Ameriprise hit with enforcement action over expensive share classes

SEC has made a crackdown on high-fee funds a top priority, including a program for self-reporting failures.

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- By Mark Schoeff Jr.

Ameriprise is the latest financial firm to run afoul of the Securities and Exchange Commission for selling expensive mutual fund share classes to clients when more affordable options in the same fund were available.

The SEC announced Wednesday a settlement with Ameriprise in a case involving approximately 1,791 customers and at least 5,973 transactions from January 2010 through June 2015.

The SEC alleged that Ameriprise sold Class A shares with upfront sales loads or Class B or Class C shares with ongoing back-end charges instead of less expensive classes. The Ameriprise clients paid approximately $1.8 million in excess fees.

The SEC asserted the firm failed to tell its customers, who were in retirement accounts, that they were eligible for the less-costly shares. The SEC said the firm also did not disclose that by putting its clients in the higher-priced shares, the firm would make more money and potentially lower clients' returns.

The SEC order said Ameriprise voluntarily returned the $1.8 million to its customers, along with $190,797 in interest. In addition, Ameriprise agreed to a $230,000 fine. In the settlement, Ameriprise did not admit nor deny the charges.

The Ameriprise action comes just weeks after the SEC announced a program to encourage financial firms to self-report that they failed to disclose loads, 12b-1 fees and other charges. Those self-reporting firms would then avoid civil monetary penalties. But the initiative targets investment advisers, and the Ameriprise order was broker-dealer activity, according to someone familiar with Wednesday's SEC action.

"Ameriprise generated greater revenue for itself but lower returns for its retirement account customers by recommending higher-fee share classes," Anthony S. Kelly, co-chief counsel of the SEC Enforcement Division's Asset Management Unit said in a statement. "As evidenced by our recently announced Share Class Selection Disclosure Initiative, pursuing these types of actions remains a priority for the division as we seek to get money back in the hands of harmed investors."

Ameriprise emphasized that it took action on its own to make investors whole.

“As pointed out in the settlement, Ameriprise voluntarily paid full remediation to clients, with interest,” firm spokeswoman Kathleen McClung said in a statement. “It’s important to note that this is a long-standing industry topic and numerous firms have settled with the SEC and Finra on similar matters.”

The SEC reached a $3.5 million settlement with UBS in September in a case involving high-fee share classes.