Clayton: SEC targets 'complex, hidden fees'

Putting clients in expensive share classes instead of lower-cost ones hurts investors, chairman says

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Securities and Exchange Commission Chairman Jay Clayton said on Wednesday the agency is targeting complex and hidden fees that can harm investors — both through enforcement and by clarifying disclosure requirements.

In a **speech at a Practising Law Institute conference** in New York, he also said that the SEC is creating a database of financial advisers who have been barred from the industry.

Mr. Clayton highlighted examples of opaque costs, including when an investor is put in an expensive mutual fund share class rather than a lower-cost one in the same fund; when a financial adviser uses fund assets to pay expenses that their firms should cover; and when brokers secretly mark up securities prices to increase their profits.

"A narrative that flows throughout the commission's inspection and enforcement programs is complex, obscure or hidden fees and expenses that can harm investors," Mr. Clayton said. "I expect that our Enforcement Division will continue to be active in pursuing cases where hidden or inappropriate fees are at issue, but we also are exploring whether more can be done to clarify fee disclosures made to retail investors and, thereby, deter and reduce the opportunities for misbehavior."

INVESTOR ADVOCATE

An advocate for mutual fund investors praised Mr. Clayton for zeroing in on hidden fees.

"I applaud the commission for starting to move forward to close some of these loopholes and address abusive fee practices," said Niels Holch, executive director of the Coalition of Mutual Fund Investors.

Despite the downward pressure on fund distribution fees exerted by the Labor Department fiduciary rule, exchange-traded funds and passive investing, a number of fees are not fully disclosed, according to Mr. Holch. In a **July letter to Mr. Clayton**, he said that 12b-1 fees, a payment to brokers for selling a fund, can be 1% of an account's value, while annual maintenance fees can be more than $20 per fund in an account.

"Together, these fees are estimated to be taking more than $8 billion a year out of the pockets of investors, both directly and indirectly," Mr. Holch wrote.

Mr. Clayton may change the equation.

"The fee-disclosure issues are in play right now, and I think that's great," Mr. Holch said.

BAD BROKER DATABASE

In addition to the SEC cracking down on fraud, investors need to be armed with better information to protect themselves, Mr. Clayton said.

"To that end, and a specific example of shedding light in areas that are dark, we are creating a website that will contain a searchable database of individuals who have been barred or suspended as a result of federal securities law violations," Mr. Clayton said. "The resource is intended to make the prior actions of repeat offenders and fraudsters more visible to investors."

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