Discussion: The Impact of Shrouded Fees
Paper by Anagol & Kim

Renuka Sane
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Question: How do firms respond to greater disclosure requirements?

Use a rule change by SEBI which applied differently to closed-ended funds and open-ended funds.

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Call this period, Regime 2.

Initial issue expenses can be amortized, so not visible to the customer. Entry-load is a one-time charge, so more obvious.

Hypothesis: In the above period, firms will sell closed-end funds as they can charge more in fees.

Difference-in-difference approach
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Findings

1. Firms respond to disclosure policy by altering products to essentially maintain lack of clarity in pricing.

2. Investors would have saved approximately US$500 million in fees.
Part I

Comments and suggestions
Descriptive statistics

- 45 new closed-end funds were started in Regime 2, whereas none in Regime 3, and 2 in Regime 1.

- Useful to look at what proportion of new funds were new closed-end funds. Did mutual funds prefer to issue closed-ended funds over open-ended funds? Or did they issue more of both?

- In March 2006: 8% of new issues were closed-ended funds. In September 2006: all new issues were closed-ended funds.

- The proportion of closed-end funds issued was higher for 7 months in the window of 22 months.
Clarity on the Regime 2 and Regime 3 variables - wouldn’t they represent overall sales relative to the other two regimes, and not just the sales of open-ended funds relative to closed-ended funds?

Interpretation of negative and significant signs on both the dummies

A greater discussion on “Poisson starts” in the d-i-d set-up?
Sales channel

- Premise is that mutual funds started more closed-ended funds as investors do not understand initial issue expenses.

- If direct sales only account for 12% of total sales, what was the role of the distribution network in selling closed-ended funds?

- Was there any evidence of greater commissions for selling these funds? What was the agent’s incentive to sell closed-ended funds, given that mutual funds had not stopped issuing open-ended funds in the period?
Information on redemption

- Earlier rules penalized long-term investors in closed-ended funds as they had to pay the initial issue expenses over the full period.
- New rule made short-term investors pay up the expenses upon redemption.
- Yet, majority of closed-end funds during Regime 2 had frequent redemption? This would have made sense if the rule penalizing long-term investors had persisted.
- Did people not know about this change in rule?
Regime 4, from 1 August 2009

- No entry load and initial issue expenses on mutual fund products
- Not so for insurance products
- Question is: which products got sold?
Thank you.