Fee Disclosures

By Mark Harbour, CPA, CIMA®, CFA®

Ethics are more important than laws.
—Wynton Marsalis

Several recent developments suggest that a review of best practices regarding discussing fees with our clients is in order. Specifically,

- The potential Department of Labor (DOL) rules based on fiduciary guidelines regarding fees (and disclosures).1
- The 2016 CFA Institute and Edelman Investment Trust survey of retail investors,2 which said “… we see demand for higher levels of transparency than ever before …” and clarified that “transparency” means “clear communication about fees.”
- The rise of robo-advising, which aims to provide more mechanized service at lower fees.
- The ongoing dialogue about whether advisory fees and active management add value.

Here I provide several observations emerging from IMCA’s updated Code of Professional Responsibility (Code) and Standards:

The Preamble to the IMCA Code of Professional Responsibility outlines the shared values that we agree should govern our approach to serving our clients.3 A selected reminder from this document follows:

**Preamble Text**

<table>
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<th>Integrity</th>
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<td>IMCA professionals embrace honesty by</td>
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<td>(a) being clear and truthful in communications;</td>
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**My Observation/Comment**

| Clarifying in a precise manner who gets paid what amount by your client is fundamental to maintaining your professional integrity. |

Second, principle number two in the Code of Professional Responsibility is

**Code of Professional Responsibility**

| Disclose services to be offered and provided, related charges, and compensation. |

**My Observation/Comment**

| In addition to the above, these disclosures are fundamental to evaluating the value added for services provided. |

Third, the Guidance for interpreting principle number two in our Code of Professional Responsibility is

**Guidance for the Code of Professional Responsibility**

| “Disclosure contemplates either oral or written provision of information. Although not required, oral disclosures should, under best practices, be confirmed in a timely manner in writing to demonstrate compliance. Such disclosures should be made to ensure that each client understands the disclosure, and disclosures should be updated whenever changes are proposed.” |

**My Observation/Comment**

| The specific timing for how frequently disclosures are appropriate is not mentioned, but our experience suggests that at least an annual approach to this disclosure would be prudent. Also, although oral disclosure is deemed sufficient, my experience suggests that providing information in writing constitutes a stronger approach to fulfilling your fiduciary duty in serving your clients. |

Figure 1 shows one possible format for illustrating the details of who is paid for what specific services.

It may be helpful for the client if the advisor also provides some information about typical industry fees based on type of practice. Cerulli Associates, for example, describes four levels of practice, from investment advice only, to wealth management that includes family office and concierge-type services.4

Obviously, the level of fees for different client-supporting services should reflect the amount of time and the circumstances that are unique to each client.

AdvisoryHQ.com5 also provides a routine listing of fees that you may wish to review, to see where your fees place relative to others in the industry. Having a better perspective of how your fees relate to others could arm you with appropriate competitive framing for client discussions or questions.

Orion Advisor Services, LLC6 also has launched an industry fee analyzer that creates custom fee benchmarks for accounts, allowing advisors to filter based on account size, account type, and services provided (Michael Kitces wrote about this recently in his blog7). Other services are available that compare specific fund solutions of
the same investment category/style and detail differences in fees to help advisors select the appropriate implementation with fees in mind.8

Assuming your clients receive statistics regarding your fees does not guarantee that they fully understand their implications.9 In every case, an open and candid discussion with your clients explaining your fees and clarifying who gets paid for what services (e.g., managers, funds, advisors, etc.), is a fundamental and important step for our industry to build credibility client by client. ⚫

Mark Harbour, CPA, CIMA®, CFA®, has served various volunteer roles with the IMCA, most recently chair of the Ethics Task Force that worked to revise IMCA’s Code and Standards. He is a past president of the CFA Society of Los Angeles. Contact him at harboal@ca.rr.com.

Endnotes