Global Fund Investor Experience

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Table of Contents

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Introduction

Much has been written about the rights of the shareholders of common stock, from a global perspective. It is well known that some jurisdictions safeguard the rights of stockholders better than do other jurisdictions. These policy differences have sparked debate, and the gradual development of "best practices" documents.

The goal of this report is to begin a similar dialogue about best practices, only from the perspective of the mutual fund shareholder. (Although some of the questions in this report apply only to smaller, retail investors, other questions apply equally to retail and institutional owners. Therefore, this report should be interpreted as applying to *all* fund shareholders, not just individual investors.) Just as with stocks, some jurisdictions offer relatively friendly investment climates for mutual fund owners, and others less so. This report analyzes 16 mutual fund marketplaces, highlighting their strengths and weaknesses. The findings are summarized via a series of scores. These scores roll up into grades at the topic level, and then eventually into a single final grade for each country.

Note that this report examines the issue from multiple perspectives: the practices of industry manufacturers (that is, money managers); the practices of industry distributors; the structure and effectiveness of regulatory bodies; disclosure policies; the tax code; and the role of the media. Therefore, the report should not be construed as grading each country's "fund industry." It aims much more broadly than that, in recognition of the fact that the mutual fund investor experience is shaped by far more than the fund industry alone.

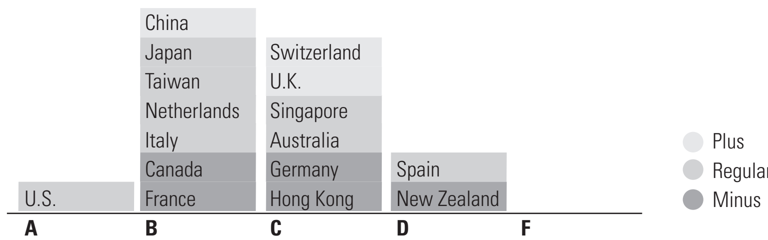
The countries studied are:

Australia	Germany	Netherlands	Switzerland
Canada	Hong Kong	New Zealand	Taiwan
China	Italy	Singapore	United Kingdom
France	Japan	Spain	United States

The topics are:

Investor Protection
Transparency in Prospectus and Shareholder Reports
Transparency in Sales Practices and Media
Fees and Expenses
Taxation
Distribution/Choice

The overall results are displayed below, and the countries are sorted in order by their overall score, with the United States at the top of the spectrum and New Zealand at the bottom. Every country has room for improvement, as no single country receives an A grade in every topic of this study.



This report focuses on the global study, explaining our evaluation criteria and recommendations and comparing results across countries. Please refer to individual countries' reports for details in any particular country. In the following sections we outline our methodology and deconstruct the overall grade into component grades by topic.

Methodology

Both questions and answers were weighted to give greater importance to high-priority issues, primarily questions surrounding fees and transparency. Each country received a letter grade commensurate with its score in each category as well as an overall grade reflecting the summation of the category scores. The study's authors based their scores on a combination of factual research and interviews with Morningstar analysts residing in each country.

Questions were assigned a weighting from 1-8 with the highest-priority questions receiving an 8. The maximum number of points that a country could receive per question varied as well from 2-3 points. Scores are summed in each of the following areas: Investor Protection, Transparency in Prospectus and Shareholder Reports, Transparency in Sales Practices and Media, Fees and Expenses, Taxation, and Distribution/Choice. These scores are then divided by a maximum possible score. Questions related to Fees and Transparency in Prospectus and Shareholder Reports are among the most heavily weighted responses within the survey.

Each country receives a grade in each area. In order to have a comparison of countries relative to each other, we curve the grades.

First, we find the average scores for the area being evaluated.

[1] $$\bar{x} = \frac{\sum x}{N}$$

Where:

$\bar{x}$	=	Mean of the grades in the area
x	=	Grade for each country
N	=	Total number of countries

Next, we find the standard deviation for the range of scores for the area being evaluated. This will determine the spread of the survey grades.

[2] $$S = \left(\sum \left({(x - \bar{x})^2} \big/ {(N-1)} \right) \right)^{1/2}$$

Where:

S	=	Standard deviation of the grades in the area
$\bar{x}$	=	Mean of the grades in the area
x	=	Grade for each country
N	=	Total number of countries

Then we calculate the z-score for each country. The z-score determines how far each score is from the average in terms of standard deviation.

[3] $$z = {(x - \bar{x})}/{S}$$

Where:

Z	=	z-score for each country
S	=	Standard deviation of the grades in the area
$\bar{x}$	=	Mean of the grades in the area
x	=	Grade for each country

Next we choose a desired mean and a desired standard deviation. This will compensate for the different averages and standard deviations in each area. Using the desired mean and desired standard deviation, we calculate the curved grade.

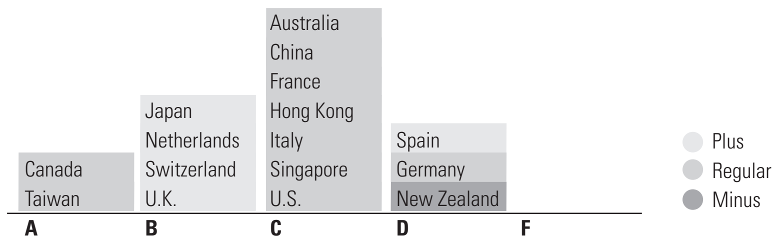
[4] $$G = \overline{x_d} + (z * S_d)$$

Where:

G	=	Curved grade for country
z	=	z-score for each country
S_d	=	Desired standard deviation
$\bar{x}_d$	=	Desired mean

This methodology is applied to the both the topic grade and the overall grade. The overall grade reflects the sum of the raw scores and is not an average of the topic grades.

Investor Protection

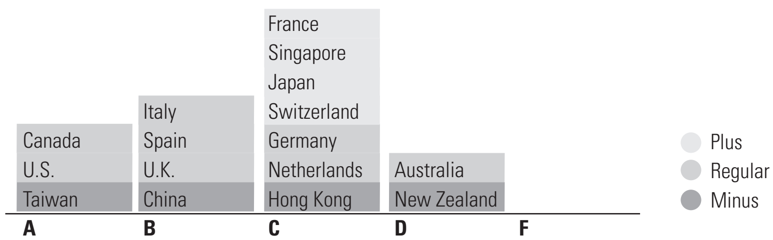


In this section, we examine whether investors are well protected by the existence of laws and regulators. All countries in our study have laws and regulatory bodies governing the investment industry. All except Germany have regulatory bodies governing fund advertising and sales. However, regulators in some countries are well staffed to fulfill their mission while others are perceived as not being at the adequate level of staffing. Since the regulation is crucial to investor protection, we at Morningstar feel this is an issue that investors and the media ought to be aware of, and the regulators ought to address. In our opinion, the following countries should increase regulatory staffing: Germany, Japan, Netherlands, New Zealand, Spain, Switzerland, and the United Kingdom.

We find that all countries in the study require that a fund's annual report be audited by an independent organization, an important measure for the prevention of fraud. Another important requirement is to ensure that the fund-management firm does not perform the function of custodian of fund assets, minimizing conflict of interest and preventing fraud. We find that, while all countries require fund assets to be kept with a custodian that is separate from fund management, not all such entities are independent. Custodians in most countries are affiliates of the fund-management entity, and it is very difficult for an investor to determine this by reading the prospectus as affiliates may have a completely different name. Morningstar recommends that fund assets custody be with a completely independent organization. When a complete separation of custody and fund management is not possible, we suggest that regulators require fund companies to explicitly disclose their affiliation with custodians for better protection of fund investors.

All countries in our study require that funds publish a prospectus, and all countries prohibit "off-the-page" advertising. Off-the-page advertising allows investors to send money to a fund company without receiving the full or simplified prospectus first. While Hong Kong allows such advertising, fund companies are required to disclose a list of information equivalent to a simplified prospectus; thus, we consider this to be equivalent to prohibiting off-the-page advertising.

Transparency in Prospectus and Shareholder Reports



In this section, we examine whether investors are given sufficient information in the prospectus and shareholder reports. Information in the prospectus enables an investor to make an educated investment decision. Information in shareholder reports conveys the performance, composition, and risk exposure of the portfolio.

A prospectus or an offer document is a legal document that provides investors with material information about the fund—facts that investors need in order to make informed investment decisions, such as investment objective, risks, performance, fees and expenses, and management. Investors' acknowledgment of the receipt of prospectuses prior to investing is required in all countries included in this study; however, it is commonly believed that investors rarely read them. While in some cases investors have trusted financial advisors that read the prospectuses on their behalf, many do not read them because it is a tedious task. With a desire to address this issue, regulators in several countries require that fund companies publish a simplified prospectus in addition to a full version. In most countries we studied, it is either a required or common practice to publish a simplified prospectus. In some countries the simplified prospectus, as its name intended, is indeed simpler to read. These countries are Canada, Germany, New Zealand, Singapore, Switzerland, Taiwan, and the United Kingdom. For example, in Canada, Spain, and Taiwan, not only is the simplified prospectus easier to read but it is easily accessible through the regulators' Web sites. Another good example is France, where the simplified prospectus is approximately six pages compared with 20 to 40 pages for a regular prospectus. We also find that fund companies are required to publish a simplified prospectus in China, France, Italy, Japan, Netherlands, and Spain, but this version is not much simpler to read than the full prospectus. For example, a simplified prospectus in Japan may contain 100 pages instead of 110 pages for a full prospectus. We recommend that regulators in these countries provide better guidelines for an investor-friendly abridged prospectus. Yet there are some countries such as Australia, Hong Kong, and the United States that do not require fund companies to publish a simplified prospectus. There have been broad movements in these countries to adopt this measure, and we strongly encourage this implementation in improving the investor-friendliness of this important document.

Fund companies provide shareholder reports at least twice a year in most countries, but in the Netherlands and Australia, reports are available once a year. Some countries require a section where fund managers discuss the fund's recent performance. Readers can generally find insightful information in this section in half of the countries in our study. In Australia, Japan, New Zealand, and Taiwan, the information provided is either generic or basic and needs improvements. Yet there are many countries, such as Germany, Hong Kong, Netherlands, and Switzerland, where few funds provide any discussion at all. We believe that these results can be improved, as the shareholder report is the primary conduit for the fund to communicate to its investors.

Fees and expenses eat away performance, and we encourage investors to understand what they are paying and determine whether it is reasonable, prior to investing. Across the board in our study we find that in the prospectus an investor can find a comprehensive list of fees and expenses; in other words, every possible fee that could be charged to investors (excluding trading costs) is disclosed explicitly. Prospectuses in some countries, such as Australia, Canada, Italy, the U.K., and the U.S., go as far as providing a numerical illustration of the total expenses an investor could expect to pay on an investment. Examples illustrate the total dollar amounts that an investor could expect to pay on a $10,000 investment (or other standard amount) if the investment received a 5% annual return (or other standard return), and the investor remained invested in the fund for various time periods. Such figures make the fee easier for investors to understand and are strongly encouraged. Another aspect we examined is whether uniform presentation of fees exists such that each prospectus may be easily compared with another. For example, in Hong Kong, every prospectus discloses the fee in a different part of the document, so investors have to read the whole document to find the information, while in Canada it is very easy to compare fees and expenses in one prospectus to another. Morningstar recommends that regulators or the fund industry implement uniform presentation standards because the benefit of transparency via disclosure is greatly reduced when information is difficult to access. The countries that currently lack uniform presentation standards are China, Germany, Hong Kong, New Zealand, Singapore, and the U.K.

In our study we also found that the history of expense ratios is not disclosed to investors in most countries, the few exceptions being Canada, Netherlands, Italy, Singapore, and the U.S. where past expense ratios are disclosed alongside the current number. We believe that the expense ratios for past years ought to be disclosed together with the current number so that investors can easily determine whether these figures have increased. We recommend that regulators in Australia, China, France, Germany, Hong Kong, Japan, New Zealand, Spain, Switzerland, Taiwan, and the U.K. make the disclosure of historical expense ratios a requirement. Similarly, for transparent disclosure, we recommend that the costs associated with trading securities in the fund be disclosed to investors. We find that most countries do not disclose this information, and the few exceptions that make this information available are Canada, China, France, Japan, Taiwan, and the U.K. We would like to see Australia, Germany, Hong Kong, Italy, Netherlands, New Zealand, Singapore, Spain, Switzerland, and the U.S. require the disclosure of trading costs.

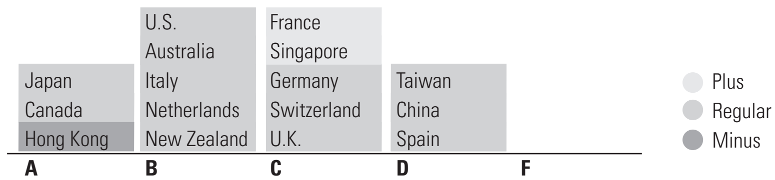
One topic that intrigued us is the lack of disclosure on the names and tenures of the portfolio managers, as we believe that this opaqueness benefits the fund companies and not the investors. Turnover in the ranks of portfolio managers may signal stability issues at the organization. The departure of a decision-maker also brings into doubt the relevance of the performance track record. Many fund companies reason that there are no "star" managers and stress the importance of the process over people. We disagree, as ultimately decision-making adds value, and not everyone makes good decisions. We recommend transparency. It is particularly disappointing to see a digression from transparency to opaqueness happening in Japan in the past few years as fund companies realized that disclosure resulted in having their portfolio managers recruited away by competitors. Indeed, we find that most countries do not disclose the names and tenures of the portfolio managers. Exceptions are China and the U.S., where investors can always find both pieces of information, and Canada and Taiwan, where names are always available but not tenures.

A soft dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even nonresearch-related favors such as entertainment. These are called soft dollars, as opposed to hard dollars such as paying cash for the services, because the money that would have paid for these items does not appear on the accounting statements and is instead embedded in trading costs. Ethical firms should limit such arrangements to pay strictly for research-related items and scrutinize conference attendance for entertainment value. Ideally, there should not be any soft dollar arrangements, and we are happy to see Italy, Japan, Spain, and Taiwan in this camp. Most countries allow soft dollar arrangements as long as such a practice is disclosed. China, France, Germany, and Switzerland do not require soft dollar arrangement disclosure, and we strongly encourage regulators, the media, and investors to put pressure on fund companies to do so.

Transparency in portfolio holdings allows investors to understand what the fund invests in and where risks may lie. The majority of the countries in our study require full and complete disclosure of portfolio holdings at least once a year, with the only exceptions being Australia and New Zealand. In these two countries, we find that some fund companies put up great resistance when Morningstar analysts request this information for disclosure in our products. Seven countries, almost half of the countries in our study, require portfolio-holdings disclosure twice a year; and these countries are: Canada, China, France, Germany, Hong Kong, Switzerland, and the U.K. Three countries, Spain, Taiwan, and the U.S. have quarterly disclosure. We would like to see Italy, Japan, Netherlands, and Singapore improve their disclosure requirements from once a year to twice a year.

In conclusion, an overwhelming feedback we receive in our study is that prospectuses are difficult to read and usually lack uniformity. It is difficult to balance between providing a lot of information that makes the document long and tedious and not providing enough information. However, much of this can be improved if there is uniformity in disclosure presentation standards, as one can identify desired sections quickly and compare among funds easily. Another issue is not being able to make out the investment objective, philosophy, and style of the fund because of the latitude or vagueness in the descriptions stated in prospectuses. This defeats the purpose of a prospectus being the go-to document for knowing three vital questions: What does the fund invest in, how much does it cost, and who is managing it?

Transparency in Sales Practices and Media



We put sales practices and media together as one topic because these are the direct contacts investors are exposed to. In terms of sales practice, we evaluate whether the incentives of fund companies and distribution channels are aligned with those of the investors. In media coverage, we try to examine the content and educational value.

We evaluate the practice of directed brokerage where fund managers direct portfolio transactions to particular brokerage firms in exchange for promoting their funds, a practice that we strongly discourage. We find that this is not an accepted practice in all countries except China, Spain, and Taiwan, and we encourage the regulators and industry participants in these three countries to stop this practice because it compromises best-trade execution, which is not performed in the best interest of the investors.

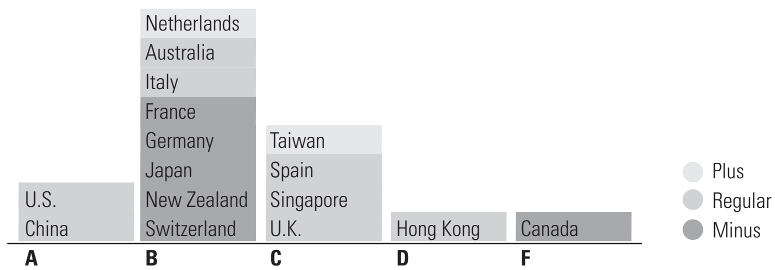
We are disappointed to find that in most countries it is a common practice to use sales contests to motivate sales of funds and to compensate advisors, either monetarily or through awards, for selling particular funds. This implies that the fund industry's sales force can lack independence in certain instances and is more likely to promote funds for self-interest rather than the best interest of the investor. The only exceptions are Hong Kong and Japan. In Canada, providing additional compensation for selling particular funds is not allowed, but sales contests to motivate fund sales are a common practice. In Hong Kong and Japan, neither practice is common.

There is typically an article on mutual funds in the leading daily national financial newspapers on a weekly or daily basis in all of the countries we studied except Hong Kong. The media in Hong Kong do not independently cover articles on mutual fund investing as these articles tend to be advertisements or are accompanied by advertisements. This lack of content and independence is disappointing and unacceptable.

Our findings show that the media in most countries rarely indicate when a fund's cost is high. Fees and expenses eat away performance, and the media ought to educate investors on the topic. High cost is rarely mentioned in these nine countries: China, France, Germany, Hong Kong, Singapore, Spain, Switzerland, Taiwan, and the United Kingdom. The media sometimes write about costs in Australia, Japan, Netherlands, New Zealand, and the United States. The media in Canada and Italy usually point out to readers when a fund's cost is high.

The media do not sufficiently educate investors on the benefits of long-term investing and evaluating manager records on long-term history rather than short-term performance. The media in the U.S. almost always promote the benefit of long-term investing. This benefit is sometimes promoted in the following nine countries: Australia, Canada, France, Hong Kong, Japan, Netherlands, New Zealand, Singapore, and Taiwan. The media rarely mention long-term investing in China, Germany, Italy, Spain, Switzerland, and the U.K.

Fees and Expenses

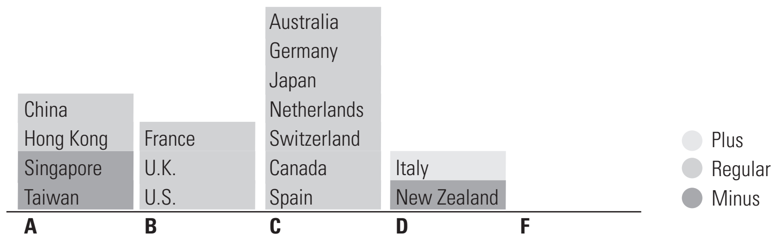


Fees and expenses eat away fund performance, and it is important to determine whether fees are reasonable and encourage the fund industry to lower them when they are not. We find that the typical front-end load that investors pay after negotiation is between 2.00% and 3.99%. Investors in China, Italy, Netherlands, Spain, and Taiwan enjoy a lower front-end load, but investors in Canada and Hong Kong typically pay higher loads.

The typical expense ratios for fixed-income, money market, and equity funds are from 0.76% to 1.00%, 0.40% to 0.89%, and 1.50% to 1.99%, respectively. For fixed-income funds, investors in Australia, China, and the United States enjoy lower expense ratios, while Canada, Hong Kong, New Zealand, Singapore, Taiwan, and the United Kingdom have higher fees. For money market funds, expense ratios are lower for Japan, Netherlands, Singapore, and Taiwan, and they are more than 0.90% in Australia and Spain. For equity funds, the U.S. is the only country with an expense ratio lower than 1.00%, and investors in Australia, China, and New Zealand have expense ratios between 1.00% and 1.49%. Investors in Canada and Japan typically pay between 2.00% and 2.50% for equity funds. We encourage fund companies in Canada and Japan to lower their fees and expenses for the benefit of the investors.

When evaluating whether investors place much consideration in fund costs when selecting mutual funds, we find that Taiwan is the only country where new assets tend to flow into low-cost funds. In all other cases the costs of funds have a negligible influence on fund selection, and new assets tend to flow into average-cost funds. This is not surprising given that the media in most countries do not educate investors on the benefit of low fund costs, and we encourage the media and investors to pay more attention to this topic.

Taxation



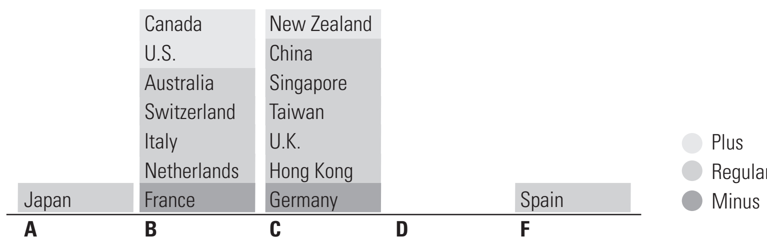
The objective in this section is to examine taxation on mutual fund dividends and capital gains for individual investors and evaluate governments' taxation incentive for long-term investors.

Governments in most countries provide specific tax incentives for retirement savings or exempt mutual fund dividends and capital gains from taxation. Italy and Spain are the only two countries where there is no tax incentive for retirement savings.

For individual investors, dividends and capital gains are exempt from taxation in China and Hong Kong. In most other countries taxation for a typical investor is below 30%. New Zealand is the only country where a typical investor pays a tax rate of more than 30% for capital gains generated from mutual fund investing. The mutual fund dividend tax rate is over 30% for a typical investor in Australia, Canada, Italy, and New Zealand.

We evaluate whether the government encourages long-term investing through its taxation policy by levying a higher tax rate on dividends than capital gains and differentiating between short- and long-term capital gains. Germany, Japan, Netherlands, New Zealand, Spain, and Switzerland provide neither incentive for long-term investing. Canada and Italy discriminate between dividends and capital gains tax but not short- and long-term gains.

Distribution/Choice



We evaluate investors' access to different mutual fund investment choices by examining friendliness of investment minimum, distribution options, platform architecture, and availability of passively managed products. Passively managed mutual funds are available to investors in all of the countries in our study.

Mutual funds in half of the countries in our study always require an investment minimum. We received diverse answers for the range of the minimum investment a typical investor is required to invest in a fund. The friendliest case is when the minimum is less than US$250, and the five countries that fit in this category are China, France, Japan, Taiwan, and the United States. A typical investor is required to invest US$250 to US$499 in Spain and Switzerland. The five countries where the minimum ranges from US$500 to US$1,000 are Canada, Germany, Italy, Netherlands, and Singapore. Investment minimum is high and investor-unfriendly in Australia, Hong Kong, New Zealand, and the United Kingdom. We also asked what percentage of funds have an investment minimum of less than US$1,000 to determine accessibility. In half of the countries in our study, this criterion applies to about 75% of the fund universe. In Italy, Netherlands, and the U.S., about 50% of the fund universe fits this description. This subset drops to 25% of the fund universe in Hong Kong and the U.K. In Australia, New Zealand, and Singapore, less than 10% of the fund universe is composed of funds with less than a US$1,000 minimum. Judging by the account minimum a typical investor is required to invest and the percentage of the fund universe with an investment minimum requirement of less than US$1,000, these three countries are the least investor-friendly.

