

# White Paper: Shedding Light on Omnibuses With 22c-2

By Staff, Fund Directions, July 2010

There isn't any reason why a board can't require same day or real time disclosure of omnibus account information at the account or shareholder level, according to **Niels Holch**, executive director of the **Coalition of Mutual Fund Investors**. Rule 22c-2 gives a mutual fund the ability to request information on the identities of shareholders and transaction information within omnibus accounts, which hold the transactions of many different investors of a financial intermediary. Holch takes a deeper look at omnibus accounts and the fees that broker-dealers are charging mutual fund accounts in a new white paper – *The Costs of Providing Shareholder Services to Hidden Mutual Fund Accounts*.

The paper is an update to another Coalition release from last fall that highlighted an additional expense of \$48 per fund account when using “hidden” or omnibus accounts (*FD*, November). In the newer draft version, Holch predicts that there is roughly \$6.89 billion per year in unnecessary costs that shareholders are unaware of paying in omnibuses – a slightly lower number from his original projections of \$9.6 billion. “Boards should be concerned about the growth of these accounts both from a cost point of view and from a transparency point of view,” said Holch.

Rule 22c-2 was originally intended to determine whether a redemption fee was necessary by permitting funds to look at intermediary transactions on behalf of clients, said **Thomas Westle**, partner at **Blank Rome**. Although the actual cost to the fund companies has not been as onerous as was initially thought, increased usage of the rule would likely increase costs, Westle said.

Another problem is that funds include language in prospectuses and other filings that does not guarantee the policies and procedures apply to omnibus accounts but instead relies on the intermediaries to relay those policies and procedures, Holch said. In the paper, he proposes re-adoption of existing technology platforms, such as **National Securities Clearing Corporation** software, in order to provide full transparency in omnibus accounts.

“When a mutual fund makes a promise in a prospectus the board should be concerned about the fact that these promises aren't being executed uniformly,” Holch said. “The boards are there to represent the interests of the shareholders and if you are a shareholder buying through an intermediate account you are not getting the protection from market timing or the adequate sales load.”