SEC offers advisers amnesty to move clients out of high-fee mutual fund share classes

Enforcement division giving advisers until June 12 to declare intentions to self-report fiduciary violations and make financial restitution

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The Securities and Exchange Commission on Monday launched an initiative to waive fines against investment advisers who come forward and admit that they had been putting clients into high-fee mutual fund classes and agree to reimburse those clients.

According to the announcement, under the Share Class Selection Disclosure Initiative, the SEC's enforcement division "will not recommend financial penalties against investment advisers who self-report violations of the federal securities laws relating to certain mutual fund share classes and promptly return money to harmed clients."

The announcement, which twice **references "widespread"** lack of fee disclosures, is the **latest sign of an increased effort** by regulators to crack down on investment fees.

In December, the **SEC filed a complaint** against a Connecticut investment adviser who invested clients' money in mutual fund share classes with 12b-1 fees when the same fund without such fees was available.

Neils Holch, executive director of the Mutual Fund Investors Coalition, compared the SEC initiative to a practice sometimes used by Financial Industry Regulatory Authority Inc. to flesh out violators of break-point discounts.

"This is a reasonably efficient way to clean up this problem," he said.

The SEC's Monday afternoon announcement cited Section 206 of the Investment Advisers Act of 1940, which imposes a fiduciary duty on advisers to act in the best interest of clients, including disclosing conflicts of interest.

The SEC is giving advisers **until June 12** to announce their intention to self-report.

"This focused initiative reflects our effort to allocate our resources in a way that effectively targets the continued failure by some advisers to disclose conflicts of interest around share class selection and, importantly, is intended to facilitate the prompt return of money to victimized investors," Stephanie Avakian, co-director of the Division of Enforcement, said in a prepared statement.