In 11 of 16 countries in our study, investors can purchase mutual funds via bank, insurance agent, full-service brokerage firm, discount brokerage firm, independent advisor, direct to fund, and Internet. These distribution options are available to investors in Germany, but banks are the dominant distributor. In Hong Kong and Taiwan, all distribution options are available to investors except for independent advisors who are either unavailable or are not a common channel of distribution for investors. Investors in China and Spain do not have access to the full range of distribution options.

A fund platform is considered to be an open architecture system when investment options come from multiple fund families, and ideally we want to see a high proportion of the funds being sold through such a system. A few countries have a very open architecture where more than 80% of the funds are sold; these are Australia, Canada, China, Japan, and the U.S. Most of the countries in our study have 50% to 80% of the funds being sold in an open architecture platform, and they are Hong Kong, Italy, Netherlands, New Zealand, Singapore, Switzerland, Taiwan, and the U.K. In countries such as Germany and France, the system encompasses 20% to 49% of the funds being sold, and Spain has the most closed architecture with less than 20%. We would like to see improvements in fund family choices in these three countries.

Australia

Country Characteristics

Governing Bodies

In Australia, the Australian Securities and Investments Commission (ASIC) is the regulator of corporate markets and financial services. Its duties include "registering corporations, keeping up-to-date information about them and making that information available to the public; regulating conduct and disclosure by corporations and their officers; regulating corporate fundraising, mergers and acquisitions, and insolvencies; and regulating financial services, financial products and financial markets."

Mutual funds (also known as unit trusts in Australia) structured as superannuation or pension funds are also regulated by the Australian Prudential Regulation Authority (APRA), which oversees superannuation (retirement) assets and the banking and insurance industries. Fund advertising and sales practices are also regulated by ASIC and APRA. The Investment and Financial Services Association (IFSA), a trade organization that represents the retail and wholesale funds management, superannuation, and life insurance industries, plays a significant role in imposing standards and guidelines for participating members.

The laws that govern the investment industry are the *Financial Services Reform Act 2001* and the *Managed Investments Act 1998.* The ASIC's policy statements are published in its *Regulatory Guide*. The laws that govern the superannuation industry are the *Superannuation Industry (Supervision) Act 1993*, the *Superannuation Industry (Supervision) Regulations 1994*, the *Retirement Savings Accounts Act 1997*, and the *Retirement Savings Accounts Regulations.*

Australia does not have a centralized Web site where disclosure documents of all mutual funds can be easily accessible to investors with Internet access.

Rules and Regulations

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Australia this type of advertising to retail investors is not allowed.

In Australia, fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, but the two organizations can be subsidiaries of the same holding company. The ASIC Regulatory Guide requires that the duties of custody staff be appropriately segregated from the duties of other employees, and custody staff should not report to groups responsible for investment, marketing, or operations.

All mutual funds must have a single responsible entity (SRE) in accordance with the Managed Investments Act 1998, whose responsibility is to operate the fund in the best interest of the unitholders. The SRE can be either external or internal (the same as the manager).

Fund Prospectuses

In Australia, a fund investor must be provided a prospectus before a fund purchase. Fund companies are required to publish a full prospectus but are not obligated to provide a simplified version. Some companies voluntarily provide a simplified prospectus, and there is a broad movement in the industry to consider this mandate.

There is a comprehensive list of fees in the fund's Product Disclosure Statement (PDS). A numerical example that illustrates the total expenses an investor could expect to pay on an investment is available. The standardized example is based on a balance of $50,000 and a $5,000 contribution during the year. The contribution fee (for example, $0 to $200) and the management fee (for example, $800) are shown, and a total amount is provided. The ASIC *Disclosure of Fees and Charges for Superannuation and Managed Investment Products* guideline requires uniform representation of fees and expenses with the intention of allowing investors to easily compare one fund to another.

In regard to portfolio-manager information, the manager name and tenure are not listed in the prospectus.

Shareholder Reports

In Australia, fund companies must publish annual reports. The annual report must be audited by an auditor that is not associated with the asset-management company and published within three months after the fiscal year ends.

Fund companies are not required to publish a section on management's discussion of fund performance in the annual report, but it is common practice for funds to provide a performance discussion in a separate format. The detail of this discussion is generally quite basic and could be improved.

Disclosure

Mutual funds are not required to publish a full and complete disclosure of the portfolio holdings, and fund companies rarely provide this information voluntarily.

A soft dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even nonresearch-related favors such as entertainment. Soft dollar arrangement is an accepted practice in Australia, and funds with these arrangements are required to disclose them.

The regulation in Australia requires that all expenses be disclosed in the Product Disclosure Statement (PDS) and the Periodic Statements. These reports provide the current total expense ratio but do not contain ratios for past years.

The cost of trading securities is not disclosed to investors.

Sales Practices
Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not an accepted practice in Australia.

It is a common practice to use sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds. However, the regulators focus on monitoring the quality of advice to investors and the disclosure of remuneration does limit this activity.

Media Coverage
Investors in Australia can find mutual fund articles in their newspapers on a weekly and sometimes daily basis. These articles sometimes discuss mutual fund fees and promote long-term investing.

Fees and Expenses
Australia offers both load and no-load funds. The typical front load is between 2.00% and 3.99% after negotiation.

The typical investor in an Australian fixed-income fund pays a total expense ratio (TER) of less than 0.75%.

The typical investor in an Australian money market fund pays a TER of between 0.90% and 1.29%.

The typical investor in an Australian equity fund pays a TER of between 1.00% and 1.49%.

In Australia, costs have little effect on the decision-making of a typical investor; thus, new assets tend to flow into average-cost funds.

Taxation
To encourage individuals to invest toward retirement, the Australian government has progressively introduced a Superannuation system with a number of features: Employers must contribute 9% of an employee's salary to an approved superannuation fund; investment earnings are taxed at a maximum rate of 15% with discounts available for long-term capital gains; and preferential tax treatment is available for voluntary contributions. On retirement, pensions paid from these savings receive further preferential tax treatment.

Mutual fund dividends and short-term capital gains are taxed at the individual's marginal ordinary income tax rate. Ordinary income is taxed progressively at 0% to 45%, and a typical investor's marginal ordinary income tax rate is between 30% and 39%. Long-term capital gains for an asset that is held for one or more years are first discounted by 50% before being taxed as ordinary income, and this is a substantial tax discount that rewards long-term investing.

Distribution/Choice

Mutual funds in Australia sometimes require an investment minimum. The typical investment minimum is more than US$1,000, and less than 10% of the funds offer minimums below US$1,000. The account minimum requirement is waived for investors who set up automated savings plans.

In Australia, an investor has a full range of distribution options, including banks, insurance firms, full-service brokerage firms, discount firms, independent advisors, direct to fund, and the Internet.

Australia has an open architecture system where more than 80% of the funds are sold through an open platform. An investor can purchase multiple fund family offerings at most distribution platforms.

Investors have both actively and passively managed funds available to them in Australia.

Morningstar Analysis

Australia's overall grade is C. This grade is decomposed into the following components:

Area	Grade
Investor Protection	C
Transparency in Prospectus and Reports	D
Transparency in Sales and Media	B
Fees and Expenses	B
Taxation	C
Distribution/Choice	B
Overall	C

Investor Protection

Australia's grade in the area of investor protection is C. Mutual fund investors in Australia are adequately protected by the existence of laws. The regulator in Australia is adequately staffed to fulfill its mission successfully. There has been a substantial reorganization under the direction of the new ASIC Chairman, Tony D'Aloisio, including additional resources in key areas.

Asset custody is an area that could be improved upon. Assets are not custodied with the fund company; however, the custodian can be an affiliated firm owned by the same parent, thus diminishing the independence of that role.

Transparency in Prospectus and Shareholder Reports

Australia's grade in the area of transparency in prospectus and shareholder reports is D. This poor grade is attributable to several factors, and the most important area that needs improvement is the lack of portfolio-holdings disclosure. Australia and New Zealand are the only countries in our study that do not require portfolio holdings disclosure. Where the regulation is lacking, the mutual fund industry does not necessarily make up for it with voluntary disclosure. We find that some fund companies put up great resistance when Morningstar analysts request this information for disclosure in our products.

Another area in which Australia stands out is the lack of a semiannual shareholder report. Currently, fund companies in Australia publish shareholder reports annually while almost all other countries have more frequent reporting.

It is not a requirement or a common practice for fund companies in Australia to provide a simplified prospectus. There is currently a broad movement in the industry to adopt this measure, and we highly recommend its implementation.

Portfolio managers' names and tenures are not disclosed. We encourage fund companies in Australia to disclose both names and tenures of portfolio managers, allowing investors to assess the experience and stability of the portfolio-management team.

Although not required, it is a common practice for fund companies in Australia to publish discussions on funds' performance. However, the detail of this discussion is generally quite basic and could be improved.

The history of expense ratios for past years is not disclosed, and investors are not able to easily determine whether the expense ratio has increased. In addition, costs associated with trading securities in the portfolio are not disclosed to shareholders.

Australia has some good measures when it comes to fee disclosure. Disclosure is uniform, so it is easy for investors to find this information and make comparisons among funds. Fund companies also provide numerical examples of the impact of fees on assets, and this information is disclosed in a uniform manner.

Transparency in Sales Practices and Media

Australia's grade in the area of transparency in sales practices and media is B. Directed brokerage is not an accepted practice in Australia. However, sales contests and favored compensation of particular funds imply that the fund industry's sales force can lack independence in certain instances and is more likely to promote funds for self-interest rather than the best interest of the investor. However, the regulators focus on monitoring the quality of advice to investors, and the disclosure of remuneration does limit abuse in this area.

The media in Australia sometimes point out the merit of long-term investing and the negative impact of high fund costs. We recommend that the press pay more attention to these topics.

Fees and Expenses

Australia's grade in the area of fees and expenses is B. Sales load is moderate, and expense ratios of fixed-income and equity funds are lower than those of other countries. However, the money market expense ratio is on the high end of the spectrum. In Australia, costs do not appear to be an important consideration in investors' choice of funds.

Taxation

Australia's grade in the area of taxation is C. The long-term capital gains tax rate is moderate, but the tax rate of dividend and short-term capital gains is high.

Distribution/Choice

Australia's grade in the area of distribution/choice is B. Compared with other countries in our study, minimum investment requirements in Australia are high and are thus not investor-friendly. Australia offers a full range of distribution options and an open architecture system.

Canada

Country Characteristics

Governing Bodies

Each province and territory in Canada is responsible for security regulation. Securities regulators from each province and territory come together to form the Canadian Securities Administrators (CSA). The mission of the CSA is as follows: "To give Canada a securities regulatory system that protects investors from unfair, improper or fraudulent practices and fosters fair, efficient and vibrant capital markets, through developing the Canadian Securities Regulatory System (CSRS), a national system of harmonized securities regulation, policy and practice."

In addition, the CSA also maintains an electronic database called SEDAR. SEDAR is a central database containing public records of all companies publicly traded on the Canadian markets. Any individual with an Internet connection can go to SEDAR to view a company's or fund's recent news releases and financial statements; however, anyone using the data available on SEDAR for commercial purposes is charged for this privilege.

Even though regulation varies among provinces, national policies have been put in place to promote consistency. Standards do exist for the marketing and administration of mutual funds. The Investment Funds Institute of Canada (IFIC) provides guidelines to the industry. The IFIC is a trade association not a self-regulatory organization.

Rules and Regulations

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Canada this type of advertising is not permitted; the investor must receive a prospectus. In addition, Canada offers investors the right of withdrawal and rescission. Depending on what province an investor resides in, the investor may have the right to withdraw from a mutual fund purchase or cancel a mutual fund purchase. These rights are connected to the delivery of the prospectus and/or trade confirmation. These rights are not the same in every province and territory in Canada.

In Canada, by law, fund assets are to be kept by a custodian (either a bank or a trust company) separate from any other business of the manager.

Fund Prospectuses

After an investor agrees to buy a mutual fund, he or she must be supplied a simplified prospectus within two business days. The simplified prospectus is more concise and easier to read than the complete prospectus. The simplified prospectus contains information on the fund company, fees and expenses, optional services, investor-related information, and specific information on the fund, including objective and strategies, top 10 holdings, distribution policy, financial highlights, past performance, and risk. The content of the simplified prospectus is standardized so an investor can easily compare funds.

In addition, funds are required to publish a more detailed prospectus that contains the financial statements of the mutual funds.

A fund's prospectus and Management Report of Fund Performance (MRFP) outline the management expense ratio (MER), the day-to-day expense of managing the fund. MERs are reported as all-inclusive, meaning all fees, costs, and sales taxes are reported as the fund's total MER. In addition, the MRFP contains the MERs for the past five years. Brokerage commissions and other trading fees are not included in the MER; however, these costs are reported as a trading expense ratio, which can be found in the MRFP. The trading expense ratio is the total commission and other portfolio transaction costs expressed as an annualized percentage of daily average net assets during the period of the annual report.

The CSA requires all mutual funds to publish standardized fee disclosures in the prospectus. This includes a numerical example that illustrates the total expenses that an investor can expect to pay on an investment.

Portfolio-manager information can be found in the Annual Information Form (AIF), a supplemental document to the prospectus. The portfolio manager's name is always published, and sometimes the tenure of the portfolio manager will also be available. AIFs are available on SEDAR.

Shareholder Reports

In Canada, a fund is obligated to make its financials available via semiannual and annual reports. These reports are available on the SEDAR Web site.

Fund management is required to publish a section on management's discussion of fund performance within the MRFP. The MRFP is an industrywide requirement of securities regulators to supplement the annual and semiannual financial statements of mutual funds. It is released quarterly.

Disclosure

Twice a year the fund is required to publish its financial statement and full portfolio holdings via the annual and semiannual reports. Annual financial statements must be filed on or before the 90th day after an investment fund's most recently completed financial year-end.

In addition, a fund must prepare quarterly portfolio disclosure of its top 25 holdings. The portfolio disclosure must be posted on the fund's Web site within 60 days after the quarter end.

In regard to soft dollar practices, fund advisors must disclose the "total client brokerage commissions paid by the client during the period reported on," per the CSA. This disclosure is required at least annually. Canadian investment advisors typically buy third-party research through soft dollar arrangements.

The MFRP includes disclosure of trading costs and total expense ratios for the last five years.

Sales Practices

Mutual fund sales practices are regulated through the CSA National Instrument 81-105. Key points include:

Mutual Fund Company-Dealer Relationship

No mutual fund company or its representative can make a monetary or nonmonetary payment to a participating dealer to distribute/solicit their funds.

Permitted compensation includes only that stated in the prospectus or simplified prospectus of the mutual fund (that is, trailer fees, deferred sales charges, front and back end fees).

Internal Dealer Incentive Practices

No participating dealer shall provide an incentive to any of its representatives to recommend mutual funds of one mutual fund family over mutual funds of another mutual fund family.

However, dealers can provide incentives to their representatives to hit periodic sales targets as long as this incentive is with respect to overall sales. (In other words, dealers cannot implement sales targets based on a specific fund family.)

Principal Distributors' Practices

A principal distributor of a mutual fund that is also a participating dealer of another mutual fund shall not provide an incentive for any of its representatives to recommend a mutual fund of which it is a principal distributor over a mutual fund of which it is a participating dealer. For example, an Investors Group (IG) advisor cannot be compensated for selling Investor Group funds over third-party funds. (IG's situation is special because its funds may only be sold by IG advisors.)

Media Coverage

Canadian investors can find articles on mutual funds in their national financial newspapers on a daily basis. These articles will often discuss mutual fund fees. Canadian mutual funds have notoriously high management expense ratios (MERs), which the media like to talk about. In particular, the media devoted considerable time and energy to covering an academic study that compared mutual fund fees around the world. Also of particular interest to Canadian media are studies that compare the performance of active and passive managers.

Sometimes these articles will promote long-term investing.

Fees and Expenses

Canadian MERs contain "trailer fees," which represent the commission paid to brokers and mutual fund dealers for advising clients to purchase funds and as an incentive to keep clients invested in those funds. These fees were put in place as a way to prevent brokers from moving investors in and out of funds in order to obtain the fees from the loads. All fees, direct and indirect, are required to be published in the simplified prospectus.

The typical maximum front-end load for a Canadian open-end fund is 5%. All front-end loads are negotiable between the investor and the advisor. The typical investor pays a front-end load between 4% and 5%, primarily because investors are unaware that this fee is negotiable.

The typical investor in a Canadian fixed-income fund pays a MER of between 1.25% and 1.49%.

The typical investor in a Canadian money market fund pays a MER of between 0.40% and 0.89%.

The typical investor in a Canadian equity fund pays a MER of between 2.00% and 2.50%.

Canadian investors do not pay much attention to fees. Canadian investors are comfortable with the fees because they don't know how low these fees should actually be. Assets tend to flow into average- or higher-fee funds rather than low-cost or very-low-cost funds.

Taxation

The equivalent of the U.S. 401(k) account in Canada is the employer-sponsored Registered Pension Plan (RPP). Contributions to the RPP are tax deductible for both the employee and the employer. In addition, investors may supplement their income in retirement via a Registered Retirement Savings Plan (RRSP). Money deposited into the RRSP is tax deductible. The investor is taxed at the marginal tax rate at withdrawal. There is no taxation for capital gains, dividends, or interest.

The marginal tax rate on capital gains is lower than other types of income. This is because only 50% of capital gains are taxed; the other 50% is considered tax-free. There are no differences between short-term capital gains and long-term capital gains.

The dividends a shareholder receives are taxed at the income tax rate. The shareholder includes the dividend on his or her income plus a gross up of 25% of the dividend received. The outcome is then taxed at the marginal income tax rate. The shareholder can then claim a federal tax credit of 13 1/3% of the grossed up amount and a separate dividend credit from the province that varies by province. The result: Dividend income is taxed more favorably than interest income, but not as favorably as capital gains.

Distribution/Choice

All funds in Canada require investment minimums. The typical investor pays an investment minimum of between US$500 and US$1,000. Approximately 75% of all funds have an investment minimum that is less than US$1,000. In Canada, an investor has a range of distribution options, including direct to fund, banks, discount brokers, full-service brokers, independent advisors, insurance agents, and the Internet.

Approximately 80% of all funds sold are sold through an open architecture system, this being a place where one can purchase multiple fund family offerings.

Investors have both actively and passively managed funds available to them in the Canadian market.

Morningstar Analysis

Canada's overall grade is B. The grade is decomposed into the following components:

Area	Grade
Investor Protection	A
Transparency in Prospectus and Reports	A
Transparency in Sales and Media	A
Fees and Expenses	F
Taxation	C
Distribution/Choice	B+
Overall	B

Investor Protection

Canada along with Taiwan received the highest marks in the area of investor protection of all countries evaluated. Canada has a developed a substantial regulatory framework administered by the CSA. The CSA is regarded as having enough staffing and support to fulfill its mission, which includes "protecting investors from unfair, improper or fraudulent practices." The CSA maintains an electronic database called SEDAR, which is available to any individual with Internet access and makes available all company and investment fund filed information.

In addition, the IFIC, a trade association, provides guidelines on fund advertising and fund administration. The IFIC has made recommendations on market-timing and short-term trading as there are no formal regulations on these strategies from the CSA.

Transparency in Prospectus and Shareholder Reports
Canada receives an A in the area of transparency in the prospectus and shareholder reports. Canadian funds are required to publish a simplified prospectus that has a standardized format and is more concise and easier for the average investor to read. This version of the prospectus must be provided to investors within two business days after an investor has agreed to buy a fund.

The standout items a fund is required by the CSA to publish are a numerical example that illustrates the total expenses that an investor can expect to pay on an investment as well as the requirement of five years of historical MERs. Also, fee disclosure is standardized allowing for easy comparisons from one mutual fund to another.

Another standout requirement in Canada is that a fund is obligated to publish a section on management's discussion of funds' performance within the MRFP.

Transparency in Sales Practices and Media
In the area of transparency in sales practices and media, Canada receives an A grade. In Canada there are regulations that define appropriate and inappropriate behavior. For example, no mutual fund or its representative can make a monetary or nonmonetary payment to a participating dealer to distribute/solicit its funds.

Investors in Canada have access to articles on mutual funds on a daily basis. The media like to talk about the high MERs Canadian fund investors are subject to as well as the performance of active versus passive managers.

Fees and Expenses
Canada's failing grade in fees is the lowest grade received in any of the surveyed areas. Canada has notoriously high management expense ratios. These high fees have been documented in multiple studies, including "Mutual Fund Fees Around the World" (Khorana, Servaes and Tufano, 2006). The article states, "Funds domiciled and sold in Canada have considerable higher costs than those sold in its North American neighbor, the U.S."

Taxation
Canada's grade in the area of taxation is a C. The marginal tax rate for a typical investor is between 20%-29% with those in the top bracket taxed at 43%. There is no difference in the taxation of short-term capital gains versus long-term capital gains. A lower tax rate on long-term capital gains could help in promoting longer-term investing.

Distribution/Choice

Canada's grade in the area of distribution/choice is a B-plus. All funds in Canada require an investment minimum. The minimum required investment is between US$500 and US$1,000 (US$ are used for comparison purposes) and approximately 75% of funds require an investment minimum of less than US$1,000.

Investors in Canada have a wide range of distribution options, including direct to the fund, banks, discount brokers, full-service brokers, independent advisors, insurance agents, and the Internet.

China

Country Characteristics

Governing Bodies

The China Securities Regulatory Commission (CSRC) is responsible for regulation and supervision of the securities and futures market nationwide pursuant to applicable laws and regulations including the Securities Law, the Securities Investment Funds Law (Fund Law), and the Ordinance on the Administration of Futures Trading. The CSRC has supervision over fund management companies and sales agencies, and it shares supervision over fund custodian banks with the China Banking Regulatory Commission. The basic functions of the CSRC include the following:

> "1. To establish a centralised supervisory system for securities and futures markets and to assume direct leadership over securities and futures market supervisory bodies.
> 2. To strengthen the supervision over securities and futures business, stock and futures exchange markets, the listed companies, fund management companies investing in the securities, securities and futures investment consulting firms, and other intermediaries involved in the securities and futures business. To raise the standard of information disclosure.
> 3. To increase the abilities to prevent and handle financial crisis.
> 4. To organise the drafting of laws and regulations for securities markets. To study and formulate the principles, policies and rules related to securities markets. To formulate development plans and annual plans for securities markets. To direct, co-ordinate, supervise and examine matters related to securities in various regions and relevant departments. To direct, plan and co-ordinate test operations of futures market.
> 5. To exercise centralised supervision of securities business."

China does not have a centralized Web site where disclosure documents of all mutual funds can be easily accessible to investors with Internet access.

Rules and Regulations

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In China this type of advertising is not permitted; an investor cannot purchase a fund without first receiving a prospectus.

