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# ICI Survey: Flawed Fee System Doubles Costs to Fund Shareholders for Broker Delivery of Fund Reports


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## Fund Industry Urges Updating of Rules to Create Savings for Shareholders

**Washington, DC, July 14, 2016**—New analysis conducted by the Investment Company Institute (ICI) shows that funds pay 120 percent more to deliver shareholder reports to investors owning funds through brokerage accounts than those owning funds directly at fund companies. This is due to a flawed fee system that removes incentives for brokers to negotiate lower costs and pass those savings to fund shareholders.

ICI General Counsel David Blass delivered the troubling new statistic in remarks before the Securities and Exchange Commission (SEC) Investor Advisory Committee meeting, as part of a discussion of investment company reporting modernization. Blass requested the committee work urgently with the SEC to fix the failed regulatory and fee structure for mutual fund shareholder reports—a structure that allows brokers to charge funds the maximum fees allowed under New York Stock Exchange (NYSE) rules, and to pocket "rebates" from the vendor that delivers the reports without passing those rebates on to fund shareholders.

"Because of outdated regulations and a near monopoly on delivery services, funds are currently paying more than double for delivery of shareholder reports for broker-held accounts, compared to accounts held at funds directly," said Blass. "In a recent survey that covered about half of industry assets, every ICI member that responded reported that they pay more to deliver reports to broker-held accounts than to direct-held accounts. It is past time for the SEC to instruct the NYSE to update these rules and end the harmful days of broker kickbacks to create real savings for fund shareholders."

ICI estimates that funds pay more than $100 million in fees each year for distribution of shareholder reports to broker-held accounts. These are fund expenses borne by shareholders. Under current law, brokers handle delivery of fund shareholder reports to their brokerage clients—and then the funds reimburse the brokers for the delivery costs. Nearly all brokers contract with a single vendor—Broadridge Financial Solutions, Inc.—to handle the delivery. The brokers and Broadridge negotiate the cost of delivery, but the funds (and by extension, their shareholders) are required to foot the bill.

The NYSE administers a fee schedule that establishes the maximum amount that a broker can charge a fund for delivering a shareholder report. But, because the brokers don't actually pay the delivery costs, they lack incentive to negotiate anything lower than the maximum rate with Broadridge. When brokers are able to negotiate a lower rate than the maximum, fund shareholders do not benefit. Instead, Broadridge rebates the difference back to the broker.

Blass's remarks on shareholder report delivery reform follow earlier comments from ICI supporting the SEC's 2015 rule proposal to switch the default delivery method for fund shareholder reports from paper to online delivery. The SEC's proposed rule 30e-3, if implemented as ICI recommends, would provide shareholders with a paper postcard mailing twice a year that details the website where the full shareholder report is available. The postcard also would have a toll-free number that shareholders who prefer paper shareholder reports could call to permanently opt back in to paper delivery.

ICI estimates the fund industry prints 240 million shareholder reports each year. Changing the default delivery method for shareholder reports from paper to online could save nearly 20 million trees and $1.5 billion in print and mailing costs currently borne by shareholders over the first 10 years the new rule is in place, the Institute calculates.

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