

# **The impact of the new regime for use of dealing commission: post-implementation review**

**Annex:  
Performance indicators and questionnaires**

**Prepared for  
Financial Services Authority**

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# A1 Performance indicators

For the 2006 baseline study, Oxera, in cooperation with the FSA, IMA, LIBA and NAPF, developed performance indicators to measure the impact of the new regime over time. These indicators were measured by undertaking surveys among brokers, investment managers, and pension funds. The performance indicators, originally described in section 2 of the 2006 Oxera study, are included below for convenience.

## Categories of performance indicators

For the purpose of this impact assessment of the change in the regime for soft commissions and bundled brokerage arrangements, four types of goods and services are considered (execution, execution-related services, research and non-permitted goods and services), as defined in section 1.4.

In agreement with the FSA and the three trade associations, six categories of indicators were identified, according to the basis of the expected impact.

- Change in the spending on non-permitted goods and services purchased through commissions.
- Change in the spending on research goods and services purchased through commissions.
- Change in the spending on execution-related goods and services purchased through commissions.
- Change in the spending on non-execution goods and services (ie, execution-related, research or non-permitted goods and services) purchased through commissions.
- The impact on the distribution of research costs and market structure.
- Other performance indicators measuring other consequences of the change in the regime.

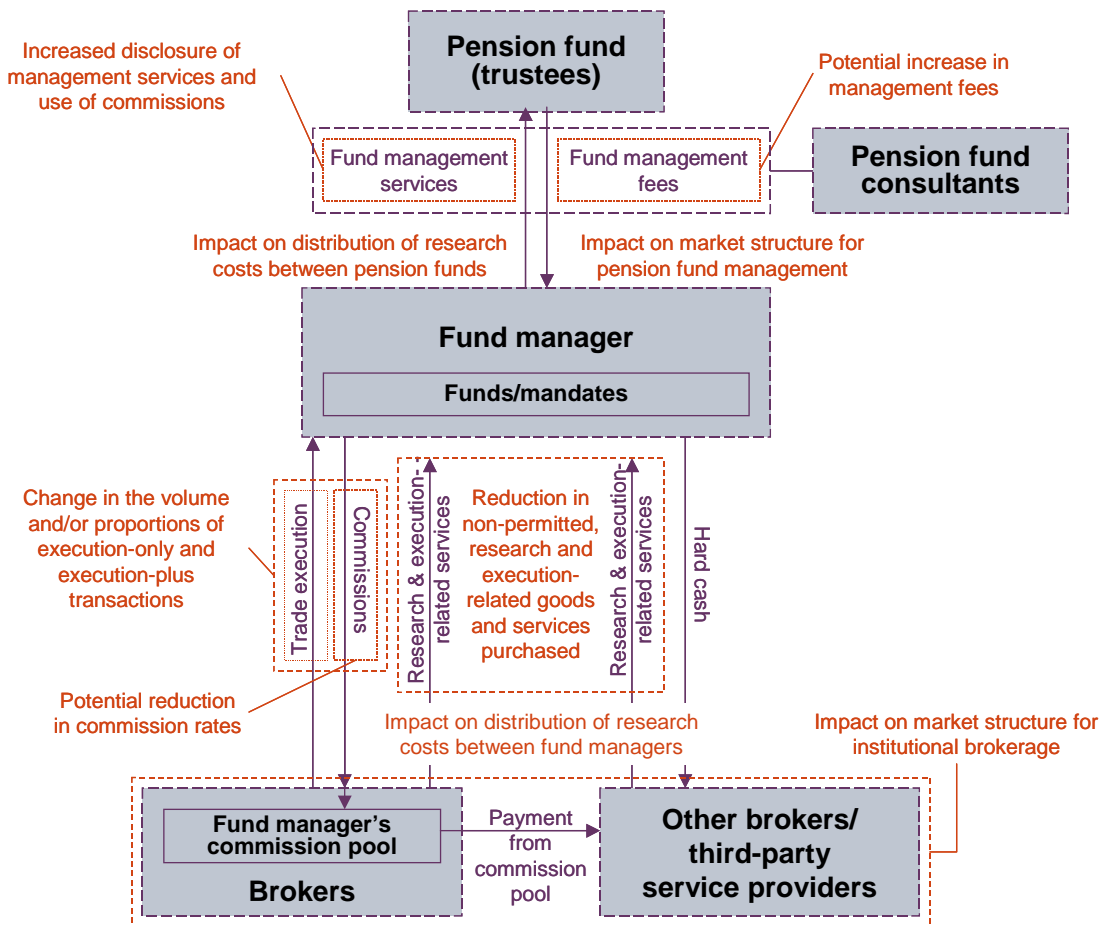
In the description of each performance indicator category, the expected impact is explained. It is useful to consider where these performance indicators fit within the value chain of the fund management industry. Figure A1.1 portrays the value chain with the possible impacts of the change in the regime for soft commissions and bundled brokerage. This shows the key relationships between pension funds and investment managers, between investment managers and brokers, and between investment managers and research providers.