In China, the Fund Law requires that assets be kept by a custodian that is a commercial bank and has received approval from the CSRC and the China Banking Regulatory Commission. The same law also requires that a fund trustee and a fund manager may not be the same party, and may not make capital contribution to or hold the shares of each other. However, it is possible for the same parent organization to own both the custodian and the fund. The law also requires that the financial and accounting report of the annual report be audited by an independent organization.

Fund Prospectuses
In China, fund companies are required to publish both a simplified and a full prospectus, and fund investors must be provided one of these documents before they can make a purchase. The simplified prospectus is somewhat simpler than the full prospectus, but it is still long and difficult to read.

In both the simplified and full prospectuses there is a comprehensive list of fees. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is not available in the simplified or full prospectus.

There is no uniform fee disclosure that would allow an investor to easily compare one prospectus to another.

In regard to portfolio-manager information, fund companies are required to disclose the manager name and tenure in the prospectus. Also disclosed are the manager's education and brief biography.

Shareholder Reports
As required by the *Administrative Measures on Information Disclosure for Securities Investment Funds (*CSRC Decree No. 19), the fund manager must complete the annual report and publish the context of the report on the Web sites and the summary of the report in the designated newspaper within 90 days after the end of each year. The financial and accounting report of the annual report must be audited by an independent organization. The semiannual report must be completed and published within 60 days after the end of the first half of each year, and the quarterly report within 15 days after the end of each quarter. In case significant events concerning the fund occur (for example, replacement of fund manager and custodian), an interim report is to be published within two days.

Fund companies are required to publish a section on management's discussion of fund performance. These commentaries of the fund's performance are often meaningful and considered to be an important means of communication to shareholders.

Disclosure
Twice a year the fund is required to publish a full and complete disclosure of the portfolio holdings. The semiannual report is published within 60 days of the end of the first half of the year, and the annual report is published within 90 days after year-end.

In regard to soft dollar practices, there are no disclosure requirements. Soft dollar practices are common in China; each investment manager honors his/her preferred broker for research or entertainment.

The calculation of total expense ratio (TER) is not standardized, and funds are not required to show the history of TER next to the current-year figures in the shareholder reports. The dollar amount associated with costs of trading securities within the portfolio is disclosed to investors in the semiannual and annual reports; however, it takes a knowledgeable reader to find this information so it is not easily accessible.

Sales Practices

Mutual fund sales practices are regulated through the *Administrative Measures on Sales/Marketing of Securities Investment Funds* (CSRC Decree No. 20).

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) is an accepted practice in China.

It is common practice for distributors to use sales contests to motivate sales of funds. Fund companies do not sponsor sales contests; however, they often promote fund sales by providing bonuses to top-selling advisors above and beyond the commission. To favor selling particular products, distributors compensate advisors more for selling selective funds. Similarly, fund companies incentivize distributors to favor certain products by providing reimbursements for marketing fees.

Media Coverage

In China, investors can find articles dedicated to mutual fund investors in their financial newspapers on a daily basis. Just a few articles will discuss the mutual fund fees or comment on whether the fees are too high. In addition, only a few articles will promote long-term investing.

Fees and Expenses

China offers both load and no-load funds. The *Administrative Measures on Sales/Marketing of Securities Investment Funds* (CSRC Decree No. 20) requires that subscription fees be no more than 5% of the acquisition amount, and in practice the front loads paid by typical investors are less than 2% and can be further reduced through negotiations.

The typical investor in a Chinese fixed-income fund pays a TER of less than 0.75%.

The typical investor in a Chinese money market fund pays a TER of between 0.40% and 0.89%.

The typical investor in a Chinese equity fund pays a TER of between 1.00% and 1.49%.

Investors in China do not care very much about fees, and new assets tend to flow into average-cost funds rather than low-cost or very-low-cost funds.

Taxation

The Chinese government does not offer tax-deferred saving schemes to encourage individuals to invest toward retirement, as investment earnings are not taxed. Earnings from mutual fund investing are exempt from taxation, regardless of whether the earnings are made through dividend distributions or capital gains.

Distribution/Choice

All mutual funds in China require investment minimums. These minimums are fairly low, typically less than US$250. More than 75% of the Chinese fund universe is composed of funds with investment minimums of less than US$1,000. In China, an investor has four distribution options, but the most dominant player in the fund industry is the bank. Investors can purchase shares directly from the fund company, and there are a few full-service brokerage firms that offer mutual funds. Shares can be purchased via Internet services offered by the distribution channels.

China has an open architecture system where more than 80% of the funds are sold through an open platform. An investor can purchase multiple fund family offerings at most distribution platforms.

Investors have both actively and passively managed funds available to them in China, but passively managed funds are not popular.

Morningstar Analysis

China's overall grade is B-plus. This grade is decomposed into the following components:

Area	Grade
Investor Protection	C
Transparency in Prospectus and Reports	B-
Transparency in Sales and Media	D
Fees and Expenses	A
Taxation	A
Distribution/Choice	C
Overall	B+

Investor Protection

China's grade in the area of investor protection is C. Mutual fund investors in China are fairly adequately protected by the existence of laws and a well-staffed regulator to enforce oversight. Asset custody is an area that could be improved upon. Assets are not custodied with the fund company; however, the custodian can be an affiliated firm owned by the same parent, thus lacking complete independence.

Transparency in Prospectus and Shareholder Reports

China's grade in the area of transparency in prospectus and shareholder reports is B-minus. China has many requirements that are lacking in many other countries. While fund companies in many countries are reluctant to disclose names and tenures of portfolio managers, fund companies in China are required to provide this information as well as education background and a brief biography. There is a section in the semiannual and annual reports dedicated to management's discussion of fund performance. Quite often this discussion is insightful, providing investors with a good understanding of why the fund performed the way it did. It is also mandatory for mutual funds in China to disclose trading costs in these reports. However, while these requirements provide useful information to investors, the benefit to investors can be further enhanced if presentation of fees and expenses were uniform, making such information easier to access and compare. It will also be beneficial to investors if fund companies can provide historical expense ratios so that investors can easily determine whether expense ratios have increased.

China has good transparency requirements regarding portfolio holdings and performance; however, disclosure is lacking in the areas of business practices, and improvements are needed. We recommend that Chinese regulators bring these requirements up to par with other countries. A soft dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even nonresearch-related favors such as entertainment. Most countries either ban soft dollar arrangements or require disclosure of its existence, but such practice is allowed and is not disclosed in China.

Even though fund companies publish a simplified prospectus, it is long and difficult to read. The regulator should provide better guidelines for an investor-friendly abridged prospectus.

Transparency in Sales Practices and Media

China's grade in the area of transparency in sales practices and media is D. Given the lack of regulatory attention to business practices in the case of soft dollar arrangements, it should not be surprising to find that sales practices in China are not in the investors' best interests. It is a common practice to use a sales contest to motivate sales of funds. Fund companies often provide bonuses to top-producing sellers in addition to the stated commissions. And banks, the main distribution channel of mutual funds, have contests among branches. In addition, it is a common practice for a distributor to promote some funds over others, and fund companies compensate distributors more in terms of marketing fee reimbursement. Furthermore, directed brokerage, a practice that is commonly not acceptable in other countries, is being practiced in China. In a directed brokerage arrangement, a fund sends trades to a brokerage firm because that brokerage firm has a mutual fund distribution channel that is instructed to sell more of this fund as a returning favor. Combined, these three sales practices imply that the fund industry's sales force lacks independence and is more likely to promote funds for self-interest rather than the best interest of the investor.

The mutual fund industry is important to Chinese investors and receives attention in the press. A national financial newspaper carries an article on mutual funds on a daily basis. Articles often focus on market reviews, news, and stories such as scandal, but they rarely cover topics such as fund costs and the benefits of long-term investing. Perhaps this reflects the local investing culture of higher risk appetites and shorter-term views.

Fees and Expenses

China's grade in the area of fees and expenses is A. Sales loads are low in China compared with many other countries, and expense ratios of equity funds are on the low-end of the spectrum. In China, costs are not an important consideration in investors' choice of funds.

Taxation

China's grade in the area of taxation is A. Investment taxation is very favorable in China, as there is no dividend or capital gains tax on mutual fund investments.

Distribution/Choice

China's grade in the area of distribution/choice is C. China has low minimum investment requirements. There is not a full range of distribution choices available to investors, but investors in China enjoy an open architecture system. However, keep in mind that having sales practices that promote sales of certain funds over others reduces the benefits of an open architecture system when the incentives of the sales force are not aligned with the best interest of the investors.

France

Country Characteristics

Governing Bodies

The Autorité des Marchés Financiers (AMF) is the independent public agency responsible for regulating and overseeing financial markets in France. Under its statutory duties, the AMF safeguards investments in financial instruments and in all other savings and investment vehicles, ensures that investors receive material information, and maintains orderly financial markets. The AMF has four kinds of responsibilities: regulation, authorization, supervision, and enforcement.

The AMF is also responsible for regulating fund advertising and sales practices.

France does not have a centralized Web site where disclosure documents of all mutual funds can be easily accessible to investors with Internet access.

Rules and Regulations

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. This type of advertising is not permitted in France. Investors must receive a prospectus before they can make a purchase and must sign to confirm that they have read the prospectus.

In France, assets of a mutual fund may be held at a custodian that is affiliated with the fund.

Fund Prospectuses

In France, funds are required to publish a comprehensive prospectus as well as a simplified one. Prospectuses are available on a centralized Web site run by the AMF.

The simplified prospectus has two parts: Part A – a "legal" section that describes legal aspects and operations; and part B – a "statistics" section that provides quantified data about the performance, fees and charges, portfolio turnover, and proportions of transactions carried out with companies in the same group.

In France, funds can elect to use a "free-form" simplified prospectus. This must be made available to all investors and should be a simple investment strategy in which exposure to different types of risks is stable and the risk profile is easy to understand. The free form has the same requirements as the regular simplified prospectus but allows for flexibility in the placement of sections and the naming of headings. Per the AMF, the free-form simplified prospectus must be: clear and balanced; contain no advertising or pure marketing material; and the information must be equivalent to the mandated requirements for the simplified prospectus.

The comprehensive prospectus and the simplified prospectus contain a complete listing of fees and sales charges. There is, however, no numerical example that illustrates the total expenses that an investor could expect to pay on an investment. There are percentages available but no dollar value example.

Portfolio-manager information and tenure are not available in any of the required publications. Performance is considered to be part of a team-managed environment, so the publication of individual manager names is not encouraged.

Shareholder Reports

In France, funds are required to publish both annual and semiannual reports. The semiannual report must include condensed financial statements for the previous half-year, an activity report, and the auditors' report on the limited audit of the financial statements.

The annual report must include financial statements, as well as a statement that the financial statements have been prepared in accordance with generally accepted accounting principals; a description of any risk or uncertainty; and the auditors' report. In addition a section on management's discussions of fund performance is required.

Disclosure

Portfolio holdings are disclosed with the annual report, which is published within four months from the end of the period. Only simplified breakdowns of assets are provided, though an investor may request complete portfolio holdings. When an investor requests the complete holdings, the fund company has eight days to comply.

In France, the fund is required to publish a total expense ratio (TER), a fund's aggregate expense (excluding transaction costs) as a proportion of assets under management, expressed as a percentage. The fund is not required to publish a historical presentation of the TER. Additionally, transaction costs are disclosed in the prospectus, but are not easy to locate.

Sales Practices

Directed brokerage arrangements are not an accepted practice in France.

In France, it is not unusual for fund companies to organize sales contests to promote their funds and to push distributors.

Usually, fund companies share load fees with distributors. The share of revenues between the fund company and the distributor ranges from 50/50 up to 100% to the distributor. On top of the load fees, especially in the case of life insurance contracts (Contrat d'assurance-vie), the distributors may also receive a share of management fees.

Media Coverage

French investors can find articles on mutual funds in their national financial newspapers on a weekly basis. These articles will almost never discuss the fee expenses. Investors in France have little concern about the fees. They don't see articles that explain costs or distinguish between high-cost and low-cost funds.

Sometimes these articles will promote long-term investing by comparing performance of shorter-term investing and longer-term investing.

Fees and Expenses

There are essentially three types of fees that the French investor is liable to pay:

- Entry fees cover product distribution.
- Management fees cover the fund's operating costs as well as general portfolio management and in some cases distribution.
- Transaction costs, the costs of buying and selling securities, are not part of the fund's management fees or operating costs.

The typical investor in a French fixed-income fund pays a TER of between 0.75% and 0.99%.

The typical investor in a French money market fund pays a TER of between 0.40% and 0.89%.

The typical investor in a French equity fund pays a TER of between 1.50% and 1.99%.

Taxation

France has a public compulsory retirement scheme with contributions collected based on salary. This public scheme has several levels of contribution, but only the basic level is compulsory. Independent professionals (such as lawyers and doctors) and merchants have the ability to contribute to optional private schemes with tax incentives. Since the beginning of 2000, employees have the ability to contribute as well to private schemes with tax incentives. Under the tax incentive, it is possible to deduct from the tax-basis part of the amounts invested in private retirement schemes.

In France, capital gains on securities are taxed at the rate of 29% (18% capital gains tax plus 11% social charges) on the gains realized from the sale of shares. This rate applies for shares sold from 2008 onward.

No capital gains tax is payable if the sale value is under €25,000 a year (effective Jan. 1, 2008), provided the investor's share dealings are not a professional activity. The investor can also carry forward losses to offset later gains.

If an investor holds his or her shares longer than six years (for those held since January 2006), then the investor will be entitled to a progressive reduction in capital gains tax if he later sells them, with full exemption available after eight years.

Distribution/Choice

In France, funds will in some rare cases require an investment minimum. The typical investor will pay an investment minimum of less than US$250. More than 75% of funds have investment minimums that are less than US$1,000.

The investor has a wide range of distribution options, including banks, brokers, insurance companies, and the Internet. However, France does not have an open architecture system. Only 20%-49% of funds are sold through an open platform. The majority of distributors of funds will only sell in-house funds.

Investors have both actively and passively managed funds available to them in France.

Morningstar Analysis

France's overall grade is B-minus. The grade is decomposed into the following components:

Area	Grade
Investor Protection	C
Transparency in Prospectus and Reports	C+
Transparency in Sales and Media	C+
Fees and Expenses	B-
Taxation	B
Distribution/Choice	B-
Overall	B-

Investor Protection

France receives a grade of C in the area of investor protection. France has an established securities regulator, the AMF, whose responsibility includes regulation, approval of market participants and products, supervision of markets, and punishment of regulatory violations.

France misses a higher grade due to a lack of independence for the custodian of assets. In France, regulation requires that the manager does not perform the function of custodian of fund assets; however; the custodian can be an affiliated company.

Transparency in Prospectus and Shareholder Reports

In the area of transparency in the prospectus and shareholder reports, France receives a grade of C-plus. French regulations require the publication of a prospectus as well as a simplified version of the prospectus. However, the simplified prospectus is not all that simple and could be improved upon to be made easier for the average investor to understand. Also lacking from the prospectus in France is a numerical example that illustrates the total expenses an investor could expect to pay on an investment.

France does require a uniform presentation of fees and expenses in the prospectus but does not require that the names and tenures of the portfolio managers be published.

Another reason for the C grade is due to the fact that soft dollar arrangements are a common practice and no disclosure of these arrangements is required by the regulators.

Transparency in Sales Practices and Media

France achieves a C-plus grade in the area of transparency in sales practices and media. In France, directed brokerage arrangements, where fund managers direct portfolio transactions to particular brokerage firms, are not an accepted practice. It is, however, as with most countries surveyed, an accepted practice to use sales contests to motivate the sales of funds.

Investors in France can expect to find articles on mutual funds in their national financial newspapers on a weekly basis. Sometimes these articles will promote long-term investing, but seldom will they discuss mutual fund fees and expenses.

Fees and Expenses

France receives a B-minus grade in the area of fees and expenses. The typical French investor pays an entry fee (front-end load, subscription fee) of from 2.00%-3.99%. No-load funds are not available in France. Total expense ratios in France are consistent with the countries surveyed. The typical French investor pays a TER of between 0.75% and 0.99% on a fixed-income fund and between 1.50% and 1.99% on an equity fund.

Taxation

In the area of taxation, France receives a B grade. France has one of the highest grades in the taxation area of all the European countries surveyed. In France there are substantial incentives to encourage long-term investing. If an investor holds his or her shares longer than six years (for those held since January 2006), the investor will be entitled to a progressive reduction in capital gains tax if he sells them, with full exemption available after eight years.

Distribution/Choice
Finally, in the area of distribution/choice, France receives a grade of B-minus. Investment minimums in France average less than US$250, and approximately more than 75% of funds in France require an investment minimum of less than US$1,000. Investors have a complete set of options in regard to purchasing funds, including banks, full-service brokerages, and the Internet. However, approximately only between 20% and 49% of funds in France are sold through an open architecture system, meaning a distribution system where options come from multiple fund families.

Germany

Country Characteristics

Governing Bodies

In Germany there is a single regulator, BaFin, for the supervision of credit institutions, financial service providers, insurance, and securities trading. BaFin's mission statement is as follows: "Our function is to ensure that the German financial system continues to function properly and remains competitive and stable and that its integrity is preserved; that the trust of investors and insurance policyholders in this system is maintained; and that market operators conduct themselves fairly." BaFin pursues its mission statement through the issuance of regulations and guidelines.

There is no regulatory body supervising advertising and sales practices in Germany. The German Asset Management Association (BVI) is a registered association (not a regulatory agency) that represents the interest of the investment fund industry. The BVI has a code of conduct for industry members, but there are no penalties for noncompliance.

Germany does not have a centralized Web site where disclosure documents of all mutual funds can be easily accessible to investors with Internet access.

Rules and Regulations

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Germany this type of advertising is not permitted; an investor cannot purchase a fund without first receiving a simplified prospectus.

In Germany, by law, fund assets are to be kept by a custodian (either a bank or a trust company) separate from any other business of the manager.

Fund Prospectuses

In Germany, fund investors must be provided a simplified prospectus before they can make a purchase. The fund must also provide a full prospectus to the investor if requested.

In the simplified prospectus, there is a comprehensive list of fees. However, the calculation of the total expense ratio (TER) can vary from fund company to fund company. The fund may publish TER including performance fees or excluding performance fees. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is not available in either the simplified or full prospectus.

The BVI requires members to publish TER figures, but many international fund shops operating in Germany have not joined the BVI.

Because of the lack of standardization in the calculation of TER, there is no uniform fee disclosure that would allow an investor to easily compare one prospectus to another. In addition, no disclosure of historical TER is required.

In the past, funds were required to calculate a transaction cost ratio. This was a ratio between the costs of the purchase and sale of the fund assets and the net asset value. Currently, the transaction cost ratio is no longer a requirement. Now the requirement is that the fund company applies adequate measures to avoid discriminating against investor interests by transaction costs. Therefore, no trading cost information is available to the investor.

In regard to portfolio-manager information, there is no consistency in the availability of manager name and tenure; nor are there any requirements that this information be published.

Shareholder Reports

In Germany, fund companies must publish annual and semiannual reports that have been audited by an independent third party. These reports must be made available through the Electronic Federal Gazette.

Fund companies are not required by law to publish a section on management's discussion of fund performance. However, some funds will publish some commentary that discusses the fund's performance.

Disclosure

Twice a year the fund is required to publish a full and complete disclosure of the portfolio holdings. The semiannual report is published within two months of the end of the period, and the annual report is published within four months of the fiscal year-end.

In regard to soft dollar practices, there are no disclosure requirements. Soft dollar practices are popular in Germany; each investment manager honors his/her preferred broker for research.

Sales Practices

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not an accepted practice in Germany.

However, it is common practice to use sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds.

Media Coverage

German investors can find mutual fund articles in their financial newspapers on a weekly basis. These articles will almost never discuss the mutual fund fees or comment on whether the fees are too high.

In addition, articles will sometimes promote long-term investing.

Fees and Expenses

Germany offers funds with front sales loads and with no front loads. The front load can be negotiated by the investor. The typical investor pays a load between 2.00% and 3.99%.

The typical investor in a German fixed-income fund pays a TER of between 0.75% and 0.99%.

The typical investor in a German money market fund pays a TER of between 0.40% and 0.89%.

The typical investor in a German equity fund pays a TER of between 1.50% and 1.99%.

In Germany, new assets tend to flow into average-cost funds rather than low-cost or very-low-cost funds.

Taxation

The German government does offer tax-deferred saving schemes called Riester Rente to encourage individuals to invest toward retirement.

The German Federal Council introduced a flat tax rate on income and capital gains from capital investments. In addition to interest, dividends, and short transactions, which were already taxable, all capital gains on shares, bonds, certificates, and investment funds are taxable at a rate of 25%. These rules are applicable to all capital investments made after December 31, 2008.

Prior to December 31, 2008, interest and other income were taxable at the investor's marginal rate; 50% of a dividend was taxable at the investor's marginal tax rate and 50% was tax-exempt; capital gains were exempt from taxes.

Distribution/Choice

Most funds in Germany require investment minimums. These minimums are fairly low, ranging between US$500 and US$1,000. More than 75% of the German fund universe is composed of funds with investment minimums of less than US$1,000. In Germany, an investor has a range of distribution options, but the most dominant player in the fund industry is the bank.

Germany does not have an open architecture system; only 20%-49% of funds are sold through an open platform. The majority of distributors of funds will only sell in-house funds.

Investors have both actively and passively managed funds available to them in Germany.

Morningstar Analysis

Germany's overall grade is C-minus. The grade is decomposed into the following components:

Area	Grade
Investor Protection	D
Transparency in Prospectus and Reports	C
Transparency in Sales and Media	C
Fees and Expenses	B-
Taxation	C
Distribution/Choice	C-
Overall	C-

Investor Protection

In the area of investor protection, Germany receives a grade of D. Many improvements have come over the past few years, but these improvements have not caught up with the other countries that were surveyed. Improvements made in recent years include the formation of a single regulatory agency, BaFin, which is the successor to three separate agencies (Federal Banking Supervisory Office, Federal Securities Supervisory Office, and the Federal Insurance Commission). The agency is not considered to be adequately staffed and is partially able to meet its commitment to its mission statement.

Germany lacks a regulatory body to supervise advertising and sales practices. The BVI represents the interest of the investment fund industry through a code of conduct, but there are no penalties for noncompliance.

Transparency in Prospectus and Shareholder Reports

Germany receives a grade of C in the area of transparency in the prospectus and reports. This grade is reflective of the lack of standardization that exists. For example, the calculation of TER can actually vary from fund company to fund company. One fund may calculate TER including performance fees while another may exclude performance fees in the calculation.

Germany could have improved its grade in this area if the transaction cost ratio was still a required calculation. This was a ratio between the costs of the purchase and sale of the fund assets and the net asset value. Now the requirement is that the fund company applies adequate measures to avoid discriminating against investor interests by transaction costs.

Transparency in Sales Practices and Media

Germany fares the same in transparency in sales practices and media with a grade of C. In Germany directed brokerage arrangements are not an accepted practice. However, it is common for a fund company to use sales contests to motivate the sale of funds.

Investors in Germany can find mutual fund articles on a weekly basis in their financial trade publications. However, these articles almost never discuss mutual fund fees or comment on whether fees are too high; nor do they promote long-term investing.

