

J.P. Morgan Funds Halt Direct Payments for Sub-TA

By Whitney Curry Wimbish, *BoardIQ*, October 4, 2016 [subscription required]

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A new payment arrangement at **J.P. Morgan Funds** for intermediary fees offers one way funds can comply with the Securities and Exchange Commission's updated guidance on such fees, some say.

According to a disclosure, the funds will stop making direct payments to financial intermediaries for sub-transfer agency services as of April 3, 2017. After that, payments to financial intermediaries for sub-TA services will be made by JPMorgan Distribution Services, the fund's shareholder servicing agent, from the service fee. That fee previously was referred to as the shareholder service fee.

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In its January guidance, the SEC handed independent directors the job of overseeing the reasonableness of fees paid from fund assets and the factors they should consider when overseeing payments to intermediaries outside of a 12b-1 plan.

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Some who read the J.P. Morgan Funds disclosure say it seems that the new payment arrangement could relieve directors of some of those evaluations.

Niels Holch, a partner at **Holch & Erickson**, says the arrangement seems to concede the point that sub-TA fees are indeed for distribution.

"It seems to me that what J.P. Morgan is doing is they're making the decision for the board, saying, 'We're going to classify these sub-TA services as part of the shareholder service fees,'" Holch says.

In a normal situation, the shareholder service fee would be the administrative portion of the 12b-1 fee, which is capped at 25 basis points.

"If that is capped, and because you have to assume that the maximum 25 basis points is already being paid, the only other way they could compensate the broker for the loss of this fee is to do it through revenue sharing, which is outside fund assets," Holch says, leading him to believe that shareholders would receive savings as a result.