The relationship between pension funds and investment managers may also include pension fund consultants who advise trustees on their appointment and relationships with investment managers. This relationship is particularly affected by the increased disclosure requirements. However, there may also be potential impacts on the structure of the market for fund management and the management fees charged.

The relationship between investment managers and brokers is twofold: first, investment managers send trade orders to brokers for execution; and, second, the commission rates are paid by the fund or mandate (for execution for that fund or mandate), where the commissioned fees are either used to pay that broker for execution or are paid into a commission pool, from which non-execution goods and services can be purchased. This relationship is affected by a range of factors, including the change in the goods and services

purchased, how they are purchased, the potential impacts on the structure of the market for institutional brokerage, and the commission rates charged.

**Figure A1.1 Potential impacts of the change in the regime throughout the value chain**



Source: Oxera.

### Reduction in spending on non-permitted goods and services

Under the new regime for soft commissions and bundled brokerage arrangements, the types of goods and services that can be purchased through commissions have been reduced to those that fall under the FSA's definitions of 'execution' and 'research'.<sup>1</sup>

As the four types of goods and services described above suggest, a number of goods and services that were allowed to be obtained under soft commissions or bundled brokerage arrangements are no longer permitted to be purchased through commissions. These non-permitted goods and services provide the first indicator of the impact of the change in the regime: the amount spent on non-permitted goods and services purchased through commissions should fall to zero.

If investment managers are unable to purchase these non-permitted goods and services through commissions, they will only be able to purchase them with hard cash. As such, the amount spent on non-permitted goods and services purchased with hard cash may increase. This gives the second indicator: the amount spent on non-permitted goods and services purchased with hard cash.

However, if investment managers are purchasing non-permitted goods and services with hard cash, this must be paid for from investment managers' income (ie, from the

<sup>1</sup> These definitions are in the FSA Handbook, Conduct of Business Sourcebook 7.18.

management fees charged on the funds under management). As such, the purchase of non-permitted goods and services with hard cash directly affects the profit earned on funds under management. This may lead to investment managers becoming more discerning about the purchase of such non-permitted goods and services, and therefore the fall in non-permitted goods and services purchased through commissions (either soft commissions or bundled brokerage arrangements) may not be fully matched by the increase in non-permitted goods and services purchased with hard cash. This provides the third indicator: the total amount spent on non-permitted goods and services purchased (either through commissions or with hard cash).

Alternatively, the switch from purchasing non-permitted goods and services through commissions to purchasing them with hard cash may lead to higher management fees. Investment managers may regard the increase in purchases of non-permitted goods and services with hard cash as an increase in their direct costs of managing funds; therefore, they may pass these costs on to their clients through higher management fees. Any such effect may be small and it would be difficult to determine that any change in management fees is related to the change in the regime. However, in principle, this provides a potential fourth indicator: the management fees paid by pension funds.

