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SEC Considerably Understates Costs of Rule 12b-1 Reform Proposal

By ICI Strategic Communications

Following up on our [November comment letter](#) to the Securities Exchange Commission, ICI conducted and submitted our own [cost-benefit analysis of the SEC's proposal to replace Rule 12b-1](#). The takeaway? The SEC's proposal understates the costs of reforming Rule 12b-1, while overstating the benefits.

Here are a few key points from our analysis:

- **The cost of implementing the rule is estimated to be \$418 million initially, more than twice the \$159 million estimated by the SEC.** In addition, we anticipate that the annual ongoing costs to funds cumulated over the five-year grandfathering period would conservatively amount to \$345 million, over eight times the \$40 million that the SEC estimated. We estimated these costs based on information from 20 fund complexes with 1,044 funds that account for 64 percent of assets held in share classes with a 12b-1 fee greater than 25 basis points.
- **We see little basis for the SEC's hypothesis that the proposed rule will convey annual benefits to fund shareholders of \$1.1 billion to \$1.3 billion.** The SEC proposal would cap the asset-based distribution fees that investors pay through funds. The Commission assumes this cap will allow shareholders to pay intermediaries less—yet still receive comparable services. This ignores market realities. The \$1.1 to \$1.3 billion reduction in the fees paid by investors through mutual funds will be matched by a one-for-one dollar increase in fees that they would pay outside of funds. In effect, the SEC proposal would do nothing more than “squeeze a balloon.”
- **The SEC fails to address other ramifications of the proposal.** The SEC's cost-benefit analysis simply does not anticipate or address fully such areas as the proposal's impact on investors in retirement share classes or on small investors seeking professional investment services. Nor has the SEC fully considered the possibility that a vast restructuring of the fund distribution system could shift incentives for brokers and financial advisers to promote other, less regulated financial products—and whether that would be beneficial or costly to investors.

Bottom line: the likely costs of the SEC proposal far outweigh the potential benefits. The Commission must take a further and more careful look at its economic analysis before proceeding with this rulemaking.

- Read the [full analysis](#).
- Read ICI's November 5 [comment letter](#).
- Visit ICI's [12b-1 Resource Center](#).