

Rule Proposal Draws Back Curtain on Institutional Trades

By Whitney Curry Wimbish, BoardIQ, July 26, 2016 [subscription required]

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A proposed rule would for the first time require broker-dealers to publicly detail how they handle trade orders for mutual funds and other institutional investors, potentially giving independent directors a clearer idea of whether their products are receiving best execution.

The Securities and Exchange Commission's proposal could also increase competition among broker-dealers, which would benefit investors of all types, experts say.

"It won't be overnight, but the rule has the potential to improve execution quality and mitigate conflicts of interest or at least bring them to light," says David Hearth, a partner at **Paul Hastings**. "It could put more institutional investors and funds that manage money for people's retirement accounts on equal footing with broker-dealers."

Broker-dealers are not required to disclose specific order handling information about institutional orders. Mutual funds and other institutional investors typically negotiate what details they will get and how often, and there is no one-size-fits-all agreement. Larger institutional investors typically have greater power to negotiate more information than smaller ones, experts say.

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"I think it's a clear step in the right direction. The proposed rule is going to make order handling much more transparent for all types of investors," says Niels Holch, a partner at **Holch & Erickson** and executive director of the Coalition of Mutual Fund Investors.

"Fund management has a responsibility for best execution for fund orders, but it seems to me that these disclosures will make the process less expensive because you're going to be bringing out into the sunshine the rebates and the conflicts," Holch says. "The transparency is going to improve the practices...I think that is something that will benefit the investors and fund directors will be pleased."