FINANCIAL ADVISOR IQ

Top IBDs Rake It in From Revenue-Sharing

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Direct-participation programs yield independent broker-dealers revenue-sharing commissions up to 15 times the maximum they can collect on mutual fund sales, *Financial Advisor* writes. Despite calls for a crackdown on what is essentially a pay-to-play scheme with limited disclosure, the practice is alive and well at some of the biggest IBDs in the country, according to the publication.

Broker-dealers can collect fees from purveyors of products like non-traded REITs and BDCs that are ostensibly meant to pay for marketing, due diligence and staff training. But they also buy the sponsors more shelf space, *FA* says. The fees are particularly popular with IBDs because they provide a revenue stream from which to pay their advisors, who can't collect revenue-sharing fees directly. Although there are no data on fees generated by direct-participation programs, the total is likely significant, as there's about $115 billion invested in non-traded products, *Financial Advisor* reports.

Disclosure documents analyzed by the publication show the country's top IBDs are in on the game. LPL Financial can earn up to 60 basis points annually on assets in direct-participation programs, or 1.5% of sales, compared with just 15 basis points (3.5% of sales) annually on mutual funds. Cetera Financial Group receives up to 150 basis points on the programs — five times what it can earn on sales of mutual funds or variable annuities. Commonwealth Financial Network gets up to 70 basis points on direct-participation program sales, vs. 30 basis points for mutual funds. Ameriprise Financial Services gets a humongous 8.5% of capital invested in direct-participation plays; for mutual fund assets, it's more like 25 basis points. The outlier is Cambridge Investment Research, whose arrangements yield up to 150 basis points on direct-participation program sales, compared with 10 basis points for mutual funds. None of the companies provided comment to *Financial Advisor*.

Because of the inherent conflict of interest in such arrangements and lack of adequate disclosure, the **SEC** has mentioned the possibility of outlawing the practice outright. A 2004 proposal was eventually shelved, but the agency has since gone after individual firms, according to *Financial Advisor*. This has led most broker-dealers to disclose the maximums they collect from revenue sharing by sponsor types, but they don't provide breakdowns of individual product deals or firmwide totals. Some broker-dealers, meanwhile, such as **Fieldpoint**, do not accept such payments.

In March, consumer advocacy groups including the Consumer Federation of America, Fund Democracy, Americans for Financial Reform and others wrote a letter to SEC chairman **Mary Jo White** suggesting that revenue-sharing be "either banned or severely limited," according to *Financial Advisor*. Next spring, a new rule from Finra will require firms to report per-share estimated values in direct-participation programs on customer statements. These developments are affecting sales — in the first quarter of this year, sales of non-traded REITs and BDCs dropped 21% from the year-ago period, the publication says.

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