#### **Performance indicators: reduction in spending on non-permitted goods and services**

- The amount spent on non-permitted goods and services purchased with soft commissions or through CSAs or bundled brokerage arrangements—if firms comply with the new regime, this would be expected to be zero from July 2006.
- The amount spent on non-permitted goods and services purchased with hard cash.
- The total amount spent on non-permitted goods and services—ie, purchased either through commissions or with hard cash.
- The management fees paid by pension funds.

These performance indicators were measured by the survey among brokers and investment managers, using quantitative questions.

#### **Reduction in spending on research goods and services**

As well as reducing the types of goods and services that can be purchased through commissions, the new regime requires that investment managers make prior and periodic disclosure to their clients, including disclosure of the use of clients' commissions.

Pension funds will therefore be more informed about the use of the commissions on trades undertaken for their fund or mandate. This may lead to pension fund trustees scrutinising their investment managers about the use of the commissions. If the investment managers come under greater scrutiny from pension funds, they may become more selective about the research goods and services they purchase through commissions. This provides the first performance indicator: the scrutiny, by pension funds, of investment managers' use of clients' commissions.

Following from this, the change in the regime may lead to a reduction in the amount spent on research purchased through commissions. This suggests the second and third performance indicators: the amount spent on research purchased from either brokers or third-party research providers with soft commissions, and the amount spent on research purchased from brokers through bundled brokerage arrangements; or, under the new regime, the amount spent on research purchased through commissions.

However, the change in the regime is not expected to affect the amount spent on research either purchased with hard cash or produced in-house. This suggests the fourth and fifth performance indicators: the amount spent on research purchased with hard cash, and the amount spent on research produced in-house. These provide a check on the trends of spending on research by investment managers.

The intuitive expectation is therefore that the amount spent on research goods and services purchased through commissions may decline, while the amount spent on research goods and services either purchased with hard cash or produced in-house will remain constant. This gives the sixth performance indicator: the total amount spent on research goods and services consumed.

#### **Performance indicators: reduction in spending on research goods and services**

- Qualitative and anecdotal evidence on the scrutiny, by pension funds, of investment managers' use of clients' commissions.
- The amount spent on broker/third-party research purchased with soft commissions or through CSAs.
- The amount spent on broker research purchased through bundled brokerage arrangements.
- The amount spent on research purchased with hard cash.
- The amount spent on research produced in-house.
- The total amount spent on research goods and services.

Two difficulties were identified in relation to measuring these performance indicators. First, for the years up to 2006, brokers and investment managers were not expected to know the costs of research provided through bundled brokerage arrangements. Any data before 2006 will therefore be an estimation, while the change in the regime will result in more accurate measures of research costs from 2006. Second, investment managers may be unable to estimate accurately the amount spent on research produced in-house. Any estimates provided should be considered indicative only.

These performance indicators were measured by the survey among brokers and investment managers, using several qualitative and quantitative questions.

#### **Reduction in spending on execution-related goods and services**

As described in the previous sub-section, the change in the regime for soft commissions and bundled brokerage arrangements may lead to greater scrutiny of investment managers' use of commissions on trades undertaken for their clients' funds or mandates. If they come under greater scrutiny from pension fund trustees, investment managers may become more selective about the execution-related goods and services that are purchased through commissions. Therefore, the change in the regime may lead to a reduction in the amount spent on execution-related goods and services purchased through commissions. This suggests the first and second performance indicators: the amount spent on execution-related goods and services purchased with soft commissions, and the amount spent on execution-related goods and services purchased through bundled brokerage arrangements; or, under the new regime, the amount spent on execution-related goods and services purchased through commissions.

However, the change in the regime is not expected to affect the amount spent on execution-related goods and services purchased with hard cash. This suggests the third performance indicator: the amount spent on execution-related goods and services purchased with hard cash. This provides a check on the trends of spending on execution-related goods and services by investment managers.

Therefore, the intuitive expectation is that the amount spent on execution-related goods and services purchased through commissions may decline, while the amount spent on execution-related goods and services purchased with hard cash will remain constant. This gives the fourth performance indicator: the total amount spent on execution-related goods and services consumed.

