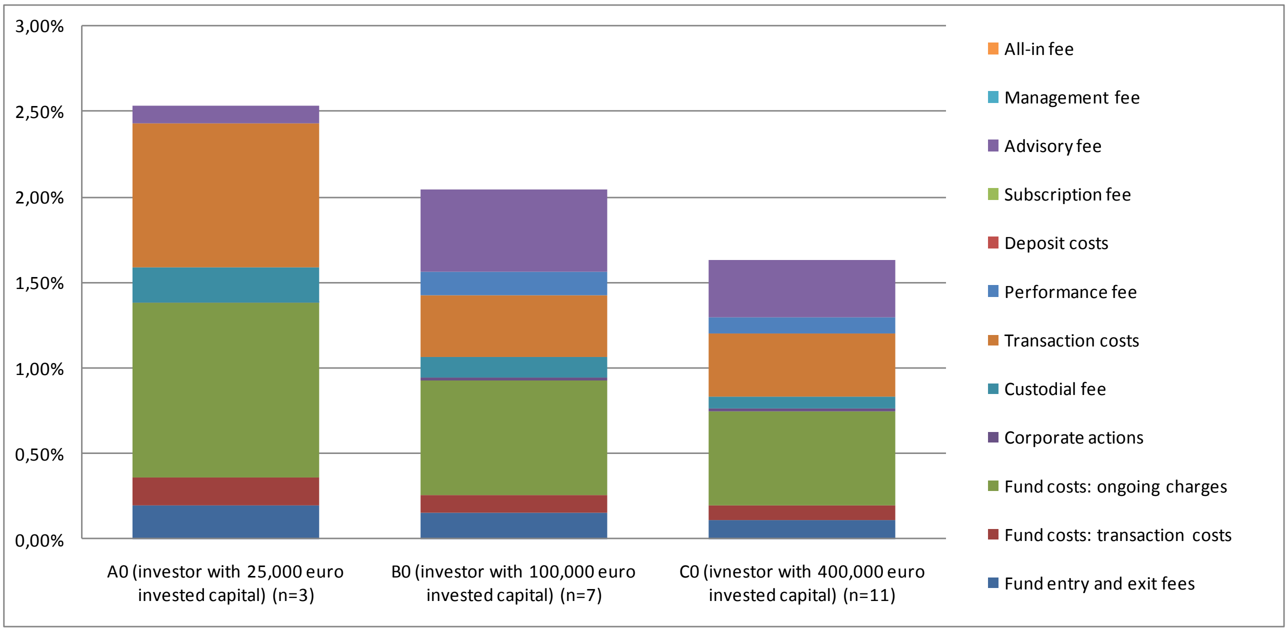
Source: AFM

Figure 4: Amount and composition of the average costs of the different types of execution only service concepts



