

Daren Domina in Ignites: Morningstar to SEC: Make Brokers Disclose Rev-Share Details

November 20, 2019 Daren Domina

PRACTICES Investment Management, Investment Banking and Broker Dealer, Corporate, Capital Markets and Securities

Haynes Boone Partner [Daren Domina](#) talked with Ignites about a recent Morningstar report regarding revenue-sharing agreements.

Here is an excerpt:

The move to clean shares has helped alleviate one source of conflicted investment advice, but clients continue to be harmed by incentives embedded in revenue-sharing agreements that are often not clearly conveyed, says a recent paper from Morningstar.

And the Securities and Exchange Commission's [SEC's] forthcoming Regulation Best Interest should push brokerages to reexamine those payment structures, the researchers say.

In fact, revenue-sharing agreements create conflicts that are "often opaque and harder to evaluate" than most other sources of tainted product recommendations, the three Morningstar policy analysts wrote.

Beginning next June, the enforcement of Reg BI could dramatically alter revenue-sharing practices, Morningstar says. For one, sales contests and quotas will be explicitly banned, so incentives provided to individual staffers may be considered a "similar explicit conflict" that needs to be eliminated, or disclosed and mitigated.

In addition, firms may need to more fully describe whether education and training are tied to sales targets, or dependent on them. If distributors want to treat education as a "perk," they may be able to mitigate the conflict by accepting training from multiple fund complexes, who end up in a "race to the top in providing these services as perks to win the favor of brokers," according to Morningstar.

One other question that remains is how examiners will handle recommended lists. Brokers may need to disclose how funds on such lists are in their clients' best interests and are not just being pushed because the broker earns more fees or commissions. It's also unclear if the SEC will enforce instances in which a broker sells a "recommended fund," when an equally viable and cheaper off-list option was available.

The new rule will likely impact how firms inform clients of revenue-sharing agreements, including the ways in which they use preferred or select fund lists, says [Daren Domina](#), partner at Haynes Boone.

"Unless it eliminates such practices, the broker-dealer would be required under Reg BI to disclose the material facts about its recommendations, including its fees and related conflicts," he says.

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