### **Performance indicators: reduction in spending on execution-related goods and services**

- The amount spent on execution-related goods and services purchased with soft commissions or through CSAs.
- The amount spent on execution-related goods and services purchased through bundled brokerage arrangements.
- The amount spent on execution-related goods and services purchased with hard cash.
- The total amount spent on execution-related goods and services.

As identified in the previous section, a difficulty was identified in relation to measuring these performance indicators. For the years up to 2006, brokers and investment managers were not expected to know the full costs of execution-related goods and services provided through bundled brokerage arrangements. Any data before 2006 will therefore be an estimation, while the change in the regime will result in more accurate measures of the amount spent on execution-related goods and services from 2006.

These performance indicators were measured by the survey among brokers and investment managers, using quantitative questions.

### **Reduction in spending on non-execution goods and services purchased through commissions**

Following from the first three categories of performance indicators, if the amounts spent on non-permitted goods and services, research goods and services and execution-related goods and services purchased through commissions all fall, the total spending through commissions on non-execution goods and services will also fall. This provides the first performance indicator: the amount spent on non-execution goods and services purchased through commissions.

### **Performance indicator: reduction in spending on non-execution goods and services purchased through commissions**

- The total amount spent on non-execution goods and services purchased through commissions.

This performance indicator was measured by the survey among investment managers, using quantitative questions.

If the total amount spent on non-execution goods and services purchased through commissions declines, investment managers will require a smaller 'commission pool' from which to purchase goods and services through commissions. In pre-2006 terms, there may not have been explicit commission pools, but the concept can still be applied to the total amount spent on soft commissions and that spent on non-execution goods and services purchased through bundled brokerage arrangements. In post-2006 terms, the pool of commissions for non-execution goods and services refers to the total commissions generated through bundled brokerage arrangements and CSAs.

A smaller commission pool could be achieved in four ways; first, investment managers could negotiate a reduction in the non-execution constituent of bundled brokerage commission rates; second, by reducing the volume of bundled brokerage trading; third by switching from bundled brokerage trading to execution-only trading; or fourth by reducing the amount of commissions generated through CSAs. These form the four sub-categories of performance indicators.

### **Sub-categories of performance indicators: reduction in spending on non-execution goods and services purchased through commissions**

- Reduction in the non-execution constituent of bundled brokerage commission rates.
- Reduction in the volume of bundled brokerage trading.
- Changes in the proportions of bundled brokerage trading and execution-only trading.

#### **a) Reduction in the non-execution constituent of bundled brokerage commission rates**

The bundled brokerage commission rates can be divided into two constituent parts: the part of the commission rate that pays for the execution of trades on behalf of clients, and the part that pays for non-execution goods and services.

While the former execution constituent of the bundled commission rate pays for the execution of that specific trade, the latter non-execution commission rate generates the commission pool. One means of reducing the commission pool is for the non-execution commission rate to be reduced. This provides the first performance indicator: the non-execution constituent of bundled commission rates.

However, there are difficulties relating to the estimation of the non-execution constituent of bundled brokerage commission rates (ie, the non-execution constituent before the change in the regime). Previously, neither investment managers nor brokers had broken down the bundled brokerage commission rate into execution and non-execution constituents. The soft commission constituent of bundled brokerage can be calculated using actual data for the proportion of trades that were softened, the soft commission multiple, and the amount spent on goods and services purchased with soft commissions. However, most investment managers have not previously calculated the remainder of the non-execution constituent (ie, that which purchased goods and services through bundled brokerage arrangements).

Therefore, proxies for the non-execution constituent of bundled brokerage commission rates must be calculated. There are three ways in which this can be done. First, if it is assumed that the execution constituent of the bundled brokerage commission rates purchases the same service as an execution-only commission rate, the difference between these should provide a proxy for the non-execution constituent of the bundled brokerage commission rate. This gives the first performance indicator: the difference between the bundled brokerage commission rate and the execution-only commission rate.