Fees and Expenses

Germany receives a B-minus in the area of fees and expenses. As already mentioned, the calculation of TER can vary from fund company to fund company. Determining the fees an average German investor pays is difficult because of this, but overall in Germany it appears that fees are in line with the majority of countries surveyed.

Also because of the lack of standardized fee disclosure new assets in Germany tend to flow into average-cost funds rather than low-cost or very-low-cost funds.

Taxation

Germany receives another C in the area of taxation. In 2009, the German Federal Council introduced a flat tax rate of 25% on income and capital gains from capital investments. This tax is applicable to both short-term and long-term capital gains so there is no incentive to promote long-term investing.

Distribution/Choice

Germany receives a C-minus in the area of distribution/choice. The majority of funds in Germany require an investment minimum, but the minimums are very low, which keeps Germany from a D grade. In Germany an investor has a range of distribution options, but the most dominant player in the fund industry is the bank. Germany does not have an open architecture system; the majority of distributors of funds only sell in-house funds.

Hong Kong

Country Characteristics

Governing Bodies

In Hong Kong, the Securities and Futures Commission (SFC) is the regulatory body responsible for supervision over securities and futures markets, as empowered by the *Securities and Futures Ordinance*. It is an independent nongovernmental statutory body outside the civil service. The SFC's objectives are to:

- Maintain and promote the fairness, efficiency, competitiveness, transparency, and orderliness of the securities and futures industry.
- Promote understanding by the public of the operation and functioning of the securities and futures industry.
- Provide protection for members of the public investing in or holding financial products.
- Minimize crime and misconduct in the securities and futures industry.
- Reduce systemic risks in the securities and futures industry.
- Assist the Financial Secretary in maintaining the financial stability of Hong Kong by taking appropriate steps in relation to the securities and futures industry.

The *Code on Unit Trusts and Mutual Funds* is issued by the SFC as a guideline for the authorization of a collective investment scheme; the code does not have the force of law.

The SFC is also responsible for regulating fund advertising and sales practices.

Hong Kong does not have a centralized Web site where disclosure documents of all mutual funds can be easily accessible to investors with Internet access.

Rules and Regulations

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Hong Kong this type of advertising is allowed as long as the advertisement contains a specified subset of the required disclosures in an offering document (prospectus) and instructions on how to obtain the full offering document and the annual and semiannual reports.

In Hong Kong, fund assets are required to be kept by a custodian. The fund trustee should be independent of the fund manager; however, the definition of independence allows the two organizations to be subsidiaries of the same holding company if specific requirements outlined in the code are met.

Fund Prospectuses

In Hong Kong, the regulation does not require that sale of mutual funds be accompanied by an offering document (prospectus) if a specific subset of the required disclosures in an offering document is provided. Fund companies are required to publish an offering document but are not obligated to provide an abridged version.

There is a comprehensive list of fees. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is not available. There is no uniform presentation of fees and expenses that would allow an investor to easily compare one prospectus to another.

In regard to portfolio-manager information, the manager's name and tenure are not available.

Shareholder Reports

In Hong Kong, fund companies must publish semiannual and annual reports. The annual report must be audited by an auditor that is not associated with the asset-management company. The annual report must be made available within four months after the fiscal year ends, and the semiannual report is required to be published within two months after the period ends.

Fund companies are not required to publish a section on the management's comments on fund performance in shareholder reports. Not many funds voluntarily provide this information.

Disclosure

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings in the annual and semiannual reports. The annual report is published within four months of the end of the fiscal year, and the semiannual report within two months after the end of the period. Funds are also required to publish movements in holdings since the end of the last accounting period, and the Code allows the manager to determine the most appropriate method of illustrating these movements taking into consideration the nature of the fund. Examples include holdings-movement disclosure by security, sector, country, or security type.

A soft dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even nonresearch-related favors such as entertainment. In the case of Hong Kong, the Code restricts the use to cases where there is demonstrable benefit to shareholders and reasonable execution and brokerage rates. Payments for travel, accommodation, entertainment, and general administrative expenses are not allowed. Disclosure is required in the offering document and annual reports.

The regulation in Hong Kong requires that all expenses be disclosed in the annual and semiannual reports. These reports provide the current total expense ratio but do not contain ratios for past years.

The cost of trading securities is not disclosed to investors.

Sales Practices

Directed brokerage arrangements, fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds, is not an accepted practice in Hong Kong.

It is not a common practice to use sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds.

Media Coverage

Investors in Hong Kong rarely find unbiased mutual fund articles in newspapers. Articles on mutual fund investing tend to be advertisements or are accompanied by advertisements. These articles almost never discuss mutual fund fees. Articles sometimes promote long-term investing.

Fees and Expenses

The majority of funds in Hong Kong charge a front load, and a few charge a back load, but no-load funds are not available unless the load is waived when a fund is part of a bundled “wrap” service. The official front load is usually between 4.00% and 5.99%; however, it is difficult to estimate the amount a typical investor pays because bundled fee programs are very common.

The typical investor in a Hong Kong fixed-income fund pays a total expense ratio (TER) of between 1.25% and 1.49%.

The typical investor in a Hong Kong money market fund pays a TER of between 0.40% and 0.89%.

The typical investor in a Hong Kong equity fund pays a TER of between 1.50% and 1.99%.

In Hong Kong, investors do not care very much about fees when selecting funds; thus, fund fees have a negligible impact on new assets flow.

Taxation

The Hong Kong government does not offer tax-deferred saving accounts to encourage individuals to invest toward retirement, as investment earnings are not taxed. Currently, mutual fund dividends/distributions and capital gains are exempt from taxation for individual taxpayers.

Distribution/Choice

Mutual funds in Hong Kong sometimes require investment minimums. The typical investment minimum is US$1,000, and less than 25% of the funds offer minimums below this amount.

In Hong Kong, an investor has a partial range of distribution options, including banks, insurance firms, full-service brokerage firms, and direct to fund. Dedicated discount brokerage firms do not exist. There are no independent advisors. The Internet is not a common distribution option for mutual funds.

Hong Kong has a fairly open architecture system where between 50% and 80% of the funds are sold through an open platform. An investor can purchase multiple fund family offerings at most distribution platforms.

Investors have both actively and passively managed funds available to them in Hong Kong. Passively managed funds are not popular, and choices are few.

Morningstar Analysis

Hong Kong's overall grade is C-minus. This grade is decomposed into the following components:

Area	Grade
Investor Protection	C
Transparency in Prospectus and Reports	C-
Transparency in Sales and Media	A-
Fees and Expenses	D
Taxation	A
Distribution/Choice	C
Overall	C-

Investor Protection

Hong Kong's grade in the area of investor protection is C. Mutual fund investors in Hong Kong are well protected by the existence of laws and a well-staffed regulator to enforce oversight. Asset custody is an area that could be improved upon. Assets are not custodied with the fund company; however, the custodian can be an affiliated firm owned by the same parent, thus lacking complete independence.

Transparency in Prospectus and Shareholder Reports

Hong Kong's grade in the area of transparency in prospectus and shareholder reports is C-minus. This grade is attributable to several factors that should be improved. First, to improve investor friendliness, mutual fund companies should prepare simplified prospectuses. It would also be beneficial to investors if fund companies can provide a numerical example illustrating the impact of fees on assets. Because of the lack of uniform presentation of fees and expenses; it is not easy for investors to quickly find fee information or make comparisons across funds. In addition, costs associated with trading securities in the portfolio are currently not disclosed in the annual report. The history of expense ratios for past years is not disclosed, and investors are not able to easily determine whether the expense ratio has increased.

Portfolio managers' names and tenures are not disclosed. We encourage fund companies in Hong Kong to disclose both names and tenures of portfolio managers, allowing investors to assess the experience and stability of the portfolio management team. In addition, fund companies should provide management's discussion of fund performance.

Transparency in Sales Practices and Media

Hong Kong's grade in the area of transparency in sales practices and media is A-minus. Hong Kong has good sales practices, as directed brokerage is not an accepted practice and sales promotions are not common practices.

Among the countries in our study, Hong Kong is the only country where the media do not independently cover articles on mutual fund investing. Articles on mutual fund investing tend to be advertisements or are accompanied by advertisements. Furthermore, the media do not sufficiently promote the benefits of long-term investing and the negative impact of fund costs.

Fees and Expenses

Hong Kong's grade in the area of fees and expenses is D. Sales loads are high, and expense ratios are similar to or higher than those of other countries. In Hong Kong, costs are not an important consideration in investors' choice of funds.

Taxation

Hong Kong's grade in the area of taxation is A. Investment taxation is very favorable in Hong Kong, as there is no dividend or capital gains tax on mutual fund investments.

Distribution/Choice

Hong Kong's grade in the area of distribution/choice is C. Minimum investment requirements are high and are thus not investor-friendly. Hong Kong has a fairly full range of distribution options, and there are no independent advisors. Hong Kong has a fairly open architecture system where 50% to 80% of the funds are sold through an open platform, and this is an area that could be improved.

Italy

Country Characteristics

Governing Bodies

In Italy primary regulatory responsibility belongs to the central bank, Banca d'Italia. The Bank of Italy is the authority over banks that provide investment services and any organization engaged in collective asset management. A separate public authority, Commissione Nazionale per le Societ'a e la Borsa (Consob), is responsible for the regulation of Italy's securities markets. Consob operates under Legislative Decree 58 of 24 February 1994, amended 2005. In addition, the Commissione di Vigilanza sui Fondi Pensione (COVIP) is responsible for regulatory oversight of pension funds.

Consob is formally independent. It is composed of five members appointed by the President of the Republic on the proposal of the President of the Council, after consideration by the Council itself, which shall remain in office seven years without the possibility of a second term. One of the members is also the President.

Banca d'Italia is the central bank of the Republic of Italy and part of the European System of Central Banks (ESCB) and the Euro system. It is a public-law institution and pursues aims of general interest in monetary and financial matters: price stability, the primary objective; the stability and efficiency of the financial system; and the other duties. Although the majority of shares (around 94%) in its capital are owned by private banks, it is an institution of public law as established by the Banking Act of 1936.

Consob aims to protect investors and the efficiency, transparency, and development of the market. Consob regulation authority includes: the provision of investment services and activities; the provision of portfolio management services; the drawing up and publication of prospectuses; storing and filing of regulated disclosures; determining the minimum financial resources of regulated market management companies and of central depositories; and the drawing up and publication of the semiannual and quarterly reports.

Consob is also the agency responsible for oversight of fund advertising and sales practices.

Italy does not have a centralized Web site where disclosure documents of all mutual funds can be easily accessible to investors with Internet access.

Rules and Regulations

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Italy the investor must receive a prospectus before investing in a fund. Investors must sign or, if the purchase is made online, click to confirm they have read and understood the prospectus.

In Italy, regulation requires that the manager does not perform the function of custodian of assets. The custodian can be an affiliated company such as a bank that owns the fund company.

Fund Prospectuses

In Italy the prospectus is divided into three parts. The first part contains all the generic data about the fund, the strategy, benchmark, and current costs. The second part contains all the historical data, including costs and fees paid by the fund as well as the risk associated with the fund; returns; and portfolio turnover. The third part contains other information on the fund.

Fund companies in Italy are required, in addition to publishing a full prospectus, to publish a simplified version. The simplified prospectus consists of part one and part two of the full prospectus.

Consob requires all mutual funds to publish standardized fee disclosure in the prospectus. This includes a numerical example that illustrates the total expenses that an investor can expect to pay on an investment.

Portfolio-manager information is not readily available in Italy. Only the chief investment officer will be listed in the prospectus. There are no regulatory requirements for disclosing portfolio managers.

Shareholder Reports

In Italy, a fund is obligated to make its financials available via semiannual reports published within three months from the end of the period and annual reports published within two months from the end of the year. These reports are available on Consob's Web site.

Fund management is required to publish a section on management's discussion of fund performance. This is to be published in both the semiannual and annual reports and is sent to Consob to publish on its Web site. The discussion is usually written by the chief investment officer and describes what has happened throughout the year with explanations of the market's impact on the fund's performance.

Disclosure

Portfolio holdings are disclosed to investors via the semiannual and annual reports. In both reports the fund company has to show the portfolios; however, the law requires that the fund publish only the first 50 holdings. Only if the holdings after the 50th represent more than 0.5% of the assets is the fund company required to publish the complete holdings.

Full and complete disclosure to Banca d'Italia is required once a year.

In Italy there are no soft dollar arrangements (instances where a fund sends trades to a brokerage firm because that brokerage firm will provide free services or tools).

The total expense ratio (TER) can be found in the prospectus and is defined as a ratio between operating costs borne by the fund and average asset under management. The operating costs charged on the fund assets include the management fees, administrative costs, bank fees (the fees paid to the bank which acts as the custodian of the fund's assets), distribution fees and other operating expenses. TERs are also published in the fund's annual report along with three years worth of TER history if available.

Trading costs are not available in any of the fund's required publications. In some cases, the media or fund analyst will try to estimate the trading costs by starting with the turnover ratio of each fund portfolio.

Sales Practices

The sale of financial investments is closely regulated by Consob and the Bank of Italy. Financial intermediaries are subject to constant supervision. In Italy there are financial sales professionals who must past an exam and register with Consob. These financial sales professionals may participate in "door-to-door selling," where financial products may be promoted at an investor's home.

A directed brokerage arrangement (fund managers direct portfolio transactions to particular brokerage funds in exchange for promoting their funds) is not an accepted practice in Italy.

It is common for sales contests to be used to motivate fund sales. In addition, it is a common practice for advisors or financial sales professionals to be compensated for selling particular funds.

Media Coverage

Italian investors can find articles on mutual funds in their national financial newspapers on a daily basis. These articles will always discuss fee expenses. Mutual funds are the most transparent investment vehicle in Italy, so the media can easily talk about their costs and performance. However, the media tend to compare mutual funds with less transparent options such as structured products.

The media almost never promote long-term investing but like to focus on short-term investing. When they publish performance for funds, it is usually in year-to-date, three-month, or six-month time frames.

Fees and Expenses

In Italy there are funds with subscription fees (loads) and funds with no subscription fees (no loads) available. The typical investor pays a subscription fee of less than 2%.

The typical investor in an Italian fixed-income fund pays a TER of between 0.75% and 0.99%.

The typical investor in an Italian money market fund pays a TER of between 0.40% and 0.89%.

The typical investor in an Italian equity fund pays a TER of between 1.50% and 1.99%.

Italian investors do not care very much about fees; assets tend to flow into average-cost funds instead of low-cost or very-low-cost funds.

Taxation

In Italy the government does not have any investment vehicles, such as the 401(k) plan in the U.S., to encourage investors to provide for their retirement. However, there are tax incentives for mutual and pension funds in that capital gain taxes are lower than income taxes and capital gain taxes on stocks.

The marginal tax rate on capital gains on funds is 12.5% whether the gain is short term or long term. This is a significant discount over the tax rate on capital gains on stocks, which is 27%.

Distribution/Choice

In Italy the following intermediaries are available to provide investment services: investment firms, banks, and asset-management companies. Investors can make purchases at central offices or branches, or they can make purchases online. In Italy anyone selling financial investments must be authorized in accordance with laws governed by Consob and the Bank of Italy.

Approximately 50%-80% of funds are sold through an open architecture system, a distribution system where options come from multiple fund families.

In Italy both actively and passively managed funds are available to investors.

Morningstar Analysis

Italy's overall grade is B. The grade is decomposed into the following components:

Area	Grade
Investor Protection	C
Transparency in Prospectus and Reports	B
Transparency in Sales and Media	B
Fees and Expenses	B
Taxation	D+
Distribution/Choice	B
Overall	B

Investor Protection
In the area of investor protection, Italy receives a grade of C. Regulation in Italy lies with the central bank, Banca d'Italia. In addition, a separate authority, Consob, is responsible for the regulation of Italy's securities market. These regulatory organizations are considered to be well staffed and committed to their missions. Overall, all countries surveyed scored well in this particular area, so Italy's grade of C is due to the fact that the custodian of the fund assets can be an affiliate of the fund company.

Transparency in Prospectus and Shareholder Reports
Italy receives a B in transparency in the prospectus and shareholder reports. In Italy, funds are required to publish a complete prospectus as well as a simplified version. The simplified version is not really simple and can be improved upon to be made easier for the average investor to read and understand. One standout requirement is that the fund prospectus in Italy must contain a numerical example that illustrates the total expenses that an investor can expect to pay on an investment. Only four other countries surveyed had this requirement. Where Italy falters is that the names and tenures of the portfolio managers are not included in the prospectus, and holdings disclosure is only once a year. Most countries surveyed disclose portfolio holdings at least twice a year.

Transparency in Sales Practices and Media
Italy receives another B in the area of transparency in sales and media. A highlight for Italy in this area is that direct brokerage arrangements are not an accepted practice. It is, however, common practice to use sales contests to motivate fund sales. In Italy, investors can find articles on mutual funds on a daily basis, and the authors of these articles will always note the fund costs and comment on whether the fees are too high.

Fees and Expenses
In the area of fees and expenses, Italy keeps on track with prior grades with another B. In Italy the typical investor pays a front-end load of less than 2.00%. The typical investor pays a TER of between 0.75% and 0.99% on fixed-income funds and between 1.50% and 1.99% for equity funds.

Taxation
Italy receives its lowest grade of D-plus in the area of taxation. All of the European countries surveyed fared poorly in this area. Italy does not have specific tax incentives for individuals to invest in funds as a way to provide for their retirement. Italy and Spain are the only countries that do not offer this type of incentive to investors. The capital gains tax rate on funds in Italy is only 12.5% while the tax on ordinary income, which is a progressive tax, ranges from 23% to 43%.

Distribution/Choice
In the area of distribution/choice, Italy receives a grade of B. In Italy, investment minimums are required in some cases. In Italy, investment minimums are required in some cases and typically range from US$500 to US$1,000. Approximately 50% of funds offered in Italy have investment minimums of less than US$1,000. Italian investors have a wide range of options for investing in funds available to them. In Italy, approximately 50%-80% of funds are sold through a distribution system where options can come from multiple fund families.

Japan

Country Characteristics

Governing Bodies

In Japan, the mutual fund industry is governed by the *Financial Instruments and Exchange Law* and the *Securities Investment Trust Law* (also known as the *Investment Trust and Investment Company Act*). The Financial Services Agency (FSA) is the regulatory body responsible for the securities markets. "The FSA is responsible for ensuring stability of Japan's financial system, protection of depositors, insurance policyholders and securities investors, and smooth finance through such measures as planning and policymaking concerning the financial system, inspection and supervision of private sector financial institutions, and surveillance of securities transactions." The Securities and Exchange Surveillance Commission (SESC) is established within the ambit of the FSA to independently conduct "market oversight including daily market surveillance, inspections of financial instruments firms, administrative civil monetary penalties investigations, disclosure document inspections and criminal investigations into securities fraud."

The mutual fund industry is also self-regulated by the Investment Trusts Association (ITA) with the mission "to protect investors and to contribute to the sound development of investment trusts and investment companies." Fund advertising and sales practices are self-regulated by the ITA and the Japan Securities Dealers Association (JSDA).

Japan does not have a centralized Web site where disclosure documents of all mutual funds can be easily accessible to investors with Internet access.

Rules and Regulations

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Japan this type of advertising is not allowed.

In Japan, fund assets are required to be kept by a custodian. The custodian is independent of the fund manager, and the two organizations are not allowed to be subsidiaries of the same holding company.

The annual report must be audited by an auditor that is not associated with the asset-management company.

Fund Prospectuses

In Japan, the regulation requires that distributing companies and mutual funds deliver a prospectus to investors in advance or at the same time as the sale of mutual funds. Fund companies are required to publish a full prospectus and an abridged version, but the abridged version is lengthy and difficult to read.

There is a comprehensive list of fees in the prospectus. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is not available. There is uniform presentation of fees and expenses, and an investor can easily compare one prospectus to another.
In regard to portfolio-manager information, the managers' names and tenures are not available.

Shareholder Reports

In Japan, fund companies must publish semiannual and annual securities reports. The annual report must be audited by an auditor that is not associated with the asset-management company. The annual report must be made available within three months after the fiscal year ends, and the semiannual report must be published within three months after the period ends.

Fund companies are required to publish a section on the management's comments on fund performance in annual and semiannual reports.

Disclosure

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings in the annual report. Additionally, some quarterly and monthly dividend funds publish this information twice a year. The annual report is ordinarily published within three months of the end of the fiscal year, and the semiannual report within three months of the end of the period; however, there is no chronological requirement.

A soft dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even nonresearch-related favors such as entertainment. In Japan, soft dollar arrangements do not exist.

The regulation in Japan requires that all expenses be disclosed in the annual and semiannual reports. These reports provide the current total expense ratio but do not contain ratios for past years. It is common practice for mutual funds to disclose the cost of trading securities to investors in the semiannual and annual reports, expressed in amount format. This information is easily accessible.

Sales Practices

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not an accepted practice in Japan.

It is not a common practice to use sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds on an ongoing basis. Aggressive sales promotion usually occurs during the initial launch of a new fund for a couple of months and is not an ongoing practice.

Media Coverage

Investors in Japan can find mutual fund articles in their newspapers at least once a week. These articles sometimes discuss mutual fund fees and comment when costs increase. Articles sometimes promote long-term investing.

Fees and Expenses
Japan offers both load and no-load funds. The front load is usually between 2.00% and 3.99%, and the load is lower for a bond fund than an equity fund. The load is not negotiable in Japan.

The typical investor in a Japanese fixed-income fund pays a total expense ratio (TER) of between 0.75% and 0.99%.

The typical investor in a Japanese money market fund pays a TER of less than 0.40%.

The typical investor in a Japanese equity fund pays a TER of between 2.00% and 2.50%.

In Japan, investors do not care very much about fees when selecting funds; thus, fund fees have a negligible impact on new assets flow.

Taxation
The Japanese government introduced the Employee Assets-Formation Savings for Pension System, which provides tax exemption on distribution and gains to encourage individuals to invest toward retirement.

Mutual fund dividends/distributions and capital gains are taxed equally, and the current tax rate is 10% (under a temporary tax reduction that reduced the rate from 20%) for an individual investor. There is no difference between short- and long-term gains and no tax incentive for long-term investing.

Distribution/Choice
Mutual funds in Japan always require investment minimums. The typical investment minimum is US$100, and more than 75% of the funds offer minimums below US$1,000.

In Japan, an investor has a full range of distribution options, including banks, insurance firms, full-service brokerage firms, discount firms, the Internet, and direct to fund. Funds can also be purchased via a limited number of independent advisors. In addition, the Japan Post (the post office) provides banking and life insurance services and is one of the major distributors of mutual funds.

Japan has an open architecture system where more than 80% of the funds are sold through an open platform. An investor can purchase multiple fund family offerings at most distribution platforms.

Investors have both actively and passively managed funds available to them in Japan.

Morningstar Analysis

Japan's overall grade is B. This grade is decomposed into the following components:

Area	Grade
Investor Protection	B+
Transparency in Prospectus and Reports	C+
Transparency in Sales and Media	A
Fees and Expenses	B-
Taxation	C
Distribution/Choice	A
Overall	B

Investor Protection

Japan's grade in the area of investor protection is B-plus. Mutual fund investors in Japan are adequately protected by the existence of laws. However, we believe that regulators in Japan could use more staffing to help fulfill their mission successfully.

