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Many US funds can't deter improper trading-study

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BOSTON, Aug 4 (Reuters) - Many mutual fund companies cannot enforce rules designed to deter improper trading practices because they do not directly control the investors' accounts, according to a new study released on Wednesday.

The Coalition of Mutual Fund Investors, an investor advocacy group founded last year by three Washington lawyers, found the majority of the U.S.'s 50 largest mutual funds tell investors that they impose redemption fees.

The study also found, however, that 88 percent of firms that have these fees waive or limit their enforcement because they often do not have access to the underlying shareholder information.

"It is impossible for funds and their boards to ensure equal and fair treatment of all shareholders when some shareholders own shares in omnibus accounts," the group wrote in its executive summary.

Since many mutual fund shares are sold through intermediaries, mutual fund firms often record only one shareholder who in turn holds accounts for hundreds of thousands of individual investors.

The group compiled its survey after reviewing prospectuses that mutual fund companies filed with the U.S. Securities and Exchange Commission.

After regulators last year discovered that many fund companies turned a blind eye to market timing, the fast-paced buying and selling of shares, a practice that can hurt returns, certain companies have adopted fees aimed at preventing this sort of trading.

The study found that fund firms tell their investors that it is very difficult to enforce market timing policies in omnibus accounts.

"There is no guarantee that the Funds will be able to identify shareholders who may be engaging in excessive trading activity through omnibus accounts or to curtail such trading," the report said, citing the prospectus filed by Dodge & Cox.

In fact, regulators last year found that an Phoenix-Arizona firm called Security Trust Co., helped so-called market timers by lumping their trades in with other orders made every day by omnibus accounts.

To be fair to all investors, the group said it recommends "that financial intermediaries be required to disclose shareholder identity and transaction information to mutual funds on a daily or transactional basis."