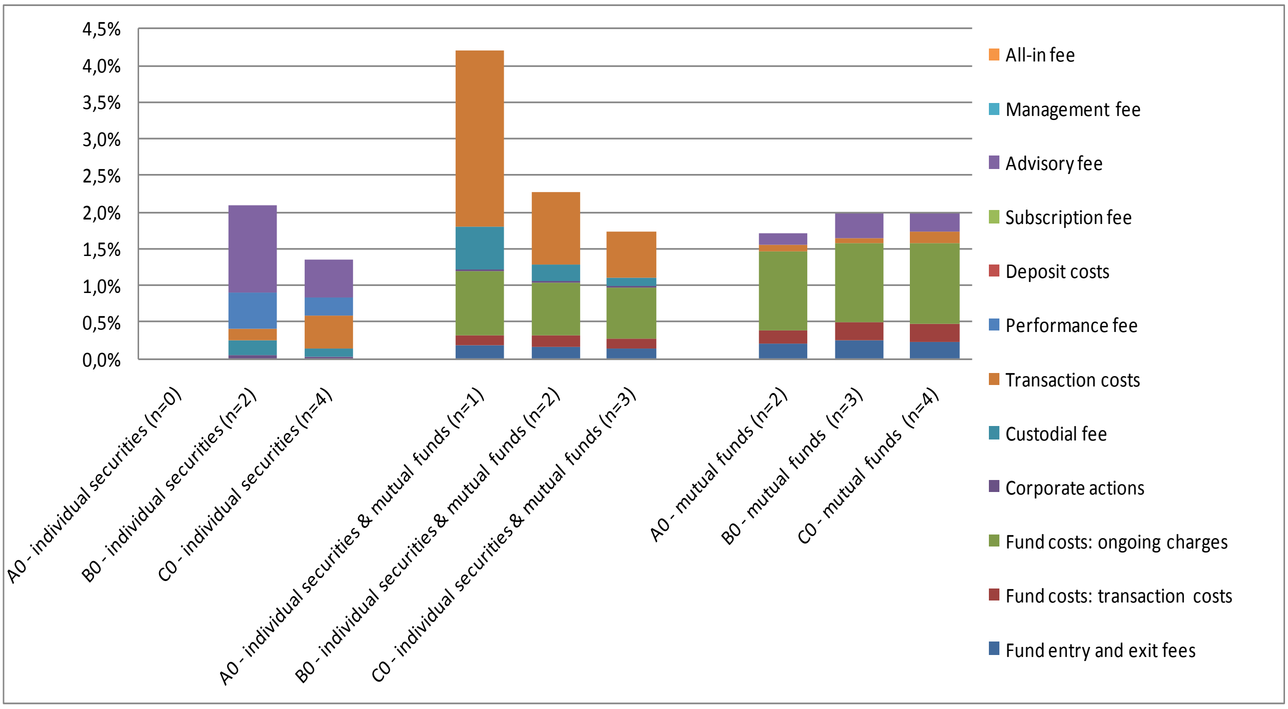
Source: AFM

Figure 5: Amount and composition of the average costs of all the investment advice service concepts



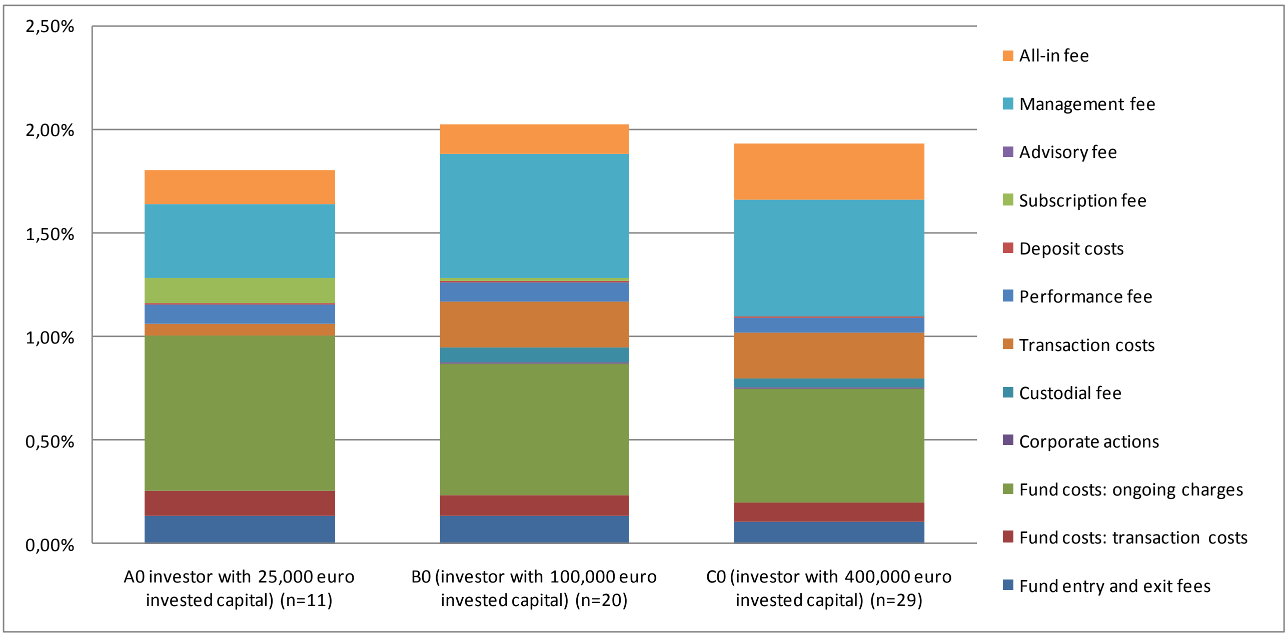
Source: AFM

Figure 6: Amount and composition of the average costs of the different types of investment advice service concepts