Transparency in Prospectus and Shareholder Reports

Japan's grade in the area of transparency in prospectus and shareholder reports is C-plus. This grade is attributable to several factors that should be improved. First, even though fund companies publish a simplified prospectus, it is practically the same as the full prospectus in length and complexity, and it can easily reach 100 pages long. The regulator should provide better guidelines for an investor-friendly, abridged prospectus.

Fund companies in Japan used to disclose portfolio-manager names but no longer continue this practice. Fund companies use the excuse of not wanting to single out star managers, but they are mostly interested in making sure that their portfolio managers are not easily hired away by competitors. This is a digression from transparency to opaqueness. We encourage fund companies in Japan to disclose both names and tenures of portfolio managers, allowing investors to assess the experience and stability of the portfolio-management team.

Most mutual funds in Japan disclose portfolio holdings once a year, and funds that pay dividends on a monthly basis disclose their portfolio holdings twice a year. Most countries require holdings disclosure twice a year, and Japan should uniformly report holdings at this frequency.

Fund companies are required to publish discussions on funds' performance, but these tend to be generic market commentaries and do not provide much insight to investors regarding fund-specific performance. Investors can benefit from more-specific discussions on why a fund performed the way it did. In addition, the history of expense ratios is not disclosed, and investors are not able to easily determine whether the expense ratio has increased.

Japan also has many good measures. Uniform disclosure of fees and expenses allows easy comparison among funds. Soft dollar arrangements are not practiced in Japan, while they are allowed in most other countries. Costs associated with trading securities in the portfolio are disclosed in the annual report as well as company Web sites, and they are easily accessible thanks to uniform disclosure.

Transparency in Sales Practices and Media

Japan's grade in the area of transparency in sales practices and media is A. Japan has good sales practices, as directed brokerage is not an accepted practice and sales promotions are done on a limited basis.

The media in Japan sometimes point out the merit of long-time investing and the negative impact of high fund costs. We recommend that the press pay more attention to these topics.

Fees and Expenses

Japan's grade in the area of fees and expenses is B-minus. Sales load is moderate, but expense ratios of equity funds are on the high end of the spectrum. In Japan, costs are not an important consideration in investors' choice of funds.

Taxation

Japan's grade in the area of taxation is C. Investment taxation is low at 10%, but we penalized Japan primarily for not providing a tax incentive for long-term investing. This is reflected in not discriminating among tax rates of dividends, short-term capital gains, and long-term capital gains.

Distribution/Choice

Japan's grade in the area of distribution/choice is A. Japan has low minimum investment requirements, a full range of distribution options, and an open architecture system.

Netherlands

Country Characteristics

Governing Bodies

The Dutch Authority for the Financial Markets (AFM) is responsible for the supervision of financial institutions and the financial markets. The AFM is an autonomous administrative authority that falls under the political responsibility of the Ministry of Finance. The AFM defines its goals as "to promote the orderly and transparent operations of the financial markets, to promote transparency between market professionals, and to protect consumers."

The AFM is supported by De Nederlandsche Bank (DNB) and the Pensions and Insurance Supervisory Authority of the Netherlands, which are responsible for prudential supervision of financial institutions.

The AFM is also the agency responsible for the regulation of fund advertising and sales practices. One of the AFM's roles is to ensure that market professionals provide sufficient information to consumers. The AFM has a series of rules to govern the content of advertising with the aim to avoid misleading consumers.

The Netherlands does not have a centralized Web site where disclosure documents of all mutual funds can be easily accessible to investors with Internet access.

Rules and Regulations

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In the Netherlands, regulations state that consumers are to be provided with information and documents necessary for the assessment of securities but do not specifically name the prospectus. It is fairly common for fund companies in the Netherlands to provide investors with a prospectus first, but it is not a regulatory requirement; nor is the investor required to read the prospectus. It is required, however, to provide investors with a prospectus if they ask for it.

In the Netherlands, by law, fund assets are to be kept by a custodian that is independent from any business of the manager.

Fund Prospectuses

The AFM follows the directives of the European Parliament and of the Council in regard to information contained in prospectuses as well as the format.

In addition to offering a full prospectus, funds in the Netherlands must also make a simplified version available. The simplified prospectus is around four pages long and should be less complicated and easier to read than the full prospectus.

The prospectus includes a comprehensive list of fees. Fee disclosure is uniform so one can easily compare the fees of one fund to another. The prospectus does not include a numerical example that illustrates the total expenses that an investor could expect to pay on an investment.

Portfolio-manager information is not available in any disclosure documents in the Netherlands.

Both prospectus and shortened prospectus are available on Web sites from fund distributors as well as asset managers.

Shareholder Reports

Investment firms are required to provide the AFM with an annual report within four months of the end of the financial year. The report must be reviewed by an independent auditor. The auditor should issue a statement certifying that the report represents a true and fair picture.

Access to these reports can be difficult. Most companies make annual and semiannual reports available on their Web sites. There is no central database where an investor can go to find annual report filings.

Some fund companies will include a section on management's discussion of the fund's performance, but it is not a requirement. These discussions tend to be fairly generic.

Disclosure

In the Netherlands, the fund company is required to publish portfolio holdings twice a year via semiannual and annual reports. The annual report must be made available within four months of the fiscal year-end of the fund, and full disclosure is required. For the semiannual report, only partial disclosure is required. There is no consistency to how funds publish their holdings. Some fund companies will publish single share class information whereas others will publish regional or valuation information.

In regard to soft dollar practices, fund advisors must disclose these types of arrangements. The typical soft dollar arrangement in the Netherlands is with third-party research. However, even though it is compulsory to disclose these arrangements, in the majority of these instances the fund company will state that it cannot quantify the value of the research it receives.

In the Netherlands, the annual report is required to include a total expense ratio (TER) history. It is one of only five countries in the survey that require presentation of historical TER.

Trading costs are not available in any of the fund's required publications.

Sales Practices

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not an accepted practice in the Netherlands.

It is common practice to use sales contests to motivate the sale of funds. In addition, it is common practice to compensate insurance agents (either monetarily or through awards) for selling particular funds.

Media Coverage

Investors in the Netherlands can find articles on mutual funds in their national financial newspapers on a weekly basis. Sometimes these articles will discuss the fee expenses or comment on whether the costs are too high.

Periodically, the media will promote long-term investing by emphasizing a fund's longer-term history.

Media interest in mutual funds is increasing.

Fees and Expenses

In the Netherlands, the majority of funds do not have any type of load (a front-end or back-end sales charge) associated with them.

The typical investor in a Dutch fixed-income fund pays a TER between 0.75% and 0.99%.

The typical investor in a Dutch money market fund pays a TER of less than 0.40%. Money market funds are not popular in the Netherlands as they do not have specific (tax) advantages over normal savings accounts.

The typical investor in a Dutch equity fund pays a TER between 1.50% and 1.99%.

Fund assets in the Netherlands tend to flow into average-cost funds over low-cost or very-low-cost funds.

Taxation

In the Netherlands, the government has a pension system to encourage individuals to invest in funds as a way to provide their own wealth in retirement. The Dutch pension system is made up of three separate pension plans: state-guaranteed pensions for everyone working in the Netherlands (AOWs); supplementary pensions that are arranged between the employee and the employer (very often industry pensions); and individual pension plans. There is no capital gains tax in the Netherlands. Instead, all property and savings (excluding pensions, approved "green" investments, and owner-occupied dwellings) are charged a wealth tax of 1.2%.

Distribution/Choice

When dealing directly with asset managers and distributors, in most cases funds in the Netherlands will require a minimum initial investment. The typical investor pays an investment minimum between US$500 and US$1,000. Approximately 50% of all funds have an investment minimum that is less than US$1,000. Dutch-domiciled funds often are listed on the exchange, and through normal stock brokers, investors can buy into those funds in very small amounts.

Investors in the Netherlands have a range of distribution options, including banks, insurance agents, brokerage firms, and the Internet via discount firms.

Approximately between 50%-80% of funds are sold through an open architecture system; this being a system where options come from multiple fund families. Typically, distribution platforms have a house-fund bias.

Investors have both actively and passively managed funds available to them in the Netherlands, though passively managed funds are not actively sold.

Morningstar Analysis

The Netherlands' overall grade is B. The grade is decomposed into the following components:

Area	Grade
Investor Protection	B+
Transparency in Prospectus and Reports	C
Transparency in Sales and Media	B
Fees and Expenses	B+
Taxation	C
Distribution/Choice	B
Overall	B

Investor Protection

The Netherlands achieved high marks in the area of investor protection earning itself a B-plus grade. Supervision of financial institutions and markets is the responsibility of AFM, a self-governed authority. Additional support is provided by DNB, a public limited company supervising financial institutions and the financial sector, and the Pensions and Insurance Supervisory Authority of the Netherlands, supervising insurance companies and pension funds.

The AFM also regulates fund advertising and sales practices by issuing rules to prevent the fund industry from misleading investors.

The Netherlands misses an A grade due to the regulator being only somewhat sufficiently staffed to fulfill its mission statement successfully.

Transparency in Prospectus and Shareholder Reports
In the area of transparency in the prospectus and shareholder reports, the Netherlands receives a grade of C. The Netherlands has a few positive requirements in this area, including the publication of an easier-to-read and less complicated simplified prospectus and standardized fee disclosure. Requirements that are lacking include a numerical example that illustrates the total expenses an investor could expect to pay on an investment and the lack of a section on management's discussion of fund performance.

In addition, the Netherlands could improve its grade in this area with more frequent disclosure of portfolio holdings. Disclosure is only once a year whereas the majority of other countries surveyed provide disclosure at least twice a year.

Transparency in Sales Practices and Media
The Netherlands managed a grade of B in transparency in sales practices and media, this specific area being a low scorer among all countries surveyed. The highlights for the Netherlands in this area are that directed brokerage arrangements are not an accepted practice and investors can expect to find articles on mutual funds in their national financial newspapers on a weekly basis.

Improvements can be made if the media would put more attention on fund costs and promote long-term investing by emphasizing a fund's longer performance history (at least three years).

Fees and Expenses
The Netherlands received a grade of a B-plus in fees and expenses. This is due to the fact that the majority of funds in the Netherlands do not have any type of load (front end or back end). In addition, the typical Dutch investor only pays a TER of between 0.75% and 0.99% on fixed-income funds and between 1.50% and 1.99% on equity funds.

Taxation
In the area of taxation, the Netherlands received a grade of C. The majority of the European countries scored low in this section, whereas the Asian countries took the top grades. In the Netherlands, dividends are taxed at less than 20%, and there is no capital gains tax. However, all property and savings (with a few exceptions) are charged a wealth tax of 1.2%.

Distribution/Choice

In the area of distribution/choice, the Netherlands received a grade of B. There are investment minimums for some funds that range from US$500 to US$1,000. Investors have a wide range of options for making mutual fund purchases, including banks, insurance agents, full-service brokerage firms, discount firms, independent advisors, or investing directly with the fund.

New Zealand

Country Characteristics

Governing Bodies

In New Zealand, the Securities Commission is the main regulator of investments, and its mission is "to strengthen investor confidence and foster capital investment in New Zealand by promoting the efficiency, the integrity, and cost effective regulation of our securities markets." The regulations governing New Zealand's mutual funds are the *Unit Trusts Act, Superannuation Act, KiwiSaver Act, and Securities Act.* Other applicable regulations are the Fair Trading Act for advertising of investment products and the *Financial Reporting Act.*

The investment industry is also self-regulated by the Investment Savings and Insurance Association (ISI). This organization represents the views of various fund managers and insurance companies.

The Securities Commission is also the organization responsible for regulating fund advertising and sales practices.

New Zealand does not have a centralized Web site where disclosure documents of all mutual funds can be easily accessible to investors with Internet access.

Rules and Regulations

"Off-the-page" advertising allows investors to send money to a fund company without receiving the investment statement or the prospectus first. In New Zealand this type of advertising is not allowed.

In New Zealand, fund assets are required to be kept by a custodian. The law requires that the custodian and the fund manager be different entities, but the two organizations can be subsidiaries of the same holding company.

Fund Prospectuses

In New Zealand, fund companies are required to publish both an investment statement (simplified prospectus) and a prospectus. A fund investor must be provided an investment statement before a fund purchase, and the prospectus must be made available upon request.

There is a comprehensive list of fees. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is not generally available. There is no uniform representation of fees and expenses. However, all investment statements and prospectuses have "How Much Do I Pay" and "What Are the Charges" sections that clearly outline the entry/exit fees, switching fees, management fee, and trustee fee. Investors can make comparisons across funds even though the information is not presented in a standardized format.

In regard to portfolio-manager information, the manager name and tenure are not listed in the prospectus or the investment statement.

Shareholder Reports
In New Zealand, fund companies must publish annual and semiannual reports. The annual report must be audited by an auditor that is not associated with the asset-management company.

Although not required, it is a common practice for fund companies in New Zealand to publish discussions on funds' performance. The detail of this discussion is generally quite basic, however, and could be improved.

Disclosure
Mutual funds are not required to publish a full and complete disclosure of the portfolio holdings, and fund companies rarely provide this information voluntarily.

Soft dollar arrangements, in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even nonresearch-related favors such as entertainment, are an accepted practice in New Zealand. Funds with these arrangements are required to disclose them.

The regulation in New Zealand requires that all expenses be disclosed. The prospectus provides the current total expense ratio (TER), but does not contain ratios for past years.

The cost of trading securities is not disclosed to investors.

Sales Practices
Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) is not an accepted practice in New Zealand.

It is a common practice to use sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds.

Media Coverage
Investors in New Zealand can find mutual fund articles in their newspapers on a weekly basis, and sometimes on a daily basis. These articles sometimes discuss mutual fund fees and promote long-term investing.

Fees and Expenses
New Zealand offers both load and no-load funds. The typical front load is between 2.00% and 3.99% after negotiation.

The typical investor in a New Zealand fixed-income fund pays a TER of between 1.00% and 1.24%.

The typical investor in a New Zealand money market fund pays a TER of between 0.40% and 0.89%.

The typical investor in a New Zealand equity fund pays a TER of between 1.00% and 1.49%.

In New Zealand, costs have little effect on the decision-making of a typical investor; thus, new assets tend to flow into average-cost funds.

Taxation

To encourage working individuals to voluntarily save for retirement over and above their Government Superannuation Fund, the New Zealand government introduced the KiwiSaver, a government-subsidized, defined-contribution retirement savings plan offered by private-sector providers. The government subsidy is in the form of a tax credit that is deposited directly into the investor's KiwiSaver account. As well as subsidizing investment fees the government is currently offering a one-off NZ$1,000 contribution when the scheme is set up and a matching contribution of NZ$20 per week to a maximum of NZ$1,040.

Mutual fund dividends and capital gains are taxed at the individual's ordinary income tax rate; however, all Portfolio Investment Entity (PIE) structure funds are capped at a 30% tax rate. New tax rules have allowed eligible entities to become PIEs from October 2007. Investors in a PIE fund are taxed at their prescribed investor rate (PIR), which differs from their marginal tax rate and is capped at 30%. This means an investor on a marginal income tax rate that is higher than 30% would be better off investing in a PIE fund than an ordinary investment trust.

There is no difference between short- and long-term gains and no tax incentive for long-term investing. Ordinary income is taxed progressively at 12.5% to 39%, and a typical investor's ordinary income tax rate is between 30% and 39%.

Distribution/Choice

Mutual funds in New Zealand sometimes require investment minimums. The typical investment minimum is more than US$1,000, and less than 10% of the funds offer minimums below US$1,000. The account minimum requirement is waived for investors who set up automated savings plans.

In New Zealand, an investor has a full range of distribution options, including banks, insurance firms, full-service brokerage firms, discount firms, independent advisors, direct to fund, and the Internet.

New Zealand has a fairly open architecture system where between 50% and 80% of the funds are sold through an open platform. An investor can purchase multiple fund family offerings at most distribution platforms.

Investors have both actively and passively managed funds available to them in New Zealand.

Morningstar Analysis

New Zealand's overall grade is D-minus. This grade is decomposed into the following components:

Area	Grade
Investor Protection	D-
Transparency in Prospectus and Reports	D-
Transparency in Sales and Media	B
Fees and Expenses	B-
Taxation	D-
Distribution/Choice	C+
Overall	D-

Investor Protection

New Zealand's grade in the area of investor protection is D-minus, and the country has the lowest score among all countries in our study. Mutual fund investors in New Zealand are adequately protected by the existence of laws. However, based on feedback we have received from fund companies, we believe that the New Zealand Securities Commission is not sufficiently resourced and has not been effective in achieving industry consensus across a range of issues. Asset custody is another area that could be improved upon. Assets are not custodied with the fund company; however, the custodian can be an affiliated firm owned by the same parent, thus lacking complete independence.

Transparency in Prospectus and Shareholder Reports

New Zealand's grade in the area of transparency in prospectus and shareholder reports is D-minus, and the country has the lowest score among all countries in our study. This poor grade is attributable to several factors, and the most important area that needs improvement is the lack of portfolio-holdings disclosure. Australia and New Zealand are the only countries in our study that do not require portfolio-holdings disclosure. Where the regulation is lacking, the mutual fund industry does not make up for it with voluntary disclosure.

There is no uniform representation of fees and expenses, although all investment statements and prospectuses have sections that clearly outline the entry/exit fees, switching fees, management fee, and trustee fee. Investors can make comparisons across funds even though the information is not presented in a standardized format. However, it would be beneficial to investors if fund companies would provide a numerical example illustrating the impact of fees on assets. The history of expense ratios for past years is not disclosed, and investors are not able to easily determine whether the expense ratio has increased. In addition, costs associated with trading securities in the portfolio are not disclosed to shareholders.

Portfolio managers' names and tenures are not disclosed. We encourage fund companies in New Zealand to disclose both names and tenures of portfolio managers, allowing investors to assess the experience and stability of the portfolio management team. In addition, fund companies should provide management's discussion of fund performance.

Although not required, it is a common practice for fund companies in New Zealand to publish discussions on funds' performance. However, this discussion is generally quite basic and could be improved.

The history of expense ratios for past years is not disclosed, and investors are not able to easily determine whether the expense ratio has increased. In addition, costs associated with trading securities in the portfolio are not disclosed to shareholders.

Transparency in Sales Practices and Media

New Zealand's grade in the area of transparency in sales practices and media is B. Directed brokerage is not an accepted practice in New Zealand. However, sales contests and favored compensation of particular funds imply that the fund industry's sales force lacks independence and is more likely to promote funds for self-interest rather than the best interest of the investor. However, abusive practices do not exist, because this is an area that regulators are monitoring.

The media in New Zealand sometimes point out the merit of long-term investing and the negative impact of high fund costs. We recommend that the press pay more attention to these topics.

Fees and Expenses

New Zealand's grade in the area of fees and expenses is B-minus. Sales load is moderate, but expense ratios on fixed-income funds are higher than those of other countries. Expense ratios for money market funds and equity funds are in line with other countries. In New Zealand, costs are not an important consideration in investors' choice of funds.

Taxation

New Zealand's grade in the area of taxation is D-minus. Dividend and capital gains tax rates are high, and there is no tax incentive for long-term investing. This is reflected in not discriminating among tax rates of dividends, short-term capital gains, and long-term capital gains.

New Zealand's KiwiSaver, the voluntary retirement savings program, is unique in that the government currently provides NZ$1,000 as a one-time subsidy for an individual to start an account, in addition to an ongoing tax credit and fee subsidy.

Distribution/Choice

New Zealand's grade in the area of distribution/choice is C-plus. Compared with other countries in our study, minimum investment requirements in New Zealand are high and are thus not investor-friendly. Investors in New Zealand have access to a full range of distribution options. New Zealand should continue to develop its open architecture system, with more assets flowing to platforms that offer funds from multiple fund families.

Singapore

Country Characteristics

Governing Bodies

In Singapore, the Monetary Authority of Singapore (MAS) is the regulatory body responsible for supervision over money, banking, insurance, securities, and the financial sector in general. It is the central bank of Singapore. Its mission is "to promote sustained noninflationary economic growth, and a sound and progressive financial centre." Its basic functions include conducting "integrated supervision of financial services and financial stability surveillance" in addition to other responsibilities associated with a central bank. The *Code on Collective Investment Schemes* (CIS Code) is issued by the MAS pursuant to the *Securities and Futures Act* (SFA), and it sets out best practices on the management, operation, and marketing of funds.

In addition to the MAS, there is a trade-industry body called the Investment Management Association of Singapore (IMAS), which all licensed fund management entities in Singapore are required to join. The IMAS regularly issues voluntary codes and guidelines on global best practices, to promote growth and development of the funds industry.

Singapore does not have a centralized Web site where disclosure documents of all mutual funds can be easily accessible to investors with Internet access.

Rules and Regulations

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Singapore this type of advertising is not permitted, and an investor cannot purchase a fund without first receiving a prospectus.

In Singapore, by law, fund assets are to be kept by a custodian, and the fund trustee must be independent of the fund manager. In practice most funds use independent custodians, but a few exceptions occur where the custodian and the fund manager are separate business entities that belong to the same parent holding company.

Fund Prospectuses

In Singapore, the regulation requires that sale of mutual funds be accompanied by an abridged or full prospectus. Fund companies publish both abridged and full versions of the prospectus, and the abridged document is significantly easier to read and shorter than the full version.

There is a comprehensive list of fees, but a numerical example that illustrates the total expenses an investor could expect to pay on an investment is not available. There is no uniform presentation of fees and expenses that would allow an investor to easily compare one prospectus to another.

In regard to portfolio-manager information, the manager's name and tenure are not available.

Shareholder Reports
In Singapore, fund companies must publish semiannual and annual reports. The annual report must be audited by an auditor that is not associated with the asset-management company. The annual report must be made available within three months after the fiscal year ends, and the semiannual report is required to be published within two months after the period ends.

Fund companies are required to publish a section on the management's comments on fund performance in shareholder reports.

Disclosure
Mutual funds are not required to publish a full and complete disclosure of the portfolio holdings in the annual report; however in practice, all funds include this information in the annual report and many do so in the semiannual report as well. The annual report is published within three months of the end of the fiscal year.

In regard to soft dollar practices, the CIS Code restricts the use and requires the disclosure of soft dollars received from each broker in the semiannual and annual reports. A soft dollar arrangement is one in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even nonresearch-related favors such as entertainment. In the case of Singapore, the CIS Code restricts the use of these practices as follows:

> " The manager should not receive soft dollars in the management of the scheme unless the following requirements are met:
>
> i) the soft dollars received can reasonably be expected to assist in the manager's provision of invest ment advice or related services to the scheme;
> ii) transactions are executed on the best available terms, taking into account the market at the time for transactions of the kind and size concerned; and
> iii) the manager does not enter into unnecessary trades in order to achieve a sufficient volume of transactions to qualify for soft dollars.
>
> The receipt of goods and services such as travel, accommodation and entertainment do not fall within the definition of "soft dollars" and is therefore prohibited."

The regulation in Singapore requires that all expenses be disclosed. The CIS Code requires that the annual and semiannual reports show the total expense ratio (TER) for the period under review and a year ago.

