SEC Charges Firms for Improperly Using Mutual Fund Assets to Pay Distribution Fees and Other Expenses

May 2, 2017 – The Securities and Exchange Commission today announced that the former investment adviser and the former distributor of the Calvert open-end mutual funds have agreed to pay more than $22 million to settle charges that fund assets were improperly used to pay for marketing and distribution services as well as expenses in excess of annual expense caps.

The money will be returned to the accounts of affected shareholders.

The SEC’s order finds that Bethesda, Maryland-based Calvert Investment Management and Calvert Investment Distributors caused the mutual funds to use approximately $14.87 million in fund assets to pay for distribution-related services rather than making those payments out of the firms’ own assets. Any payments out of fund assets for distribution-related services are required to be made pursuant to a written Rule 12b-1 plan that is approved by a fund’s board, but the Calvert firms utilized fund assets outside the funds’ 12b-1 plans.

According to the SEC’s order, the firms also used the funds’ assets to pay intermediaries approximately $2.96 million for sub-transfer agency services in excess of the funds’ annual 30-basis-point expense caps.

The SEC’s order finds that Calvert Investment Management violated Section 206(2) of the Investment Advisers Act of 1940 and Section 34(b) of the Investment Company Act of 1940. The Calvert firms also caused violations of Section 12(b) of the Investment Company Act and Rule 12b-1. Without admitting or denying the SEC’s findings, the firms agreed to pay disgorgement of $17,829,804 plus $3,784,730 in interest and a $1 million penalty. The SEC’s order notes that the penalty was reduced based on the firms’ self-reporting of the improper fee payments, cooperation with the investigation, and prompt remediation.

Other recent SEC enforcement actions against firms improperly using mutual fund assets to pay for distribution-related services include William Blair and First Eagle.

The SEC’s investigation has been conducted by Brendan P. McGlynn, Oreste P. McClung, and John Farinacci of the Enforcement Division’s Asset Management Unit.

See also: Order