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Fund Action

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HEADLINE: Investor Advocate Group Pushes For More Broker Disclosure

BODY:

An investor advocacy group said there are compelling grounds for making brokers disclose fees they are paid for selling a particular fund's shares based on results of recent summary prospectus focus groups convened by the Securities and Exchange Commission.

The Coalition of Mutual Fund Investors said in an August 29 comment letter to the SEC that "many investors do not really read prospectuses, even summary ones" and, therefore, brokers should be required to make specific disclosure at the start of customer relationships of benefits they get from the funds whose shares they sell, with further such disclosures whenever a transaction is executed, as well as annually.

CMFI extracted several investor quotes from the focus group material the Commission made public on July 31 to support its arguments. It quoted one focus group participant as saying "these costs are not a small part of the decision process, so I think the earlier [the broker tells about fees] the better; certainly before you sign any papers." Another is reported to have said, "I ask my broker, 'okay, how much do you get for this, this and this?' He'd tell me. His recommendation has to be colored by which one he is getting the most from, if that's the one he's recommended."

The summary prospectus proposed by the SEC calls for some broker disclosure but not nearly enough, in the view of the CMFI. Like fund companies which have commented on the focus group findings, CMFI criticized the SEC for not getting a more representative sample of the U.S. population than the 25 people who participated in the focus groups. Instead of three groups, said the CMFI, there ought to have been 15 or 20, with eight or nine people at each event.

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