The cost of trading securities is not disclosed to investors.

Sales Practices

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) is not an accepted practice in Singapore.

However, it is common practice to use sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds.

Media Coverage

Investors in Singapore can find mutual fund articles on a weekly basis every Wednesday in the Personal Finance column of newspapers. These articles almost never discuss the mutual fund fees. Articles sometimes promote long-term investing.

Fees and Expenses

The majority of funds in Singapore charge a front load, and a few charge a back load, but no-load funds are not available. The official front load is usually between 5.0% and 5.5%, but a typical investor pays between 2.00% and 3.99% after negotiation.

The typical investor in a Singapore fixed-income fund pays a TER of between 1.25% and 1.49%.

The typical investor in a Singapore money market fund pays a TER of less than 0.40%.

The typical investor in a Singapore equity fund pays a TER of between 1.50% and 1.99%.

In Singapore, investors do not care very much about fees when selecting funds; thus, fund fees have a negligible impact on new assets flow.

Taxation

To encourage working individuals to voluntarily save for retirement over and above their Central Provident Fund savings, the Singapore government offers tax deferral for investments in a Supplementary Retirement Scheme.

Currently, mutual fund capital gains are exempt from taxation. Mutual fund dividends are subject to corporate taxation withheld at the source, and the corporate tax rate is levied at a flat rate of 18%.

Distribution/Choice

All mutual funds in Singapore require investment minimums. The typical investment minimum is SG$1,000 (approximately US$667), and less than 10% of the funds offer minimums below this amount.

In Singapore, an investor has a full range of distribution options, including banks, insurance firms, brokerage firms, independent advisors, direct to fund, and the Internet. Investors can access both full and discount services within the same brokerage firms.

Singapore has a fairly open architecture system where between 50% and 80% of the funds are sold through an open platform. An investor can purchase multiple fund family offerings at most distribution platforms. However, even though funds from multiple fund families are offered at most platforms, in-house funds are highly represented in the choices given.

Investors have both actively and passively managed funds available to them in Singapore

Morningstar Analysis

Singapore's overall grade is C. This grade is decomposed into the following components:

Area	Grade
Investor Protection	C
Transparency in Prospectus and Reports	C+
Transparency in Sales and Media	C+
Fees and Expenses	C
Taxation	A-
Distribution/Choice	C
Overall	C

Investor Protection

Singapore's grade in the area of investor protection is C. Mutual fund investors in Singapore are well protected by the existence of laws and a well-staffed regulator to enforce oversight. In spirit, fund asset custody is to be performed by independent custodians. However, there are exceptions where custody and asset management are separate entities of the same parent firm, thus lacking complete independence.

Transparency in Prospectus and Shareholder Reports

Singapore's grade in the area of transparency in prospectus and shareholders reports is C-plus. There are some areas that need improvement. First, there is no uniform presentation of fees and expenses, so it is not easy for investors to make comparisons across funds. It would also be beneficial to investors if fund companies would provide a numerical example illustrating the impact of fees on assets. Costs associated with trading securities in the portfolio are currently not disclosed in the annual report.

Portfolio managers' names and tenures are not disclosed, thus hiding the frequent turnover of portfolio management staff. We encourage fund companies in Singapore to disclose both names and tenures of portfolio managers, allowing investors to assess the experience and stability of the portfolio-management team.

Some mutual funds in Singapore disclose portfolio holdings once a year, and some funds do so twice a year. Most countries require holdings disclosure twice a year, and Singapore should uniformly report holdings at this frequency.

Singapore also has many good measures. Investors receive a simplified prospectus. Shareholder reports contain management discussion of fund performance that provides insight into why the fund performed the way it did. The expense ratio for the past year is shown alongside that of the current year, and investors are able to determine whether it has increased.

Transparency in Sales Practices and Media
Singapore's grade in the area of transparency in sales practices and media is C-plus. It is good that directed brokerage arrangements are not a common practice in Singapore. However, sales contests and favored compensation of particular funds imply that the fund industry's sales force lacks independence and is more likely to promote funds for self-interest rather than the best interest of the investor.

Even though the media cover mutual fund investment topics frequently, they do not sufficiently promote the benefit of long-term investing and the negative impact of fund costs.

Fees and Expenses
Singapore's grade in the area of fees and expenses is C. Sales loads are always required and are moderate. Fixed-income expense ratios are higher than those of other countries. In Singapore, costs are not an important consideration in investors' choice of funds.

Taxation
Singapore's grade in the area of taxation is A-minus. There is no capital gains tax, and dividends are taxed at the corporate level at the rate of 18%.

Distribution/Choice
Singapore's grade in the area of distribution/choice is C. Compared with other countries in our study, minimum investment requirements in Singapore are high and thus not investor-friendly. Singapore should adopt a more open architecture system and not let in-house funds dominate a platform.

Spain

Country Characteristics

Governing Bodies

In Spain, the regulatory body responsible for laws governing the investment industry, including fund advertising and sales practices, is the Comisión Nacional del Mercado de Valores (CNMV). Per the CNMV's Web site," The purpose of the CNMV is to ensure the transparency of the Spanish markets and the correct formation of prices in them, and to protect investors."

Spain does not have a centralized Web site where disclosure documents of all mutual funds can be easily accessible to investors with Internet access.

Rules and Regulations

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Spain, fund distributors are required to provide clients with a free copy of the simplified prospectus before an investor makes a purchase. The investor must also be provided with the most recent semiannual report. Upon request from the investor, the fund must also provide the latest annual and quarterly reports and the full version of the prospectus.

In Spain, the custodian is entrusted with the safekeeping of the fund's assets. The custodian also will provide oversight to some aspects of the manager's activity on behalf of investors. The custodian can be an affiliated company, as some fund shops belong to a group that may have banking operations.

Fund Prospectuses

Funds in Spain are required to publish a complete prospectus whose contents are prescribed by law and must be filed with the CNMV. In addition, funds must publish a simplified version of the prospectus, which is a shorter, easier-to-read version of the complete prospectus.

All fees, their amounts and conditions, are to be published in both versions of the prospectus. The fee disclosure is presented in a uniform manner that allows for easy comparison of fees from one prospectus to another.

In the case of funds that have historical data available, sometimes a quarterly report will be produced that will include information on the fund's past performance and the fund's total expense ratio (TER). The TER includes management and custody fees, external expenses, and other operating expenses. However, this data is not available in the prospectus. In addition, the CNMV publishes TER figures for every Spanish fund on a quarterly basis.

There is no numerical example in the prospectus that illustrates the total expenses an investor could expect to pay on an investment.

Portfolio-manager information and tenure are not available in any of the required publications. Funds tend to just provide that the portfolio is team-managed instead of providing the names of the individual portfolio managers.

Shareholder Reports

Funds are required to publish both annual and semiannual reports. The annual report is required to be audited by an independent organization.

Fund management is required to publish a section on management's discussion of fund performance as part of the annual and semiannual reports.

Disclosure

A fund's complete portfolio holdings are published on a quarterly basis (with a three- to four-month lag) via the CNMV's Web site.

With regard to soft dollar practices, there is no disclosure in Spain; however, the use of soft dollars is not a common way of conducting business.

The regulation in Spain requires that all expenses be disclosed in the annual and semiannual reports. These reports provide the current total expense ratio but do not contain ratios for past years.

The cost of trading securities is not disclosed to investors.

Sales Practices

Directed brokerage arrangements, fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds, is an accepted practice in Spain.

It is also common practice to use sales contests to motivate sales of funds and to compensate (either monetarily or through awards) the financial intermediaries' sales force (in Spain they do not have independent advisors) for selling particular funds.

Media Coverage

Spanish investors can find articles on mutual funds in their national financial newspapers on a weekly basis. These articles will almost never discuss the fee expenses or comment on whether the costs are too high.

These articles will almost never promote long-term investing.

Fees and Expenses
Subscription fees are capped at 5%; however, the typical investor pays a fee of less than 2%. The majority of funds in Spain have no subscription fee but will charge a redemption fee.

The TER includes management and custody fees, external expenses, and other operating expenses.

The typical investor in a Spanish fixed-income fund pays a TER of between 0.75% and 0.99%.

The typical investor in a Spanish money market fund pays a TER of between 0.90% and 1.29%.

The typical investor in a Spanish equity fund pays a TER of between 1.50% and 1.99%.

Fund assets in Spain tend to flow into average-cost funds over low-cost or very-low cost funds.

Taxation
The government in Spain does not offer any tax-specific incentives for individuals to invest in funds to provide for retirement.

In Spain the income received from mutual funds is treated as a capital gain or loss for tax purposes. Capital gains are subject to an 18% tax withholding regardless of whether the investment was held for longer than one year or for a period less than one year.

Distribution/Choice
Spanish mutual funds always require a minimum initial investment, with a few exceptions. The typical investor pays an investment minimum of between US$250 and US$499. Approximately 75% of all funds have an investment minimum that is less than US$1,000.

Mutual funds can be purchased through financial intermediaries such as banks, savings banks, broker-dealers, credit institutions, and investment firms. Mutual funds can be purchased at the offices of the financial intermediaries, by telephone, or online. Banks are the dominant distribution channel in Spain.

Less than 20% of all funds sold are sold through an open architecture system, where one can purchase multiple fund family offerings. Financial intermediaries will usually only have information on the funds they themselves distribute.

Investors have both actively and passively managed funds available to them in the Spanish market.

Morningstar Analysis

Spain's overall grade is D. The grade is decomposed into the following components:

Area	Grade
Investor Protection	D+
Transparency in Prospectus and Reports	B
Transparency in Sales and Media	D
Fees and Expenses	C
Taxation	C
Distribution/Choice	F
Overall	D

Investor Protection

Due to the close range in country scores in the investor protection area, Spain ended up with a grade of D-plus in this area. The D grade is a result of having only somewhat sufficient staffing of the regulator, CNMV. Also, regulations require that the manager not perform the function of custodian of fund assets, but the custodian can be affiliated. A better response would be that the responsibility belongs to an independent custodian, depositary, or trustee.

Transparency in Prospectus and Shareholder Reports

In the area of transparency in prospectus and shareholder reports, Spain receives a grade of B. The CNMV requires that funds publish a complete prospectus as well as a simplified version. However, these simplified versions are not as simple, clear, and easy for the average investor to read as they could be.

Missing from the prospectus in Spain, and therefore contributing to the B grade, are the names and tenures of the portfolio managers.

Funds in Spain publish both annual and semiannual shareholder reports. In these reports, funds are also required to publish a section on management's discussion of fund performance.

Transparency in Sales Practices and Media

A grade of D is assigned to Spain in the area of transparency in sales practices and media. One contributing factor to this low grade is that directed brokerage arrangements are an accepted practice. Only two other countries in our survey had brokerage as acceptable. In Spain, it is also common practice to use sales contests to motivate fund sales as well as compensate advisors with awards for selling particular funds.

It is typical for the media in Spain to publish articles in financial newspapers on a weekly basis, but these articles seldom discuss fund costs or promote long-term investing.

Fees and Expenses

Spain fares a little better in fees and expenses, receiving a grade of C. The average investor in Spain pays an initial sales charge (front-end load, subscription fee) of below 2%. There are funds that do not have subscription fees, but they will have a redemption fee instead. Total expense ratios on fixed-income funds and equity funds are in line with the other countries.

Taxation

In the area of taxation, Spain received a grade of C. Most of the European countries scored low in taxation because of the low taxes in the Asian countries that were part of the survey. One reason for the grade of C is that the Spanish government does not offer any tax incentives for individuals to invest in funds to provide for themselves in retirement. In addition, capital gains are subject to an 18% tax withholding regardless of how long the investment is held.

Distribution/Choice

Spain receives a failing grade in the area of distribution and choice. The reason for this grade is that less than 20% of funds are sold through a venue where an investor has the ability to select from multiple fund family offerings. In Spain, investors that go to buy a fund are limited to one fund family only.

Switzerland

Country Characteristics

Governing Bodies

The Supervisory Authority on investment funds in Switzerland is the Swiss Federal Banking Commission (SFBC). The SFBC's mission is to protect creditors and investors, promote the smooth functioning of the financial markets, and safeguard the reputation of Switzerland as a financial center. The document that sets the regulatory guidelines is called the Federal Act on Investment Funds (IFA).

The SFBC is also the agency responsible for the regulation of fund advertising and fund sales practices.

Switzerland does not have a centralized Web site where disclosure documents of all mutual funds can be easily accessible to investors with Internet access.

Rules and Regulations

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Switzerland, the fund company must provide an investor with a prospectus, free of charge, prior to entering into a contract.

In Switzerland, the assets of the fund must reside with a custodian bank. Per the IFA, the custodian bank's responsibilities are: to ensure the fund company observes the Act and Fund regulations including investment decisions; calculations of the value of units; and the appropriation of income. The custodian bank must be independent from the fund company.

Fund Prospectuses

In Switzerland, the fund company is required to publish a prospectus as well as a simplified prospectus. The simplified prospectus should be concise and easy for the average investor to understand. The prospectus must contain any costs or fees itemized according to those costs charged to the investor and those that are applied to the fund assets. The fee disclosure is standardized, allowing for easy comparison between one prospectus and another.

The prospectus does not contain a numerical example that illustrates the total expense that an investor could expect to pay on an investment.

Sometimes names and tenures of the portfolio managers are included in the prospectus. Portfolio-manager names are required to be published in the annual report.

Shareholder Reports

The fund company is required to publish an annual report within four months of the financial year-end. Per the IFA, the annual report must contain the following:

- Annual audited financial statements
- The number of redeemed, newly issued, and outstanding units
- Inventory of the assets of the fund
- List of sales and purchases
- Depositaries
- Portfolio-manager names
- A discussion of economic issues by fund management (discussion of fund performance is not required)
- Auditor's report

The fund company is also required to publish semiannual reports within two months following the end of the first half of the financial year. The semiannual report is to contain the following:

- Unaudited financial statements
- The number of redeemed, newly issued, and outstanding units
- Inventory of the assets of the fund
- List of sales and purchases

Semiannual and annual reports are to be submitted to the Supervisory Authority, which will keep the report accessible to investors for 10 years.

Disclosure

In Switzerland, the fund company is required to provide full and complete disclosure of portfolio holdings twice a year via the annual and semiannual reports.

With regard to soft dollar practices, there is no disclosure in Switzerland.

In Switzerland, the fund is required to publish a total expense ratio (TER). TER is the costs and commission charged on the management of the fund. It is calculated as a ratio of total operating expenses over the average net assets of the fund. Total operating expenses include commission charged by fund management, commission charged by the custodian, and other expenses (such as administration costs, portfolio management costs, and distribution costs).The TER is to be calculated over a 12-month period at the close of the annual report and the semiannual report. The TER is to be calculated including performance-related fees and excluding performance-related fees. Disclosure of historical TER's is not required.

Trading cost information (the cost associated with trading securities) is not available to investors; however, a portfolio turnover ratio (PTR) is a required calculation. The PTR is disclosed to provide insight into the additional costs incurred by a fund when buying and selling securities. The PTR is to be calculated over a 12-month period at the close of the annual report and the semiannual report.

Sales Practices

Directed brokerage arrangements (fund managers direct portfolio transactions to particular brokerage firms in exchange for promoting their funds) are not an accepted practice in Switzerland.

It is common practice to use sales contests to motivate the sale of funds. It is also common practice to compensate advisors for selling particular funds.

Media Coverage

Swiss investors can find mutual fund articles in their daily national financial newspaper on a weekly basis. These articles will almost never discuss the fund fees. Also, articles almost never promote long-term investing by emphasizing a fund's history.

Fees and Expenses

In Switzerland, there is always some type of initial sales charge when purchasing a fund. The typical investor pays an initial charge of between 2.00% and 3.99%.

The typical investor in a Swiss fixed-income fund pays a TER of between 0.75% and 0.99%.

The typical investor in a Swiss money market fund pays a TER of between 0.4% and 0.89%.

The typical investor in a Swiss equity fund pays a TER of between 1.50% and 1.99%.

In Switzerland new assets tend to flow into average-cost funds rather than low-cost or very-low-cost funds.

Taxation

In Switzerland, there is a pension system to encourage individuals to provide for their own wealth in retirement. All persons living in Switzerland are insured with AHV (Alters- und Hinterlassenenversicherung) to cover the essentials of living in retirement. AHV is a mandatory pay-as-you-go scheme that is directly deducted from work income. There are also company pension schemes to which all employees with annual income of between CHF 25,320 and CHF 75,960 are obligated to pay contributions. The scheme can be run by a company pension, state, or private fund. Then there are the private pension schemes, which are subsidized by tax breaks. Contributions are deducted from taxable income and only taxed at the time of payment.

Realized gains and losses from investments are included in taxable income. There is no differentiation between short-term gains/losses and long-term gains/losses. The marginal national tax rate on income for the typical investor is approximately between 20% and 30%.

Distribution/Choice
Some funds in Switzerland require investment minimums. The typical investor pays an initial investment of between US$250 and US$500. Approximately 75% of all funds have an investment minimum that is less than US$1,000. In Switzerland, an investor has a full range of distribution options to choose from when purchasing a fund.

Approximately between 50% and 80% of funds sold are through a system where one can choose between multiple fund families.

Investors have both actively and passively managed funds available to them in the Swiss market.

Morningstar Analysis

Switzerland's overall grade is C-plus. The grade is decomposed into the following components:

Area	Grade
Investor Protection	B+
Transparency in Prospectus and Reports	C+
Transparency in Sales and Media	C
Fees and Expenses	B-
Taxation	C
Distribution/Choice	B
Overall	C+

Investor Protection
Switzerland receives a grade of B-plus in the area of investor protection. The regulatory body in Switzerland, the SFBC, is considered to be only somewhat adequately staffed, so there is room for improvement. The SFBC is also responsible for the regulation of fund advertising and sales practices.

Scores in this particular area were very high for the majority of countries surveyed. In some cases the A grades went to countries where we felt the regulatory bodies were sufficiently staffed, allowing them to be fully committed to their mission statement.

Transparency in Prospectus and Shareholder Reports

In the area of transparency in prospectus and shareholder reports, Switzerland receives a grade of C-plus. Funds in Switzerland are required to publish both a complete prospectus and a simplified version. The simplified version is easier to read and more concise than the complete prospectus. Only six other countries in our survey produced a simplified prospectus that was actually easier for the average investor to comprehend.

Missing from the prospectus in Switzerland is a numerical example that illustrates the total expenses that an investor could expect to pay on an investment. The Swiss prospectus does, however, include standardized fee disclosure that allows for easy comparison from one fund to another. However, missing from the prospectus as well as shareholder reports, is a history of the fund's expense ratio.

Also missing, occasionally, from the prospectus are the names and tenures of the portfolio managers. And there is no section on management's discussion of fund performance in the prospectus or the shareholder report.

Transparency in Sales Practices and Media

Switzerland receives a C grade in the area of transparency in sales practices and media. The highlight for Switzerland in this area is that directed brokerage arrangements, where fund managers direct portfolio transactions to particular brokerage firms in exchange for promoting their funds, are not an accepted practice. It is common practice, however, to use sales contests to motivate fund sales as well as to compensate advisors for selling in-house funds over other funds.

Swiss investors can expect to see articles on mutual funds in their financial newspapers on a weekly basis. These articles almost never comment on fees and whether the fees are too high; nor do these articles promote long-term investing.

Fees and Expenses

Switzerland receives a B-minus grade in the area of fees and expenses. In Switzerland, the typical investor pays a front-end load of between 2.00% and 3.99%, a total expense ratio of between 0.75% and 0.99% on fixed-income funds, and a total expense ratio of between 1.50% and 1.99% on equity funds.

Taxation

In the area of taxation, Switzerland receives a C. The majority of European countries fared poorly in this area. A typical Swiss investor can expect to pay taxes on capital gains of between 20% and 29%. There is no lower tax rate for long-term capital gains. Short-term and long-term capital gains are taxed at the same rate and as taxable income. The typical investor pays ordinary income tax of between 20% and 29%.

Distribution/Choice

Switzerland achieves a B in the area of distribution/choice. Investment minimums in Switzerland are between US$250 and US$500. Approximately more than 75% of funds in Switzerland require an investment minimum of less than US$1,000. Investors have a complete set of options in regard to purchasing funds, including banks, full-service brokerages, and the Internet. Approximately between 50% and 80% of funds in Switzerland are sold through an open architecture system, meaning a distribution system where options come from multiple fund families.

Taiwan

Country Characteristics

Governing Bodies

In Taiwan, the Securities and Futures Bureau (SFB) of the Financial Supervisory Commission (FSC) is the regulatory body responsible for supervision of securities and futures sectors. It also regulates fund advertising and sales practices. The mission of the FSC is to "maintain financial stability, accelerate internationalization and deregulation, facilitate healthy investment environment and increase market confidence, educate and protect investors." The laws and regulations governing mutual funds are:

- Securities and Exchange Act
- Securities Investment Trust and Consulting Act
- Regulations Governing Securities Investment Trust Funds
- Regulations Governing Offshore Funds
- Regulations Governing Information to be Published in Prospectuses by Securities Investment Trust Enterprises Offering Securities Investment Trust Funds

The mutual fund industry is also self-regulated by the Securities Investment Trust & Consulting Association (SITCA). The SITCA proposes regulatory framework to the SFB. The SITCA, the Taiwan Depository and Clearing Corporation, and the Chinese National Futures Association together maintain an electronic database called "Fund Clear." Fund Clear is a central database containing public records of all securities investment trusts, futures trusts, and offshore mutual funds. An individual with an Internet connection can go to Fund Clear to view a fund's abridged prospectus, full prospectus, and current and historical annual reports. For onshore funds, the SITCA's Web site discloses a fund's transactions report, turnover ratio, as well as top five holdings on a monthly basis and full holdings on a quarterly basis. In addition, the Market Observation Post System (MOPS) by Taiwan Stock Exchange serves as a platform where fund companies file full and simplified versions of annual and quarterly reports.

Rules and Regulations

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In Taiwan this type of advertising is not allowed.

Fund assets are required to be kept by a custodian. The law requires that the custodian be independent of the fund manager, and the two organizations cannot be subsidiaries of the same holding company unless approved by the FSC. In Taiwan, fund companies must publish annual reports. The annual report must be audited by a certified CPA that is not affiliated with the fund company.

Fund Prospectuses

In Taiwan, a fund investor must be provided a prospectus before a fund purchase. Fund companies are required to publish a full prospectus but are not obligated to provide an abridged version. However, it is common practice for fund companies to provide an abridged prospectus.

There is a comprehensive list of fees in the prospectus, but this list could be expressed in broad categories and may not always itemize miscellaneous costs. A numerical example that illustrates the total expenses an investor could expect to pay on an investment is not available. There is uniform presentation of fees and expenses, and an investor can easily compare one prospectus to another.

In regard to portfolio-manager information, the manager's name is listed in the prospectus, but the manager's tenure is not always available.

Shareholder Reports

In Taiwan, fund companies must publish annual and semiannual reports. The annual report must be audited by a certified CPA that is not affiliated with the fund company. The annual report must be filed with the FSC within two months of the conclusion of the fiscal year, and it must be audited and made available to investors within three months after the fiscal year ends. Although not required, it is a common practice for funds to publish a quarterly report.

