Accepted Manuscript

Optimization of brokers' commissions

Sebastien M. Lemeunier

PII: S1544-6123(16)30167-2
DOI: 10.1016/j.frl.2016.09.011
Reference: FRL 593

To appear in: *Finance Research Letters*

Received date: 19 April 2016
Accepted date: 16 September 2016

Please cite this article as: Sebastien M. Lemeunier , Optimization of brokers' commissions, *Finance Research Letters* (2016), doi: 10.1016/j.frl.2016.09.011

Optimization of brokers' commissions

Sebastien M. Lemeunier

EBS-Paris
10 rue Sextius Michel
75015 Paris
France
Tel : 0033(0)620232210
Email: slemeunier@gmail.com

Abstract: For decades, the literature has questioned the role of financial advisers and the interests of investors who purchase load funds. Many conflicts of interest are stressed. To go beyond a normative approach, this paper uses the harmonized structure of the US distribution system of load funds and the consequent commissions to understand better the choice criteria of brokers. These choice criteria are unstable and are affected by risks related to the probability of withdrawal of the investor and the performance of the fund. This model may be used to provide explanations for the allocation of funds among share classes.

Keywords : Mutual funds; Broker Dealer; Regulation

JEL classification : G23; G24; G28

1 Introduction

The mutual fund industry is important in the United States. By 2014, about 43% of all American households held shares in one or more mutual funds (ICI 2015). The industry's success has been supported by substantial marketing efforts and generous commission schemes to encourage sales brokers. Indeed, 46% of US households that owned mutual fund shares outside of workplace retirement plans had purchased their funds through the sales force channel (ICI 2015).

The role of brokers includes a commercial and an advisory aspect as the intermediary between mutual funds and investors. The financial adviser[1] must be able to orientate the choices of his or her clients in accordance with their risk profile and investment horizon. In exchange for this service, the broker receives commissions from the fund, with the aim of maximizing them.

[1] The terms "broker" and "financial adviser" are used interchangeably.