



OSC Identifies Potential Improvements to Annual Fee Reports Based on Behavioural Insights

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- On August 19, 2019, the Ontario Securities Commission (OSC) released [a report](#) (the 2019 Report) identifying various practical ways that behavioural insights could be used to improve registrants' annual fee disclosure.
- The report is a result of a project between the OSC Investor Office and the Behavioural Insights Team (BIT), a British social purpose company that works to use behavioural sciences to inform policy and improve public services.

Behavioural Insights

In 2017, the OSC released [a report](#) (the 2017 Report) that considered the importance of behavioural science in policy-making. The 2017 Report considered the core concepts, principles and successes of behavioural insights, the adoption of behavioural insights internationally, and the increasing use of behavioural approaches in financial regulation, notably by the UK Financial Conduct Authority.

One of the 2017 Report's key findings was a recognition that people are not necessarily rational actors and that their decisions are influenced by such things as the availability of information, social biases and emotional states. According to the OSC Investor Office, understanding such behavioural influences "enables regulators to better comprehend, diagnose and address ongoing market problems, in a more cost-effective way." The OSC concluded at the time that it needed to build capacity in the use of behavioural insights both internally as well as among stakeholders. The OSC also stated that it planned on conducting pilot projects using a behavioural insights lens.

Subsequent to the 2017 Report, the OSC Investor Office and BIT worked to identify ways that behavioural insights could be used [to encourage retirement planning](#) in 2018.

Fee Disclosure and the 2019 Report

Pursuant to section 14.17 of [National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations](#) (NI 31-103) registrants are now required to deliver an annual fee report to clients. While such fee disclosure requirements have led to [improved investor knowledge](#) in the years since Phase 2 of the Client Relationship Model was adopted in July 2016, the OSC cited various studies in its 2019 Report suggesting that there remains room for improvement. The OSC Investor Office and BIT thus sought to consider how the effectiveness of annual fee reports could be maximized.

To that end, the OSC and BIT tested various approaches informed by behavioural science that could help address investor engagement and comprehension in regards to the annual fee reports. These strategies were tested in a randomized controlled trial of about 1,900 Canadian investors who were given different versions of annual fee disclosure and then asked questions to test their comprehension. Notably, the 2019 Report found statistically significant improvement in client comprehension when the information required under section 14.17 was presented in a way that adopted certain strategies informed by behavioural science.

The 2019 Report thus provided 24 recommendations to maximizing the effectiveness of annual fee reports, including:

- Providing the fee report as a standalone document;
- Clearly indicating the nature of the fee report and its importance;
- Using simpler terms to describe key concepts and different types of fees;
- Eliminating non-essential or redundant information;
- Presenting essential information up front;
- Formatting the fee report to highlight the most critical information;
- Developing compelling narratives or visuals to explain how indirect charges work;
- Establishing benchmarks that investors can use to gauge the appropriateness of fees;
- Listing actions investors can take to reduce their fees; and
- Linking fees to the actions that triggered them.

The 2019 Report also includes examples of the different fee disclosure formats used in the randomized trials.

While no changes to NI 31-103 were suggested, the 2019 Report encourages registrants to consider incorporating the suggested strategies into current practices. Specifically, the OSC suggests registrants “test methods of designing and presenting annual fee reports that they believe their clients may find more intuitive, including through presenting disclosure in non-traditional formats” such as interactive webpages. Registrants are also encouraged to share their findings with the OSC and other stakeholders.

For more information, see [OSC Staff Notice 11-787 Improving Fee Disclosure Through Behavioural Insights](#).

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