Fund companies are required to publish a section on the management's comments on fund performance in the annual report.

Disclosure

Mutual funds are required to publish a full and complete disclosure of the portfolio holdings in the annual report. It is common practice for equity funds to publish this information quarterly and bond funds semiannually. The annual report is published within three months of the end of the fiscal year.

Soft dollar arrangements, in which the fund trades with a brokerage firm in exchange for free research, hardware, software, or even nonresearch-related favors such as entertainment, do not exist in Taiwan. The *Self-Regulatory Code of SITCA* stipulates that members have written agreements with security brokers stating that kickbacks of commission charges and other interests from security brokers cannot be accepted.

The regulation in Taiwan requires that all expenses be disclosed in the annual report. These reports do not contain expense ratios for past years.

The cost of trading securities is disclosed to investors in the annual report and is easily accessible. In addition, on a monthly basis, a list of the top five brokerage firms the fund uses is disclosed, and brokerage fees paid to these firms are expressed in both dollar amounts and as percentages of the total brokerage fee.

Sales Practices

Directed brokerage arrangements (fund managers directing portfolio transactions to particular brokerage firms in exchange for promoting their funds) are an accepted practice in Taiwan.

It is also a common practice to use sales contests to motivate sales of funds and to compensate advisors (either monetarily or through awards) for selling particular funds.

Media Coverage

Investors in Taiwan can find mutual fund articles in their newspapers on a daily basis. These articles almost never discuss mutual fund fees. Articles sometimes promote long-term investing.

Fees and Expenses

Taiwan offers both load and no-load funds. The official front load is usually between 2.00% and 3.99%, but it is typically reduced to less than 2.00% after negotiation.

The typical investor in a Taiwanese fixed-income fund pays a total expense ratio (TER) of between 1.25% and 1.49%.

The typical investor in a Taiwanese money market fund pays a TER of less than 0.40%.

The typical investor in a Taiwanese equity fund pays a TER of between 1.50% and 1.99%.

In Taiwan, investors care somewhat about fees when selecting funds; thus, new assets tend to flow into low-cost funds.

Taxation

To encourage individuals to invest toward retirement, the Taiwanese government introduced the Labor Pension Scheme, which provides tax deductions on defined-contribution accounts, such as annuity insurance or individual pension accounts.

Mutual fund dividends are taxed as ordinary income. Ordinary income is taxed progressively from 0% to 40% for an individual, and the typical marginal tax rate of an investor is 13%. Currently, there is no capital gains tax on offshore mutual funds and non-dividend-paying onshore funds. Capital gains on dividend-paying onshore funds are taxed as ordinary income; therefore, very few onshore funds pay dividends. There is no difference between short- and long-term gains and no tax incentive for long-term investing.

Distribution/Choice

Mutual funds in Taiwan always require investment minimums. The typical investment minimum is less than US$250, and more than 75% of the funds offer minimums below US$1,000.

In Taiwan, an investor has a fairly full range of distribution options, including banks, insurance firms, brokerage firms, and direct to fund. Brokerage firms in Taiwan provide both full and discount services. Purchasing mutual funds via the Internet is a new phenomenon in Taiwan and has not yet gained popularity. There are independent advisors in Taiwan, but they are not the common channel for general investors and do not have clout in the industry and market.

Taiwan has a fairly open architecture system where 50% to 80% of the funds are sold through an open platform. An investor can purchase multiple fund family offerings at most distribution platforms.

Investors have both actively and passively managed funds available to them in Taiwan.

Morningstar Analysis

Taiwan's overall grade is B. This grade is decomposed into the following components:

Area	Grade
Investor Protection	A
Transparency in Prospectus and Reports	A-
Transparency in Sales and Media	D
Fees and Expenses	C+
Taxation	A-
Distribution/Choice	C
Overall	B

Investor Protection

Taiwan's grade in the area of investor protection is A. Mutual fund investors in Taiwan are well protected by the existence of laws and well-staffed regulators to enforce oversight.

Transparency in Prospectus and Shareholder Reports

Taiwan's grade in the area of transparency in prospectus and shareholder reports is A-minus. Taiwan stands out on accessibility, uniformity, and frequency of disclosure. Taiwan is one of the few countries that have centralized databases of mutual fund disclosure information for the public that are easily accessible via the Internet. Uniform disclosure allows easy comparison among funds, and fund companies can find reporting templates on SITCA's Fund Clear Web site. Portfolio holdings are available on a quarterly basis, a higher frequency than in most countries. Soft dollar practice is prohibited in Taiwan, while most other countries allow it. It is a common practice in Taiwan for fund companies to supply simplified prospectuses that are friendlier for investors.

There are a few areas that need improvements. While fund companies are required to provide management's discussion of fund performance, such information is generic and provides little insight. Investors could also benefit from a numerical example that illustrates the impact of fund expenses on investments. Portfolio-manager names are disclosed, but their tenures are not made available, so investors cannot assess the stability of the portfolio-management team. Fund companies in Taiwan are not required to disclose the history of expense ratios; thus, investors are not able to easily determine whether the expense ratio has increased.

Transparency in Sales Practices and Media

Taiwan's grade in the area of transparency in sales practices and media is D, a low grade that is mostly attributable to poor sales practice. Directed brokerage arrangements, sales contests, and favored compensation of particular funds imply that the fund industry's sales force lacks independence and is more likely to promote funds for self-interest rather than the best interest of the investor.

Even though the media cover mutual fund investment topics frequently, they do not sufficiently promote the benefit of long-term investing and the negative impact of fund costs.

Fees and Expenses

Taiwan's grade in the area of fees and expenses is C-plus. In Taiwan, sales loads are low, as are expenses on money market funds. Investors in Taiwan face higher-than-average expenses on fixed-income funds.

Taxation

Taiwan's grade in the area of taxation is A-minus, as mutual fund dividend tax is low and capital gains tax is practically nonexistent.

Distribution/Choice

Taiwan's grade in the area of distribution/choice is C. Taiwan has low minimum investment requirements. Taiwan has a fairly full range of distribution options, and we would like to see further development in the usage of Internet trading and independent advisors. Taiwan has a fairly open architecture system, where 50% to 80% of the funds are sold through an open platform, and this is an area we would like to see further improvement.

United Kingdom

Country Characteristics

Governing Bodies

There is one main regulator in the United Kingdom, the Financial Services Authority (FSA). The FSA is accountable to the Treasury and through the Treasury to Parliament. The FSA operates independent of the government. The FSA strategy aims are as follows: "promoting efficient, orderly and fair markets; helping retail customers achieve a fair deal; and improving business capacity and effectiveness." The FSA does this by issuing rules and guidelines.

The FSA is also the organization responsible for regulating fund advertising and sales practices.

The United Kingdom does not have a centralized Web site where disclosure documents of all mutual funds can be easily accessible to investors with Internet access.

Rules and Regulations

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In the U.K., investors must receive a simplified prospectus, or, for non-UCITS funds, a Key Features Document (KFD) before they can invest in a fund. The FSA handbook asks firms to ensure that they promote the existence of the simplified prospectus as well as the importance of reading it on the fund application.

In the United Kingdom, by law, assets of open-end funds are to be kept by an independent depositary (custodian) separate from any other business of the manager. For authorized unit trusts, an independent trustee is required to perform the same function.

Fund Prospectuses

The FSA requires funds to publish both a complete prospectus and a simplified version. For UCITS funds, the latter is known as the simplified prospectus, which is a point-of-sale document that is a good summary of the longer prospectus. The FSA spells out in detail the contents of the simplified prospectus, based largely on the specifications in the UCITS directive. Non-UCITS funds may elect to publish a KFD in lieu of a simplified prospectus.

In regard to fees, the following information is required for the simplified prospectus per the FSA Handbook: disclosure of the TER; disclosure of the expected cost structure; all entry and exit commissions and other expenses to be paid directly by the investor; an indication of all other costs not included in the TER, including disclosure of transaction costs; the portfolio turnover ratio (following a standard calculation set by the FSA); and an indication of the existence of fee-sharing agreements and soft commissions.

Fee disclosure is fairly standardized, but the fees can be found in various locations within the prospectus and simplified prospectus, making comparison from one fund company to another difficult. Non-UCITS funds may elect to use the KFD, which does not require the disclosure of a TER. Instead, the KFD requires a "Reduction in Yield" section, which projects the reduction in an assumed level of return over various periods after deducting all up-front and deferred charges as well as ongoing operating costs.

Manager name and manager tenure are not available in the prospectus, simplified prospectus, or KFD for U.K. funds. In addition, there is no requirement in the U.K. to notify an investor when there is a manager change.

Shareholder Reports

In the U.K., fund management companies must publish both an annual and a semiannual report. The fund must publish an annual report within four months after the end of the annual accounting period, and a semiannual report within two months after the end of each half-yearly accounting period.

The annual report should contain the audited annual financial statements. Per the FSA, the following items should be included in the annual report: a statement of total return; a statement of movements in shareholders' funds; a portfolio statement; a balance sheet; a summary of material portfolio changes; a statement of the material accounting policies used in preparing the financial statements; further details in notes to the financial statements; and a distribution table. The semiannual report should be prepared using the same accounting policies and format as the annual report; however, financial statements are not required to be audited.

The annual and semiannual reports are required to be made available to shareholders free of charge.

A management discussion section is required as part of these reports. These discussions tend to be a macro discussion of what went on in the economy.

Disclosure

In regard to portfolio holdings, a fund company is required to disclose this information twice a year via long-form reports.

Funds are required to file a "long-form" report to the regulator (the FSA) and are only required to send this version to shareholders if requested. Although fund companies may send the long-form report to investors by default, many elect to send a "short-form" report, which omits many things including the complete portfolio holdings.

Prior to 2007, TERs were not required to be disclosed. The FSA, in keeping with the UCITS directive, now requires TER to be included in the simplified prospectus. The simplified prospectus is required of UCITS funds, but non-UCITS funds may elect to publish a KFD instead. The TER is not required to be disclosed in the KFD. Instead,

an alternative “Reduction in Yield” table is provided. The FSA defines the TER as “the ratio of the scheme’s total operating costs to its average net assets.”
The TER is to be calculated at least once a year. For specific purposes, it may also be calculated for other time periods. Therefore, there is no required disclosure of the history of the TER. The FSA does state that the simplified prospectus should include a clear reference to an information source where the investor may obtain previous years’/periods’ TER figures.

Trading cost information is available to investors but is usually buried in the notes section of the prospectus. There is no standardization of trading cost information so fund companies each tend to present this information in their own way.

Sales Practices
Mutual fund sales practices in the U.K. are regulated by the FSA.

Directed brokerage arrangements (fund managers direct portfolio transactions to particular brokerage funds in exchange for promoting their funds) are not an accepted practice in the U.K.

It is common for sales contests to be used as a way to motivate fund sales. In addition, it is common practice for advisors to be compensated for selling particular funds.

Media Coverage
U.K. investors can find mutual fund articles in their financial newspapers on a weekly basis. These articles will almost never discuss the mutual fund fees or comment on whether the fees are too high. Articles will almost never promote long-term investing.

Fees and Expenses
U.K. funds almost always have initial charges; there are very few no-load funds. Initial charges are required to be disclosed in the simplified prospectus. Initial charges can be negotiated by the investor. The typical U.K. investor pays an initial sales charge of between 2.00% and 3.99%.

The typical investor in a U.K. fixed-income fund pays a TER of between 1.00% and 1.25%.

The typical investor in a U.K. money market fund pays a TER of between 0.40% and 0.89%.

The typical investor in a U.K. equity fund pays a TER of between 1.50% and 1.99%.

In the U.K., new assets tend to flow into average-cost funds rather than low-cost or very-low-cost funds.

Taxation

In the U.K., there are tax incentives for individuals who invest for retirement in a pension scheme and Individual Savings Accounts (ISAs). A pension scheme is simply a type of savings account set up to provide income in retirement. For every £100 that an individual puts into a pension scheme, the amount paid in taxes will be reduced by £20, assuming a basic rate of income tax of 20% for 2008-09. At the higher rate of income tax, 40%, for every £100 that an individual puts into a pension scheme, the amount paid in taxes will be reduced by £40. ISAs are special savings accounts for retirement offering the benefit of tax-exempt investment income.

Capital gains are taxed at the marginal rate of income tax, which is 20% for the typical investor. To encourage long-term investing in the U.K., a concept called taper relief was introduced. Taper relief provides a reduction in the capital gains tax payable based on the long-term holding. It works by reducing the proportion of capital gains charged to tax based on a scale starting at three years, where taper relief is 5%, going up to 10 years, where taper relief reaches its maximum reduction of 40%.

Distribution/Choice

In the U.K., funds always require a minimum investment. The typical investment minimum is £1,000; approximately 50%-60% have this requirement. Approximately 25% of funds have an investment minimum below $1,000.

The U.K. investor has a range of distribution options, but the main distribution channel is the individual financial advisor.

Per the Investment Management Association (IMA), platform-based distribution is growing in scale and importance. Open architecture systems (a distribution system where options are coming from multiple fund families) are becoming the practice for bank and insurance platforms. Between 50% and 80% of funds are sold through an open architecture system.

Investors have both actively and passively managed funds available to them in the U.K.

Morningstar Analysis

The U.K.'s overall grade is C-plus. The grade is decomposed into the following components:

Area	Grade
Investor Protection	B+
Transparency in Prospectus and Reports	B
Transparency in Sales and Media	C
Fees and Expenses	C
Taxation	B
Distribution/Choice	C
Overall	C+

Investor Protection

In the area of investor protection, the U.K. receives a grade of B-plus. Overall grades in this area were high and the U.K. was not far off from an A grade in this area. The regulator in the U.K. is the FSA. The FSA is operated independently and is regarded as being somewhat well staffed. The U.K. is one of only seven countries surveyed that requires that the responsibility of managing fund assets belong to an independent custodian, depository, or trustee. Most countries allow the managing of fund assets to belong to an affiliate.

Transparency in Prospectus and Shareholder Reports

The U.K. receives a grade of B in the area of transparency in the prospectus and shareholder reports. In the U.K., fund companies must publish a simplified version of the prospectus in addition to the complete prospectus. The simplified prospectus in the U.K. is more concise and easier for the average investor to comprehend. The U.K. simplified prospectus includes a comprehensive list of fees as well as a numerical example that illustrates the total expenses that an investor could expect to pay on an investment. However, the presentation of fee disclosure is not standardized in the U.K. Missing from the U.K. prospectus are the names and tenures of the portfolio managers.

In the U.K., funds are required to publish a section on management discussion of fund performance. In addition, funds are required to report full and complete portfolio disclosure twice a year. However, historical total expense ratio disclosure is not available in the prospectus or the shareholder reports.

Transparency in Sales Practices and Media

The U.K.'s grade in the area of transparency in sales practices and media is C. It is good that directed brokerage arrangements are not common practice in the U.K. However, sales contests and favored compensation of particular funds imply that the fund industry's sales force lacks independence and is more likely to promote funds for self-interest rather than the best interest of the investor.

Even though the media cover mutual fund investment topics frequently, they do not sufficiently promote the benefit of long-term investing and the negative impact of fund costs.

Fees and Expenses

The U.K. receives a grade of C in fees and expenses. Funds in the U.K. almost always have an initial sales charge. This charge averages between 2.00% and 3.99% for the typical investor. The average total expense ratio for fixed-income funds is rather high in comparison to the other countries surveyed, ranging between 1.00% and 1.24%.The U.K. fared a little better with average expense ratios for equity funds, which ranged between 1.50% and 1.99%.

Taxation

In the area of taxation, the U.K. receives a grade of B, which along with France is the highest grade received by a European country. The A grades were all taken by the countries that have no capital gain or ordinary income taxes. In the U.K., the ordinary income rate is higher than the long-term capital gains tax rate in order to encourage long-term investing. The U.K. offers substantial incentives to investors as a reward for being long-term shareholders.

Distribution/Choice

The U.K. receives a C grade in the area of distribution and choice. In the U.K., the investor is always required to meet a minimum investment amount. The typical minimum investment is more than US$1,000; the U.K. is the only country in our survey with average investment minimums this high. Because of this, very few investments in the U.K. have investment minimums of less than US$1,000. U.K. investors do have a wide range of distribution options, such as direct, bank, and discount broker, for purchasing funds. Between 50% and 80% of funds are sold through an open architecture system (a distribution system, where options come from multiple fund families).

United States

Country Characteristics

Governing Bodies

Mutual funds in the United States are regulated under the Investment Company Act of 1940. The 1940 Act requires fund companies to register with the Securities and Exchange Commission (SEC). The SEC was created by the Securities Exchange Act of 1934. The mission of the SEC is as follows: "to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation."

The Financial Industry Regulatory Authority (FINRA) is a self-regulatory authority for securities firms doing business publicly in the U.S. FINRA administrates and interprets the SEC's legal framework for sales literature and fund advertising.

Fund company filings in the U.S. can be found via the electronic database called EDGAR (Electronic Data Gathering, Analysis and Retrieval), developed by the SEC. EDGAR permits companies to file documents and data electronically with the SEC. EDGAR allows individual investors to search its Web site and access and download regulatory filings free of charge.

Rules and Regulations

"Off-the-page" advertising allows investors to send money to a fund company without receiving the prospectus first. In the U.S., investors must be provided with a prospectus before making an investment.

The 1940 Act requires that funds use a custodian to ensure safekeeping of fund assets. The custodian may be contracted to provide additional services such as acting as the fund's transfer agent and/or dividend disbursing agent, or the function of custodian can be the sole service provided. The custodian is allowed to be an affiliated company in the U.S.

Fund Prospectuses

The prospectus must be filed with the SEC. The required contents of the prospectus include the following:

- Investment strategy – describes the fund's strategy, risk, and what policies can be changed without shareholder approval.
- Fees – including sales charges, management fees, and 12b-1 fees.
- Performance – three-, five-, and 10-year returns and calendar-year returns.
- Management – fund's investment advisors and the basis for compensation and the names of the fund's portfolio manager and tenure.

A fund may organize the prospectus in any manner it sees fit. However, a few items, including the summary of fund investments, risks, and performance, and the fund's fee table, may not be preceded with anything other than the cover page or the table of contents.

The prospectus is required to contain a summary of shareholder fees in both a tabular form and an example depicting the fund's total dollar operating expenses under standardized assumptions. The fee table must be based on the fund's actual expenses for the most recently completed fiscal year. The dollar-based example should show expenses at the end of one-, three-, five-, and 10-year time periods.

A simplified prospectus is not required to be provided for investors in the U.S.

Shareholder Reports

The SEC requires funds to distribute both annual and semiannual reports. These reports disclose the financial conditions of the fund as well as the fund's portfolio holdings. Annual reports must be audited by an independent auditor.

In addition, the SEC requires that funds provide a numerical example showing the cost of expenses. The example presents the cost in dollars of a $10,000 investment earning a hypothetical 5% return annually. This requirement was intended to provide investors with a basis for comparing the level of current expenses across different fund options.

In addition, the SEC requires funds to include a section from management that discusses the fund's performance and the factors that have materially affected the fund's performance during the fiscal year. The discussion should include the investment strategies employed by the fund's investment advisor.

Disclosure

Sometimes included in the trading costs mutual funds pay to brokerage firms are goods and services not directly related to the trade of a security. The fund firms pay for these goods and services through "soft dollars," or inflated brokerage commissions. For example, a fund company may receive equity research from the brokerage firm as part of its per-share trading fee. The SEC's stance toward soft dollars is that such payments are permissible as long as the services provided are lawful and appropriate to portfolio-manager performance. Soft dollar arrangements are to be disclosed in the prospectus.

As mandated by the SEC, the expense ratio is defined as total operating expenses divided by average total assets. The components of the expense ratio are: 12b-1 fees, management fees, and other operating expenses. The 12b-1 fees represent the annual charge deducted from fund assets to pay for distribution and marketing costs. Management fees represent the annual charge to pay the fund's management. The TER history is included in this disclosure for comparison.

Trading costs are not available in any of the fund's required publications.

Sales Practices
Under a directed brokerage arrangement, a fund company may pay additional compensation to a broker for promoting its funds. FINRA Rule 2830 (k) restricts directed brokerage arrangements.

Sales contests are an acceptable practice in the U.S. FINRA members may sponsor noncash arrangements that reward their personnel for sales of funds subject to the following four conditions:

1. Arrangement must be based on the total investment securities distributed by the fund company.
2. Credit received for each investment security sold must be equally weighted.
3. No unaffiliated company/member may participate in the organization of the contest.
4. Member must comply with record-keeping requirements.

The previously mentioned Rule 2830 defines cash compensation as, "any discount, concession, fee, service fee, commission, asset-based sales charge, loan, override, or cash employee benefit received in connection with the sale and distribution of investment company securities." The rule prohibits a member from entering into "special cash compensation arrangements" with an investment company offerer (an investment company or its adviser, administrator, underwriter, or affiliate) unless the prospectus discloses the details of the arrangements.

Media Coverage
Investors in the U.S. can find articles on mutual funds in their national financial newspapers on a daily basis. These articles will sometimes discuss the fee expenses. The articles will almost always promote long-term investing.

Fees and Expenses
The typical investor in a fund with a front-end load must pay the load, which is usually between 2.00% and 3.99% of assets. Individuals investing in a load share class through a retirement platform may not have to pay the load. In addition, in the U.S., there are no load funds that have no shareholder sales charges.

The typical investor in a U.S. fixed-income fund pays a total expense ratio of less than 0.75%.

The typical investor in a U.S. money market fund pays a total expense ratio of between 0.40% and 0.89%.

The typical investor in a U.S. equity fund pays a total expense ratio of less than 1.00%.

In the U.S., investors care somewhat about fees when selecting funds; thus, new assets tend to flow into low-cost funds.

Taxation

In the U.S., the 401(k) plan allows workers to save toward retirement on a pretax basis. The 401(k) plans are usually sponsored by an employer. In a participant-directed 401(k) plan the employee can select from a number of mutual fund options and in some cases the company's stock. Money must be kept in the plan until the employee reaches 59 1/2 years of age or becomes disabled. Withdrawals from a 401(k) are subject to taxation as ordinary income.

Individuals also may participate in Individual Retirement Accounts (IRAs). In a traditional IRA, contributions are made after taxes but are tax deductible. Distributions are taxed as normal income. For Roth IRAs, contributions are made after taxes, and normal distributions are not subject to income tax. Both the traditional IRA and the Roth IRA have income limits and contribution limits. Again, distributions can begin at the age of 59 1/2 years or if the individual becomes disabled.

In the U.S., the long-term capital gains rate, gains on assets that had been held for more than a year before being sold, is lower than the rate on short-term capital gains. In 2003 the long-term capital gains rate was reduced from 20% to 15%. This is set to expire in 2010. Short-term capital gains are taxed at the ordinary income tax rate. The marginal tax rate on ordinary income for the typical investor ranged from 20%-29%.

Distribution/Choice

All funds in the U.S. require investment minimums. The typical investor is subject to an investment minimum of less than US$250. Approximately 50% of all funds have an investment minimum that is less than US$1,000. In the U.S., an investor can purchase fund shares directly from the fund company, a bank, a discount broker, a full-service broker, an independent advisor, or an insurance agent. Most fund purchases, through fund companies and discount brokerages, are made through the Internet.

