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

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Overview of the paper

- 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
- Between April 4, 2006 and January 31, 2008 closed-ended funds could charge "initial issue expenses", while open-ended funds could charge "entry-loads"
- 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.

Methodology: Table 3

- 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.