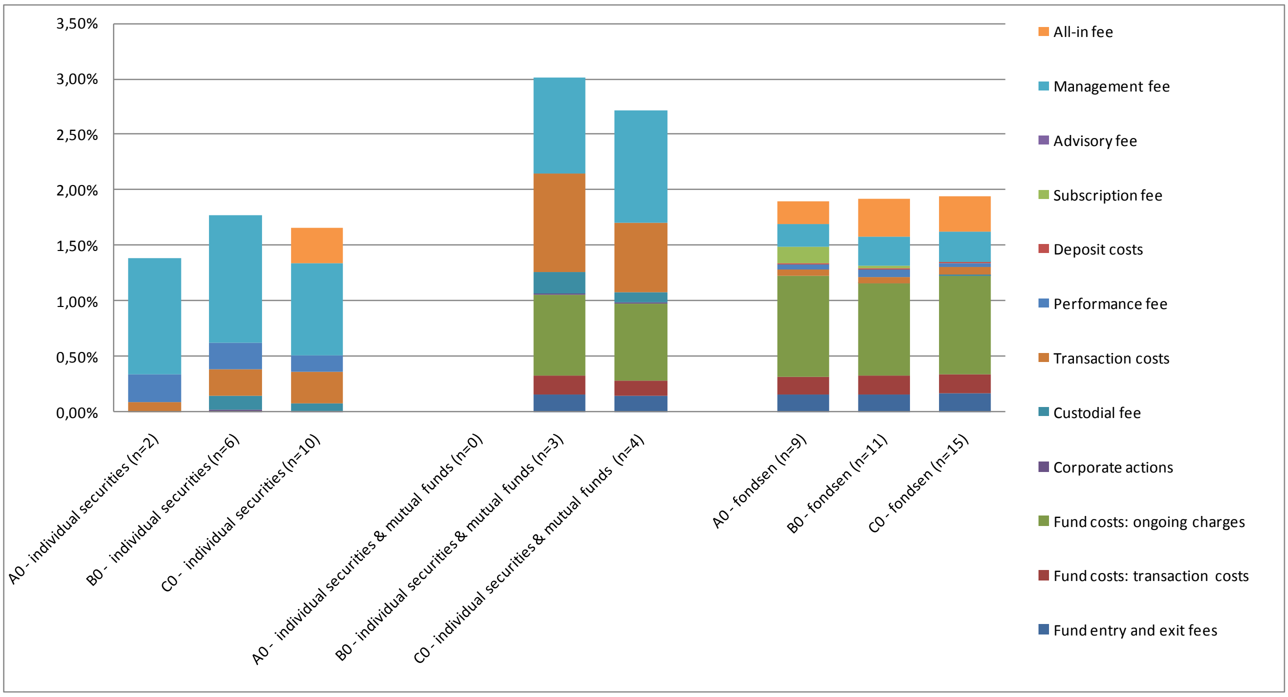
Source: AFM

Figure 7: Amount and composition of the average costs of all the asset management service concepts



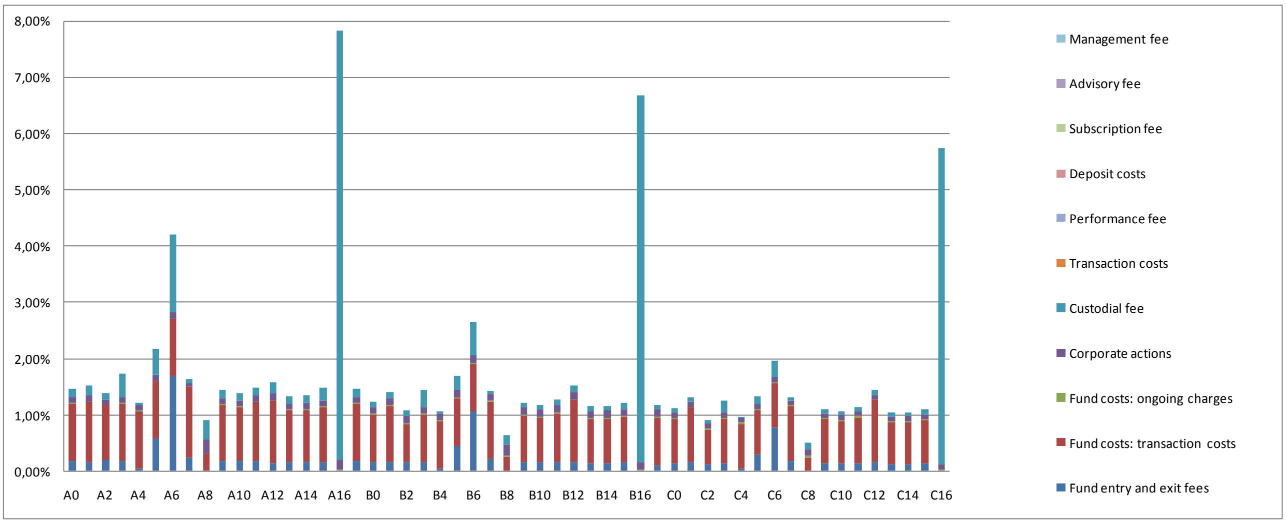
Source: AFM

Figure 8: Amount and composition of the average costs of the different types of asset management service concepts