More than 80% of all funds sold are sold through an open architecture system, where one can purchase multiple fund family offerings.

Investors have both actively and passively managed funds available to them in the U.S. market.

Morningstar Analysis

The United States' overall grade is A. The grade is decomposed into the following components:

Area	Grade
Investor Protection	C
Transparency in Prospectus and Reports	A
Transparency in Sales and Media	B
Fees and Expenses	A
Taxation	B
Distribution/Choice	B+
Overall	A

Investor Protection

In the area of investor protection, the U.S. receives a grade of C. Most countries surveyed scored high in the area of investor protection, and, as a result, the U.S. ended up with a grade of C. Canada and Taiwan were the two countries that received A grades. In these countries, the manager of a fund cannot perform the function of custodian of fund assets, and the responsibility belongs to an independent custodian, depository, or trustee. In the U.S., the custodian can be an affiliate.

The SEC is responsible for monitoring and regulating the markets in the U.S. A separate organization, FINRA, is responsible for regulating fund advertising and sales practices.

Transparency in Prospectus and Shareholder Reports

The U.S. receives a grade of A in the area of transparency in the prospectus and shareholder reports. This A is received even though the U.S. lacks a simplified version of the prospectus, which is available in 13 of the 16 countries surveyed. A simplified version will be available In the U.S. by January 2010. Where the U.S. exceeds other countries surveyed is in fee disclosure. In U.S. mutual fund reports (prospectus or shareholder report), an investor can find a numerical example that illustrates the total expenses an investor could expect to pay on an investment; there is uniform presentation of fees and expenses; and there is complete disclosure of the total expense ratio history.

In addition, the names and tenures of the portfolio managers are always included in the prospectus. Only the U.S. and China have this requirement. Also, in the shareholder reports, funds are required to publish a section on management's review of fund performance.

Transparency in Sales Practices and Media

In the area of transparency in sales practices and media, the U.S. receives a grade of B. In the U.S., directed brokerage arrangements are not an accepted practice. It is common practice for funds to use sales contests to motivate fund sales. It is also common practice for advisors to be compensated for selling particular funds.

U.S. investors can find articles on mutual funds in national newspapers on a weekly basis. These articles at times will discuss a fund's costs and whether the costs are too high. They will almost always promote long-term investing.

Fees and Expenses

The U.S. receives a grade of A in the area of fees and expenses. When a fund charges a front-end load, it is typical among the countries in our study, ranging between 2.00% and 3.99%. The typical investor in the U.S. faces lower expenses than investors in most other countries. The total expense ratio for fixed-income funds is typically below 0.75%, and it is below 1.00% on equity funds.

Taxation

In the area of taxation, the U.S. receives a grade of B. In the U.S., the ordinary income tax rate is higher than the long-term capital gains tax rate. The U.S. is one of only four countries, which include the United Kingdom, France, and Australia, that offer investors a substantial tax discount to encourage long-term investing.

Distribution/Choice

For distribution/choice, the U.S. receives a B-plus grade. In the U.S., investment minimums are always required when making an investment in a mutual fund. These minimums average less than US$250 for the typical investor. Investors in the U.S. have a complete range of distribution options, including direct investment, discount broker, advisor, and the Internet. More than 80% of the funds in the U.S. are sold through an open architecture system (a distribution system where options come from multiple fund families).

Appendix: Survey Questions and Responses

Investor Protection

Is there an established regulatory regime for investment funds? (question weighting = 1)

- Yes. (3-point answer)
  Australia, Canada, China, France, Germany, Hong Kong, Italy, Japan, Netherlands, New Zealand, Singapore, Spain, Switzerland, Taiwan, United Kingdom, and United States
- No. (1-point answer)
  None.

Is there a sole regulator of the investment industry, and is it independent? (question weighting = 1)

- Yes, there is an independent regulator. (3-point answer)
  Australia, Canada, China, France, Germany, Hong Kong, Italy, Japan, Netherlands, New Zealand, Singapore, Spain, Switzerland, Taiwan, United Kingdom, and United States
- The regulator is not independent. (2-point answer)
  None.
- No, there is no regulator exclusively for the investment industry. (1-point answer)
  None.

If there is an agency regulating the investment industry, is it widely regarded as having sufficient staff to fulfill its mission successfully? (question weighting = 2)

- Yes, the regulator is fully staffed. (3-point answer)
  Australia, Canada, China, France, Hong Kong, Italy, Singapore, Taiwan, and United States
- The regulator is somewhat staffed, but can complete most of its identified responsibilities. (2-point answer)
  Germany, Japan, Netherlands, Spain, Switzerland, and United Kingdom
- No, the regulator is not sufficiently staffed. (1-point answer)
  New Zealand

Are sales and advertising practices regulated? (question weighting = 3)

- Yes, by an agency separate from the primary regulator. (3-point answer)
  Japan, Singapore, and United States
- Yes, by the same agency responsible for other regulation. (2-point answer)
  Australia, Canada, China, France, Hong Kong, Italy, Netherlands, New Zealand, Spain, Switzerland, Taiwan, and United Kingdom
- No. (1-point answer)
  Germany

Can investment funds be marketed without providing a prospectus to investors? This practice is known as "off-the-page" advertising. (question weighting = 2)

- Yes, investors can purchase shares without receiving a prospectus. (1-point answer)
  None.
- No, all investors must receive a prospectus at least concurrently with purchase. (2-point answer)
  Australia, Canada, China, France, Germany, Hong Kong, Italy, Japan, Netherlands, New Zealand, Singapore, Spain, Switzerland, Taiwan, United Kingdom, and United States

Are fund management companies required to have their annual reports audited by an independent company? (question weighting = 2)

- Yes. (3-point answer)
  Australia, Canada, China, France, Germany, Hong Kong, Italy, Japan, Netherlands, New Zealand, Singapore, Spain, Switzerland, Taiwan, United Kingdom, and United States
- Audits are required, but the auditor can be an affiliated company. (2-point answer)
  None.
- No. (1-point answer)
  None.

Does regulation require that the manager does not perform the function of custodian of fund assets? (question weighting = 5)

- Yes, the responsibility belongs to an independent custodian, depository, or trustee. (3-point answer)
  Canada, Germany, Japan, Netherlands, Switzerland, Taiwan, and United Kingdom
- Yes, but the custodian is permitted to be an affiliated company. (2-point answer)
  Australia, China, France, Hong Kong, Italy, New Zealand, Singapore, Spain, and United States
- No. (1-point answer)
  None.

Transparency in Prospectus and Shareholder Reports

Are funds required to publish a prospectus or similar comprehensive disclosure document? (question weighting = 1)

- Yes. (2-point answer)
  Australia, Canada, China, France, Germany, Hong Kong, Italy, Japan, Netherlands, New Zealand, Singapore, Spain, Switzerland, Taiwan, United Kingdom, and United States
- No. (1-point answer)
  None.

Are funds required to publish a simplified prospectus or similar comprehensive disclosure document? (question weighting = 1)

- Yes. (3-point answer)
  Canada, Germany, New Zealand, Singapore, Switzerland, Taiwan, and United Kingdom
- Yes, but the simplified disclosure does little to provide increased clarity for investors. (2-point answer)
  China, France, Italy, Japan, Netherlands, and Spain
- No. (1-point answer)
  Australia, Hong Kong, and United States

Is there a comprehensive list of fees in the prospectus? (question weighting = 1)

- Yes. (2-point answer)
  Australia, Canada, China, France, Germany, Hong Kong, Italy, Japan, Netherlands, New Zealand, Singapore, Spain, Switzerland, Taiwan, United Kingdom, and United States
- No. (1-point answer)
  None.

Does the prospectus include a numerical example that illustrates the total expenses that an investor could expect to pay on an investment? (question weighting = 3)

- Yes. (3-point answer)
  Australia, Canada, Italy, United Kingdom, and United States
- No. (1-point answer)
  China, France, Germany, Hong Kong, Japan, Netherlands, New Zealand, Singapore, Spain, Switzerland, and Taiwan

In regard to fee disclosure, is there a uniform presentation of fees and expenses such that each prospectus may be easily compared with another? (question weighting = 3)

- Yes. (2-point answer)
  Australia, Canada, France, Italy, Japan, Netherlands, Spain, Switzerland, Taiwan, and United States
- No. (1-point answer)
  China, Germany, Hong Kong, New Zealand, Singapore, and United Kingdom

Are the name and tenure of the portfolio manager(s) included in the prospectus? (question weighting = 3)

- Yes, both the name and tenure are always included. (3-point answer)
  China and United States
- The name is always included, but the tenure is not always included. (2-point answer)
  Canada and Taiwan
- The name and tenure are sometimes included. (2-point answer)
  Germany and Switzerland
- No, the name and tenure are not included. (1-point answer)
  Australia, France, Hong Kong, Italy, Japan, Netherlands, New Zealand, Singapore, Spain, and United Kingdom

Must fund management companies provide an annual report and a semiannual report? (question weighting = 2)

- Yes both an annual and semiannual report are required. (3-point answer)
  Canada, China, France, Germany, Hong Kong, Italy, Japan, New Zealand, Singapore, Spain, Switzerland, Taiwan, United Kingdom, and United States
- Only an annual report is required. (2-point answer)
  Australia and Netherlands
- No, neither is required. (1-point answer)
  None.

Are funds required to publish a section on management's discussion and analysis on fund performance, either as part of the prospectus or part of the shareholder report? (question weighting = 2)

- Yes, the management's discussion is required. (3-point answer)
  Canada, China, France, Italy, Singapore, Spain, United Kingdom, and United States
- Yes, but the discussion is generic and does not provide much fund-specific information. (2-point answer)
  Australia, Japan, New Zealand, and Taiwan
- No, a management discussion is not required. (1-point answer)
  Germany, Hong Kong, Netherlands, and Switzerland

Which of the following describes your country's soft dollar practices? (question weight = 2)

- Do not have soft dollar arrangements. (3-point answer)
  Japan, Italy, Spain, and Taiwan
- All soft dollar arrangements must be disclosed. (2-point answer)
  Australia, Canada, Hong Kong, Netherlands, New Zealand, Singapore, United Kingdom, and United States.
- No disclosure is required. (1-point answer)
  China, France, Germany, and Switzerland

Does your country require disclosure of portfolio holdings? (question weight = 5)

- Yes, full and complete disclosure of holdings. (3-point answer)
  Canada, China, France, Germany, Hong Kong, Italy, Japan, Netherlands, Singapore, Spain, Switzerland, Taiwan, United Kingdom, and United States
- Yes, but partial disclosure is acceptable. (2-point answer)
  None.
- No. (1-point answer)
  Australia and New Zealand

If disclosure of portfolio holdings is required, which of the following best describes the frequency of portfolio holdings? (question weight = 5)

- Monthly. (3-point answer)
  None.
- Quarterly. (3-point answer)
  Spain, Taiwan, and United States
- Semiannually. (2-point answer)
  Canada, China, France, Germany, Hong Kong, Switzerland, and United Kingdom
- Annually. (1-point answer)
  Japan, Italy, Netherlands, and Singapore
- No disclosure required. (0-point answer)
  Australia and New Zealand

Are funds required to disclose the history of their total expense ratios in shareholder reports? (question weight = 3)

- Yes. (3-point answer)
  Canada, Italy, Netherlands, Singapore, and United States
- Yes, but disclosure is not standardized. (2-point answer)
  None.
- No. (1-point answer)
  Australia, China, France, Germany, Hong Kong, Japan, New Zealand, Spain, Switzerland, Taiwan, and United Kingdom

Is trading cost (the cost associated with trading securities) information available to investors? (question weight = 2)

- Yes, and it is easily accessible. (3-point answer)
  Canada, Japan, and Taiwan
- Yes, but it is not easily accessible. (2-point answer)
  China, France, and United Kingdom
- No, it is not available. (1-point answer)
  Australia, Germany, Hong Kong, Italy, Netherlands, New Zealand, Singapore, Spain, Switzerland, and United States

Transparency in Sales Practices and Media

Are directed brokerage arrangements an accepted practice? (In directed brokerage arrangements, fund managers direct portfolio transactions to particular brokerage firms in exchange for promoting their funds.) (question weight = 3)

- No. (3-point answer)
  Australia, Canada, France, Germany, Hong Kong, Italy, Japan, Netherlands, New Zealand, Singapore, Switzerland, United Kingdom, and United States
- Yes. (1-point answer)
  China, Spain, and Taiwan

Is it common practice to use sales contests to motivate sales of funds? (question weight = 2)

- No. (3-point answer)
  Hong Kong and Japan
- Yes. (1-point answer)
  Australia, Canada, China, France, Germany, Italy, Netherlands, New Zealand, Singapore, Spain, Switzerland, Taiwan, United Kingdom, and United States

Is it common practice for advisors to be compensated, either monetarily or through awards, for selling particular funds (in-house managed funds or otherwise favored funds)? (question weight = 2)

- No. (3-point answer)
  Canada, Hong Kong, and Japan
- Yes. (1-point answer)
  Australia, China, France, Germany, Italy, Netherlands, New Zealand, Singapore, Spain, Switzerland, Taiwan, United Kingdom, and United States

In the leading daily national financial newspaper, is there typically an article on mutual funds? (question weight = 2)

- Yes, daily. (2-point answer)
  Canada, China, Italy, Taiwan, and United States
- Yes, weekly. (2-point answer)
  Australia, France, Germany, Japan, Netherlands, New Zealand, Singapore, Spain, Switzerland, and United Kingdom
- Rarely. (1-point answer)
  Hong Kong
- Never. (1-point answer)
  None.

When the media cover a fund, are the fund's costs noted, and will the author comment that they are high, if indeed they are high? (question weight = 2)

- Always. (3-point answer)
  Italy
- Almost always. (3-point answer)
  Canada
- Sometimes. (2-point answer)
  Australia, Japan, Netherlands, New Zealand, and United States
- Almost never. (1-point answer)
  China, France, Germany, Hong Kong, Singapore, Spain, Switzerland, Taiwan, and United Kingdom
- Never. (1-point answer)
  None.

Does the media promote long-term investing by emphasizing a fund's longer-term history (at least three years), and by pointing out the difficulty of evaluating manager records over less than a full market cycle? (question weight = 2)

- Always. (3-point answer)
  None.
- Almost always. (3-point answer)
  United States
- Sometimes. (2-point answer)
  Australia, Canada, France, Hong Kong, Japan, Netherlands, New Zealand, Singapore, and Taiwan
- Almost never. (1-point answer)
  China, Germany, Italy, Spain, Switzerland, and United Kingdom
- Never. (1-point answer)
  None.

Fees and Expenses

Which of the following best describes the median amount that a typical investor would pay for front-end, sales, initial, or preliminary charges (loads) in your country? (question weight = 3)

- Less than 2.00%. (3-point answer)
  China, Italy, Netherlands, Spain, and Taiwan
- Between 2.00% and 3.99%. (2-point answer)
  Australia, France, Germany, Japan, New Zealand, Singapore, Switzerland, United Kingdom, and United States
- Between 4.00% and 5.99%. (1-point answer)
  Canada and Hong Kong
- Between 6.00% and 10%. (0-point answer)
  None.
- More than 10%. (0-point answer)
  None.

Which of the following best describes the median total expense ratio for fixed-income funds in your country? (question weight = 8)

- Less than 0.75%. (3-point answer)
  Australia, China, and United States
- Between 0.75% and 0.99%. (2-point answer
  France, Germany, Italy, Japan, Netherlands, Spain, and Switzerland
- Between 1.00% and 1.24%. (1-point answer)
  New Zealand and United Kingdom
- Between 1.25% and 1.49%. (0-point answer)
  Canada, Hong Kong, Singapore, and Taiwan
- More than 1.50%. (0-point answer)
  None.

Which of the following best describes the median total expense ratio for money market funds in your country? (question weight = 8)

- Less than 0.40%. (3-point answer)
  Japan, Netherlands, Singapore, and Taiwan
- Between 0.40% and 0.89%. (2-point answer)
  Canada, China, France, Germany, Hong Kong, Italy, New Zealand, Switzerland, United Kingdom, and United States
- Between 0.90% and 1.29%. (1-point answer)
  Australia and Spain
- Between 1.30% and 1.50%. (0-point answer)
  None.
- More than 1.50%. (0-point answer)
  None.

Which of the following best describes the median total expense ratio for equity funds in your country? (question weight = 8)

- Less than 1.00%. (3-point answer)
  United States
- Between 1.00% and 1.49%. (2-point answer)
  Australia, China, and New Zealand
- Between 1.50% and 1.99%. (1-point answer)
  France, Germany, Hong Kong, Italy, Netherlands, Singapore, Spain, Switzerland, Taiwan, and United Kingdom
- Between 2.00% and 2.50%. (0-point answer)
  Canada and Japan
- More than 2.50%. (0-point answer)
  None.

How much consideration is placed on a fund's cost when determining whether or not to put assets in a fund? (question weight = 3)

- High; the majority of new assets flow into very-low-cost funds. (3-point answer)
  None.
- Medium high; new assets tend to flow into low-cost funds. (2-point answer)
  Taiwan, and United States
- Negligible; new assets tend to flow into average-cost funds. (1-point answer)
  Australia, Canada, China, France, Germany, Hong Kong, Italy, Japan, Netherlands, New Zealand, Singapore, Spain, Switzerland, and United Kingdom
- Negative; new assets tend to flow into high-cost funds. (0-point answer)
  None.

Taxation

Does the government have specific tax incentives for individuals to invest in funds as a way to provide their own wealth, retirement, etc.? (For example, United States, 401(k) plans and IRAs; Hong Kong, pooled retirement funds) (question weight = 2)

- Yes. (2-point answer)
  Australia, Canada, China, France, Germany, Hong Kong, Japan, Netherlands, New Zealand, Singapore, Switzerland, Taiwan, United Kingdom, and United States
- No. (1-point answer)
  Italy and Spain

Is the ordinary income tax rate on mutual funds generally higher than the long-term capital gains tax rate on mutual funds, in order to encourage long-term investing? (question weight = 2)

- Yes. (2-point answer)
  Australia, Canada, France, Italy, Singapore, Taiwan, United Kingdom, and United States
- No. (1-point answer)
  Germany, Japan, Netherlands, New Zealand, Spain, and Switzerland
- Both are zero. (2-point answer)
  China and Hong Kong

The marginal national tax rate on mutual fund capital gains is: (question weight = 4)

- Zero, there is no capital gains tax for mutual funds. (3-point answer)
  China, Hong Kong, Singapore, and Taiwan
- Less than 20%. (2-point answer)
  Australia, Italy, Japan, Netherlands, Spain, United Kingdom, and United States
- Between 20% and 29%. (2-point answer)
  Canada, France, Germany, and Switzerland
- Between 30% and 39%. (1-point answer)
  New Zealand
- Between 40% and 50%. (1-point answer)
  None.
- More than 50%. (0-point answer)
  None.

The marginal national tax rate on mutual fund dividends is: (question weight = 4)

- Zero, there is no dividend tax for mutual funds. (3-point answer)
  China and Hong Kong
- Less than 20%. (2-point answer)
  Japan, Netherlands, Singapore, Spain, and Taiwan
- Between 20% and 29%. (2-point answer)
  France, Germany, Switzerland, United Kingdom, and United States
- Between 30% and 39%. (1-point answer)
  Australia, Canada, and New Zealand
- Between 40% and 50%. (1-point answer)
  Italy
- More than 50%. (0-point answer)
  None.

Are there incentives/rewards for the long-term shareholder? (question weight = 1)

- Yes, an investor who owns shares for at least one year enjoys a substantial tax discount (15 percentage points or more) over a short-term owner. (3-point answer)
  Australia, France, United Kingdom, and United States
- Yes, an investor who owns shares for at least one year enjoys a moderate tax discount (between 1 and 14.99 percentage points) over a short-term owner. (2-point answer)
  None.
- No, there are no tax differences between short- and long-term gains. (1-point answer)
  Canada, Germany, Italy, Japan, Netherlands, New Zealand, Spain, and Switzerland
- Both tax rates are zero. (3-point answer)
  China, Hong Kong, Singapore, and Taiwan

Distribution/Choice

Do mutual funds require investment minimums? (question weight = 2)

- No. (2-point answer)
  None.
- Yes, in some cases. (2-point answer)
  Australia, France, Germany, Hong Kong, Italy, Netherlands, New Zealand, and Switzerland
- Yes, always. (1-point answer)
  Canada, China, Japan, Singapore, Spain, Taiwan, United Kingdom, and United States

Which of the following best describes the minimum initial investment a typical investor would be required to invest in a fund? (question weight = 1)

- There are no minimums. (3-point answer)
  None.
- Less than US$250. (3-point answer)
  China, France, Japan, Taiwan, and United States
- Between US$250 and US$499. (2-point answer)
  Spain and Switzerland
- Between US$500 and US$1,000. (2-point answer)
  Canada, Germany, Italy, Netherlands, and Singapore
- More than US$1,000. (1-point answer)
  Australia, Hong Kong, New Zealand, and United Kingdom

Approximately what percentage of funds have investment minimums of less than US$1,000? (question weight = 1)

- More than 75%. (3-point answer)
  China, France, Germany, Japan, Switzerland, and Taiwan
- 75%. (3-point answer)
  Canada and Spain
- 50%. (2-point answer)
  Italy, Netherlands, and United States
- 25%. (2-point answer)
  Hong Kong and United Kingdom
- Less than 10%. (1-point answer)
  Australia, New Zealand, and Singapore

How many of the following distribution choices are readily available to investors? 1) bank, 2) insurance agent, 3) full-service brokerage, 4) discount brokerage firm, 5) independent advisor/wealth manager, 6) direct to fund, and 7) Internet (question weight = 3)

- All 7. (3-point answer)
  Australia, Canada, France, Italy, Japan, Netherlands, New Zealand, Singapore, Switzerland, United Kingdom, and United States
- 6 of 7. (2-point answer)
  Hong Kong and Taiwan
- 5 of 7. (2-point answer)
  Germany
- 4 of 7. (1-point answer)
  China
- 3 of 7. (1-point answer)
  None.
- 2 of 7. (1-point answer)
  Spain
- 1 of 7. (0-point answer)
  None.

Approximately what percentage of funds is sold through an open architecture system (a distribution system where options come from multiple fund families)? (question weight = 3)

- More than 80%. (3-point answer)
  Australia, Canada, China, Japan, and United States
- Between 50% to 80%. (2-point answer)
  Hong Kong, Italy, Netherlands, New Zealand, Singapore, Switzerland, Taiwan, and United Kingdom
- Between 20% and 49%. (1-point answer)
  France and Germany
- Less than 20%. (0-point answer)
  Spain

Do investors have the option of investing in either passively (for example, tracker funds) or actively managed funds? (question weight = 1)

- Yes, both actively and passively managed funds are readily available. (2-point answer)
  Australia, Canada, China, France, Germany, Hong Kong, Italy, Japan, Netherlands, New Zealand, Singapore, Spain, Switzerland, Taiwan, United Kingdom, and United States
- No, only actively managed funds are readily available. (1-point answer)
  None.
- No, only passively managed funds are readily available. (1-point answer)
  None.