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Morgan Stanley Dumped Vanguard Due to DOL Rule?

May 10, 2017

The **Department of Labor**'s fiduciary rule was ultimately the reason **Morgan Stanley** stopped offering mutual funds from the **Vanguard Group** earlier this month, Investment News writes.

Dropping funds from Vanguard, which doesn't pay for distribution of its products on brokerage platforms, would reduce potential conflicts of interest that the DOL rule would target, according to the publication. Morgan Stanley would have to "treat everyone the same now" due to the rule, so the wirehouse may have dropped Vanguard's mutual funds because the fund giant doesn't pay for shelf space while other fund providers do, a Morgan Stanley advisor who declined to be named and claims to not have direct knowledge of the decision tells InvestmentNews.

A spokeswoman for the wirehouse, meanwhile, tells the publication that the firm was looking to have "consistent economic arrangements" with its partners, as well as their performance and scale, when assessing funds on its platform.

Morgan Stanley has reduced the number of mutual funds offered on its platform by 25%, InvestmentNews writes. Vanguard's mutual funds make up less than 5% of Morgan Stanley clients' mutual fund assets, the spokeswoman tells the publication.

Brokerage firms will have to figure out how fund providers should pay for distribution in a way that complies with the DOL's fiduciary rule, which "becomes a compliance nightmare," **Marcia Wagner**, principal at **The Wagner Law Group**, tells the publication, adding that she doesn't have direct knowledge of the decision-making regarding Vanguard funds at Morgan Stanley.



The rule is therefore behind large brokerages cutting down on the number of mutual fund providers they work with, Wagner says.

Industry sources tell InvestmentNews that Morgan Stanley rivals **UBS** and **Wells Fargo Advisors** don't plan to stop offering Vanguard's mutual funds.

Merrill Lynch, however, has cut the number of mutual funds available through its wealth management division from 3,500 to 2,000, and doesn't allow its clients to buy Vanguard mutual funds, although they can keep and even add to existing positions in certain cases, a source tells the publication.

The DOL's fiduciary rule, which requires retirement brokers to put clients' interests first, has been delayed at least until June and now also faces a repeal under the Dodd-Frank overhaul bill [approved by a House panel](#) earlier this month.

By [Alex Padalka](#)

- To read the *InvestmentNews* article cited in this story, [click here](#).

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