

AUGUST 18, 2010, 7:14 P.M. ET

Broker Practices Costing Fund Holders, Advocacy Group Says

By Daisy Maxey Of DOW JONES NEWSWIRES

NEW YORK (Dow Jones)--Several practices used by large broker-dealers related to the use of consolidated, or omnibus accounts, are imposing billions of dollars in hidden costs on mutual-fund investors, the Coalition of Mutual Fund Investors alleged Wednesday.

The practices are imposing costs on individual investors each year of as much as \$2.2 billion in account maintenance charges, more than \$4.18 billion in shareholder servicing payments and more than \$2.09 billion in revenue sharing, the Washington, D.C.-based advocacy group estimated.

Regulatory action should be taken "to protect individual investors from these unnecessary costs," the coalition said in a statement.

The Securities Industry and Financial Markets Association, or Sifma, Wall Street's main lobbying group, had no immediate comment on the statement. Bank of America Corp.'s (BAC) Merrill Lynch, a brokerage giant, declined to comment.

Many investors purchase fund shares through financial intermediaries, and it is common practice for some brokers to aggregate these requests into a consolidated order for each fund daily. Often no information is disclosed to mutual-fund compliance personnel about the specific trading activities of each of the underlying investors at the time of a transaction in these consolidated accounts, the coalition said.

Broker-dealers press mutual fund companies to allow the accounting for these transactions to be done on the broker-dealers' books because it offers an opportunity for the broker to charge "significant fees to the funds, in addition to sales commissions and other fees charged for distribution," the group alleged. A broker-dealer is typically able to collect at least three different fees from mutual funds for account maintenance and shareholder servicing activities, it said.

The fees charged to the fund for record-keeping and other shareholder servicing activities aren't subject to competitive bids, and not typically discounted to reflect economies of scale or large volumes of accounts, it said.

"The fees are hidden as well as the accounts," said Niels Holch, executive director of the Coalition of Mutual Fund Investors, in an interview. "The disclosure that brokers make are all very general and there's no specific dollar disclosure being made."

While some omnibus transactions are transparent and information on the investor is transmitted to the fund, about half of the per-fund positions aren't transparent, he said. Many of the fees are "totally unnecessary," Holch said.

-By Daisy Maxey; Dow Jones Newswires; 212 416 2237; daisy.maxey@dowjones.com