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MARKETS**SEC Finds Retirement-Fund Issues****Conflicts of Interest Exposed
Between Consulting Firms,
Managers They Recommend**By **DEBORAH SOLOMON**Staff Reporter of **THE WALL STREET JOURNAL**

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WASHINGTON -- A government examination of retirement-fund consulting uncovered significant conflicts of interest between consulting firms and the money managers they recommend to clients, according to people familiar with the matter.

A months-long study to be released today by the Securities and Exchange Commission is expected to confirm what regulators have long suspected: the existence of undisclosed financial ties between consultants and money-management firms that can influence the recommendations consultants make to their retirement-fund clients.


A number of firms such as Callan Associates, **Watson Wyatt & Co.** and **Marsh & McLennan Cos.**' Mercer Investment Consulting provide advice to retirement-funds. The SEC identifies broad patterns in the industry but mentions no firm by name, according to these people.

The study also won't call for new regulations but is expected to recommend better disclosure at consulting firms and money managers, among other changes.

The report stems from a broad probe into conflicts of interest in the retirement-fund consulting arena launched in December 2003 by the SEC's office of compliance examinations and inspections. SEC staff have been trying to determine whether consultants were swayed to recommend certain money managers to their pension-fund clients because they received direct or indirect payments from the asset managers and whether clients knew those payments existed. The SEC's enforcement division also opened its own investigation into retirement-fund conflicts.

Many of the conflicts the SEC has uncovered haven't been properly disclosed, according to people who have seen the report, and the conflicts are similar to those roiling other industries, such as mutual-fund companies and Wall Street research analysts.

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Among the problems the SEC found are consulting firms that may steer clients to hire certain money managers and other vendors based on undisclosed compensation and relationships. Another undisclosed conflict the SEC has found involves consultants who may recommend money-management firms that agree to direct a retirement-fund's stock trades to the consulting firm's brokerage arm.

The study will also cite problems with the lavish conferences that many consulting firms have sponsored in the past for their pension-fund clients. These provide an opportunity for clients to mingle with money managers and discuss investment strategy, but critics have long complained that the conferences are little more than kickbacks from money managers to consulting firms.

While the SEC found no evidence of explicit quid pro quo arrangements, the agency is expected to say that money managers believe the conferences provide little value but are compelled to pay and attend in order to increase their chances of being recommended. Many consulting firms have dropped such meetings following increased regulatory scrutiny. An SEC spokesman declined to comment.

Consultants enjoy great leverage over which money managers or mutual-fund family their clients -- corporations, state and local governments and other employers -- pick for workers' retirement programs, including 401(k) plans. While it isn't illegal for consultants to take money from money managers for certain services, the compensation must be disclosed.

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