Morgan Stanley Rev-Share Shift Signals Increasing Sales Complexity

By Bradley Saacks September 5, 2017, *Ignites* [subscription required]
http://www.ignites.com/c/1727203/202473/morgan_stanley_share_shift_signals_increasing_sales_complexity?referrer_module=issueHeadline&module_order=0

Morgan Stanley's new revenue-sharing model is the most recent change to a distribution landscape that has rapidly evolved in recent years.

Thanks to the Department of Labor's fiduciary rule and threats from passive products, distributors have pushed through changes to long-held models for how they work with fund shops that might have otherwise taken significantly longer to implement.

And few things have been picked apart as thoroughly as the various agreements between broker-dealers and product providers, as terms of how products get placement on distributors' shelves and what asset managers pay in exchange have become hot topics.

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Morgan Stanley's decision to link the revenue-sharing fees that fund partners pay to the wirehouse with partners' management fees is a structure industry veterans describe as novel. "Clearly, it's different from what we have seen before," says Dennis Bowden, managing director for mutual fund research at Strategic Insight.

But in an industry where copycat moves are common, few expect other distributors to follow Morgan Stanley's lead when crafting their revenue-sharing structures going forward.

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Morgan Stanley tweaked its model to reduce "the potential for conflicts by requiring level and consistent economics across all money managers on the platform," the wirehouse notes in its statement to *Ignites*.

"The rates were reduced from a maximum of 16 [basis points] to a tiered rate schedule with a maximum of 10 bps on assets under management," the statement reads.

"Allowing for a tiering of rates based on management fees was a simple recognition that a flat basis point amount, irrespective of the fund's management fee, could be unduly burdensome on certain asset classes of funds as well as cheaper funds more broadly."

While the wirehouse pitches its new structure as ultimately beneficial to the investors, at least one industry watcher is skeptical that the model sufficiently mitigates potential conflicts of interest for individual brokers.

“There’s just a lot of ways an individual broker can benefit from placing an investor in a higher-priced fund,” says Niels Holch, executive director of the Coalition of Mutual Fund Investors.

If Morgan Stanley benefits from bringing in more revenue-sharing fees, then an individual broker will eventually benefit down the line, Holch argues. The counter from a distributor’s point of view could be that it is easier to sell a large volume of low-cost products than smaller amounts of higher-priced funds, and the revenue-sharing payout would equal out.

Either way, Morgan Stanley’s new system goes “in the opposite direction of where this industry is moving” in terms of levelized fees, Holch says.