



All that's hot in the mutual fund industry

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Red Flag Over Omnibus Charges

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New allegations involving omnibus account charges could spawn the next industry scandal, but the accounts are so complex that it will be hard to make the accusations stick, writes MarketWatch columnist Chuck Jaffe.

Making the allegations is the **Coalition for Mutual Fund Investors**, which has released a study pointing to as much as \$9.6 billion in extra or unnecessary costs being paid unwittingly through omnibus accounts. The overcharges amount to nearly \$50 per fund account, the group claims.

Funds typically pay financial intermediaries a higher fee per account than that paid to their own transfer agent for the same services, says Niels Holch, the coalition's executive director. As a consequence, intermediaries for omnibus accounts get \$19 to \$25 to service each shareholder, compared with \$10 for the regular transfer agent, Holch tells Jaffe.

Industry insiders, meanwhile, counter that omnibus accounts actually cut down on costs for investors, Jaffe says. Funds are able to negotiate a lower rate with their own transfer agents precisely because the omnibus accounts reduce the agents' work load.

If funds were forced to service all the customers in an omnibus account individually, costs would skyrocket, says Xavier University finance professor David Hyland, whom Jaffe interviews. There doesn't seem to be any foul play, though the size and complexity of omnibus accounts make it hard to know for sure, he says.

It's true, Jaffe says, that there's ample opportunity on both sides to manipulate the numbers. Shareholders may in fact end up overpaying for services like recordkeeping, though they would still benefit from the convenience of one-stop shopping, he says.

One solution may be to present service costs to shareholders in absolute dollar terms, as opposed to having them factored into the expense ratio, Jaffe says.

By [Joe Morris](#)

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