

MEMO# 20426

September 29, 2006

Fund Advisers and Distributor Settle SEC Charges Relating to Revenue Sharing

©2006 Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice. [20426] September 29, 2006 TO: BROKER/DEALER ADVISORY COMMITTEE No. 39-06 CLOSED-END INVESTMENT COMPANY MEMBERS No. 46-06 SEC RULES MEMBERS No. 86-06 SMALL FUNDS MEMBERS No. 69-06 RE: FUND ADVISERS AND DISTRIBUTOR SETTLE SEC CHARGES RELATING TO REVENUE SHARING The Securities and Exchange Commission has settled an administrative enforcement action against the registered investment advisers and principal underwriter and distributor of a mutual fund complex (collectively "Respondents") over charges that they failed to adequately inform fund shareholders and directors of revenue sharing arrangements.* The Respondents neither admitted nor denied the findings. The Order found, among other things, that the distributor entered into revenue sharing agreements with broker-dealers, under which it paid cash to the broker-dealers to gain additional exposure for the funds it distributes. Such exposure included placing the funds on the broker-dealers' preferred or recommended fund lists and websites. In some cases the distributor also agreed to direct brokerage commissions on transactions placed by the advisers for the funds to certain broker-dealers in addition to or in lieu of cash payments. The Order further found that the advisers failed to effectively communicate to fund shareholders or directors that the distributor engaged in these practices. Based on the alleged conduct, the Order found that the advisers violated Section 206(2) of the Investment Advisers Act, and Section 17(d) and 34(b) of the Investment Company Act and Rule 17d-1 thereunder; and that the distributor aided and abetted and caused these violations. The Commission * See In the Matter of Deutsche Investment Management Americas, Inc., Deutsche Asset Management, Inc., and Scudder Distributors Inc., SEC Release Nos. 34-54529, IA-2558 and IC-27505, Admin. Proc. File No. 3-12442 (Sept. 28, 2006) (the "Order"). The Order is available at <http://www.sec.gov/litigation/admin/2006/34-54529.pdf>. 2 censured the Respondents and ordered them to comply with certain remedial undertakings. The Commission also ordered the Respondents to collectively pay \$19.3 million in disgorgement, interest and penalties. Mara Shreck Assistant Counsel

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