Wrap Accounts Under Fire

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Targeting "wrap" fee programs. | Copyright Chip Somodevilla, Getty Images

Wrap fee programs—when investment advisor "wraps" a portfolio's advisory fees and commissions into a single, all-inclusive fee—are designed to protect clients from churning.

But even these accounts can be misleading, according to the Securities and Exchange Commission. The regulator has charged Richmond, Va.-based RiverFront Investment Group with failing to properly disclose fees charged to clients inside the wrap account. The subadvisor used additional brokers beyond the wrap program sponsor to execute the majority of its trading, the SEC said, adding more costs to clients.

In addition, the firm did not disclose the frequency of the trades. "Investors in wrap fee programs pay one annual fee for bundled services without expecting to pay more, so if subadvisers like RiverFront trade in a way that incurs additional costs to clients, those costs must be fully and clearly disclosed upfront so investors can make informed investment decisions," said Sharon Binger, director of the SEC's Philadelphia regional office.