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ETF Firms Hit by E-Broker Price War

Arrangements that ETF providers have signed with brokerages like Schwab, TD Ameritrade now in flux



Charles Schwab's OneSource program for ETFs has been effectively discontinued with the move to zero commissions. PHOTO: CLAUDIO PAPAPIETRO FOR THE WALL STREET JOURNAL

By Alexander Osipovich

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Online brokerages aren't the only Wall Street firms jolted by Charles Schwab Corp.'s decision last week to eliminate commissions on stock trades.

Exchange-traded fund providers, such as BlackRock Inc., have also been hit by fallout from the e-broker price war, which escalated in the days after Schwab's decision as rivals such as TD Ameritrade Holding Corp. cut their own commissions to match.

Shares of BlackRock, the New York-based asset-management giant, have fallen 6.8% from their closing price on Sept. 30, the day before Schwab's announcement, compared with a 2.6% drop in the S&P 500. Over the same period, Invesco Ltd. slumped 8.5% while WisdomTree Investments Inc. slid 8.3%.

The reason? Analysts point to arrangements that the ETF providers have signed in recent years with Schwab, TD Ameritrade and other online brokerages, which allow hundreds of their ETFs to be traded commission-free on those brokers' platforms.

On March 1, for instance, Schwab doubled its lineup of commission-free ETFs, including more than 80 new additions from BlackRock's iShares family of ETFs. Dozens of WisdomTree and Invesco ETFs were also added to Schwab's "OneSource" program, which offers a menu of mutual funds and ETFs that can be traded without commissions.

That might have helped steer investors into the funds back when Schwab charged a standard \$4.95 commission for stock and ETF trades. But since Schwab said it was slashing those commissions to zero—a move quickly copied by TD Ameritrade and E*Trade Financial Corp. — the value of having one's ETF included in such a list has evaporated.

BlackRock, Invesco and WisdomTree declined to comment.

Schwab's OneSource program for ETFs has been effectively discontinued with the move to zero commissions, a spokeswoman for the brokerage said. A TD Ameritrade spokeswoman declined to comment on the company's relationships with ETF providers.

There is no readily available data on the share of ETF inflows driven by such commission-free deals, and the details of the agreements between e-brokers and ETF providers are generally nonpublic. What's clear is that the repercussions of the e-broker price war are still playing out,

analysts at UBS Group AG said in a research note on Monday. “There is still a great deal of uncertainty and many more shoes to drop,” they said.

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