Source: AFM

Figure 9: An illustration that shows all example investors for one service concept (to illustrate the differences between example investors)



Source: AFM

Appendix 4 Glossary of terms

Service concept (also referred to as proposition): a way in which consumers can invest their capital by using an investment firm. Within the different types of services (execution ony, investment advice and asset management), the investment firm can offer various service concepts with, for example, a different target group, e.g. on the basis of invested capital, a different type of service, or another way of investing.

Corporate actions: costs that arise from a change or transactions that are not initiated by the client but as a result of a change performed for the security involved, such as the costs for repayments of bonds, paying out dividends, and buying and selling of claims.

Consumer: consumers in this report means private clients, which include both retail clients and private banking clients.

Costs of investment services: the sum of the direct costs of the investment services, such as transaction costs and advisory fees, and the indirect costs of investment products such as the 'ongoing charges' of mutual funds.

Cost item: The research calculated and estimated the following 12 cost items: deposit costs, management fee, advisory fee, all-in fee, subscription fee, performance fee, transaction costs, custody fees and corporate actions, fund costs due to 'ongoing charges', fund costs due to transaction costs in the fund, and funds' entry and exit fees. A brief exemplification on these cost items is provided below. In practice, the consumer may still be faced with additional cost items, such as costs associated with investing in alternative investments such as hedge funds and private equity.

1. All-in fee: Annual variable or fixed costs which are charged by the investment firm for the total provision of services. No other costs are charged by the investment firm or custodian. When distribution fees received by mutual funds are (partly) passed through to the client, the distribution fee is deducted from the all-in fee.
2. Management fee: Annual variable or fixed costs which are charged for managing the assets of the client. Besides this compensation, one or more of the here mentioned costs can be charged by the investment firm or the custodian. When distribution fees received by mutual funds are (partly) passed through to the client, the distribution fee is deducted from the management fee.
3. Advisory fee: Annual variable or fixed costs that are charged for providing investment advice to the client. Besides this compensation, one or more of the here mentioned costs can be charged by the investment firm or the custodian. When distribution fees received by mutual funds are (partly) passed through to the client, the distribution fee is deducted from the advisory fee.
4. Subscription fee: Annual fixed fee that is paid for using services of the investment firm, such as holding an investment account.
5. Deposit costs: Costs that are charged prior to the provision of services, for instance costs that relate to constructing a portfolio for the client.
6. Performance fee: A compensation that is paid to the investment firm when the asset manager realises a return that exceeds a predefined minimum return or when the asset manager outperforms the benchmark.
7. Transaction costs: Costs that are being incurred when performing transactions.
8. Custodial fee: Costs charged by the custodian for safeguarding the client's financial assets.
9. Corporate actions: Costs that are charged by the investment firm or custodian for processing payments resulting from corporate actions such as payments of dividends and bond coupons.
10. Fund ongoing charges: Ongoing charges that are withdrawn from the fund's net asset value during the year and that are included amongst others in the Key Investor Information Document.
11. Fund transaction costs: Transaction costs that result from the transactions performed by the fund manager. These costs exclude transaction costs resulting from investors entering and exiting the fund. Fund transaction costs are not included in the fund ongoing charges.

12. Fund entry and exit fees: Costs that result from transactions performed by the fund manager to enable investors to subscribe to the fund and redeem from the fund.

Public information: information that is easily available for all potential clients. Information that is requested by potential clients from the investment firm, or information that the potential client receives directly from the investment firm is not considered as public information in this report. Public information in this report is therefore not the same as all the pre-contractual information.

Price structure: the composition of all the costs that are charged by the investment firm to the consumer during the provision of the services.

Type of services: the research covers the three types of investment services: execution only (consumers personally determine completely what they want to invest in), investment advice (consumers receive advice, but take the investment decision themselves), and asset management (an asset manager takes the investment decision on behalf of the consumer).

Independent asset managers: investment firms that are not part of a bank.

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