Hunt for Wronged AllianceBernstein Investors Stepped Up

By Peter Ortiz, Ignites, January 16, 2014 [subscription required]

AllianceBernstein shareholders entitled to compensation from the market-timing fallout, but whose checks were returned, deemed undeliverable and uncashed, will have another shot at $58 million.

The Securities and Exchange Commission approved a Fair Fund distribution plan — where money is set aside for wronged shareholders — for Alliance Capital Management in 2008 of $321 million, which with interest grew to more than $346 million.

The money was then disbursed to harmed investors, but a new order requires a further search for investors to get back the remaining $58 million. The firm changed its name to AllianceBernstein in 2006.

In typical Fair Fund cases, an independent distribution consultant devises a methodology and works with a fund administrator to distribute monies to aggrieved investors and to funds harmed by the market-timing scandal in the early 2000s. Any residual after a search for investors and funds then goes to the Treasury.

The $58 million set aside for investors includes $4.7 million in checks refused or returned, $20.4 million for checks deemed undeliverable and $33.3 million for delivered but uncashed checks.

The SEC, the independent distribution consultant and the fund administrator decided that “certain enhanced measures” beyond the original efforts to search for shareholders could lead to more harmed investors' receiving checks, the SEC order from last week read.

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Niels Holch, executive director and founder of the Coalition of Mutual Fund Investors, described the AllianceBernstein order as a “good step forward.”

The AllianceBernstein order does a good job in dealing with three distribution challenges Fair Funds have faced: identifying investors in omnibus accounts; investor apathy or ignorance in not knowing whether they are entitled to compensation; and the length of time since Fair Fund distribution plans were announced and funds distributed, he says.

“They [funds] need to communicate with investors, and I think what Alliance is doing is good so checks don’t go uncashed,” Holch says. “It seems to me that Fair Funds ought to go through a more rigorous process for a second round of trying to reach investors if there is a large residual.”

Boston University law professor Tamar Frankel agrees that it is fair and reasonable for additional searches for investors in cases where undistributed residuals remain large and the costs can be justified.

Since the cost of additional searches is coming out of the Fair Fund itself, the cost of reaching harder-to-find investors should not be an issue, Holch says. He hopes other Fair Funds consider additional searches.

“I’d like to see a much more detailed process, even if it means amending the distribution plan, as Alliance did,” Holch says.