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Why Your Clients May Push Back on Bond Fees.

For years, retail investors have groped in the dark with respect to the fees they pay to buy bonds. On Monday, the light's going on.

Thanks to a new rule designed to curb abusive sales practices, brokers will have to say how much they earn when they buy corporate and municipal bonds and sell them to retail investors later that day, The Wall Street Journal reports. At issue is the potential for excessive markups that can cut into returns. Regulators currently require dealer markups to be "reasonable" but there's no strict limit.

The new disclosures—which have been in the works for years—could lead some investors to bargain with their broker for lower fees. Some investors may also opt for lower-cost bond funds or ETFs instead.

Of course there are critics. Brokers are understandably concerned about their bottom line. Some industry participants, meanwhile, say the rule doesn't do enough to help investors. For instance, since many brokers will send the details of the markup via snail mail, investors can easily discard the information without a second thought, critics contend. Even if they read the disclosures, investors won't have a viable way to compare fees, opponents say.

"This is an inefficient way of promoting price competition," Larry Harris, of the University of Southern California, who has studied bond-trading costs, tells the Journal. The Municipal Securities Rulemaking Board and Finra prepared the new rule and defend it as necessary to improve bond-market transparency, among other benefits.

Barron's

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