However, there are disadvantages of using this as a proxy, as confirmed by a number of investment managers. Bundled brokerage may incorporate additional services in relation to the execution of trades above that which is provided for by an execution-only commission rate (eg, actively working on the trade to generate a better trade execution price). Second, investment managers were asked to provide a backward-looking estimated breakdown of the bundled brokerage commission rate into execution and non-execution constituents. Third, brokers were asked to provide a forward-looking estimation of the expected breakdown of bundled commission rates into execution and non-execution constituents. These provide the second and third performance indicators.

#### **Performance indicators: reduction in the non-execution constituent of bundled commission rates**

- The difference between bundled brokerage commission rates and execution-only commission rates.
- Investment managers' estimates of the non-execution constituent of bundled brokerage commission rates.
- Brokers' estimates of the expected non-execution constituent of bundled commission rates.

These performance indicators were measured by the survey among brokers and investment managers, using several quantitative questions.

#### **b) Reduction in the volume of bundled brokerage trading**

Investment managers could make the pool smaller by reducing the volume of bundled brokerage trading. This provides the second sub-category of performance indicators, and the first performance indicator within that sub-category: the volume of execution-plus trading.

There are two possibilities with regard to the nature of any reduction in the volume of bundled commission rates. This could be the result of a switch in trading patterns from using bundled brokerage to execution-only trades, which would suggest that investment managers are already 'trading optimally', and simply choose to switch from one form of brokerage to another. Alternatively, investment managers may simply reduce the total volume of trading undertaken. This would suggest that, prior to the change in the regime, investment managers were trading above the optimal level in order to generate soft commission credits or to increase the amount spent on goods and services they would receive through bundled brokerage arrangements.

To assess these possibilities, two further performance indicators are required: the volume of execution-only trading and the volume of total commission trading.

#### **Performance indicators: reduction in the volume of bundled brokerage trading**

- The volume of bundled brokerage trading.
- The volume of execution-only trading (including programme and electronic trades).
- The volume of total commission trading.

These performance indicators were measured by the survey among brokers and investment managers, using several quantitative questions.

#### **c) Changes in the proportions of bundled brokerage and execution-only trades**

Depending on the extent to which each of the mechanisms through which investment managers generate a smaller commission pool applies—ie, a reduction in the non-execution constituent of execution-only commission rates, a switch from execution-plus brokerage to execution-only brokerage, or a simple decrease in the volume of execution-plus trading—this will lead to changes in the proportions of bundled brokerage and execution-only brokerage. This gives the third sub-category of performance indicators: the proportions of bundled trades and execution-only trades.

#### **Performance indicator: changes in the proportions of bundled and execution-only trades**

- The proportions of execution-only and bundled transactions by volume of trading.

These performance indicators were measured by the survey among brokers and investment managers, using several quantitative questions.

#### d) **The amount of commissions generated through CSAs**

The additional indicator is the total amount of commissions generated through CSAs.

#### **Impact on distribution of research costs and market structure**

The change in the regime for soft commission and bundled brokerage arrangements may also have an impact on the nature and structure of the fund management industry. This impact may affect the way in which research costs are distributed among investment managers, or similarly among pension funds; may alter the structure of the markets for fund management or brokerage; and may affect the quality of trade execution.<sup>2</sup> These form the five sub-categories of performance indicators.

#### **Sub-categories of performance indicators: impact on distribution of research costs and market structure**

- Distribution of research costs among investment managers.
- Distribution of research costs among pension funds.
- Impact on the structure of the market for fund management.
- Impact on the structure of the brokerage market.
- Quality of trade execution.

#### e) **Distribution of research costs among investment managers**

Both before and after the change in the regime, the costs of research and execution-related goods and services provided by brokers to investment managers are paid for through commissions. As such, prior to the change in the regime, given that the volume of trading fluctuated over time, there was little visibility of the actual price paid by any investment manager for the research output they consumed.

Following the change in the regime, when setting bundled commission rates between investment managers and brokers, it must be agreed how many basis points are being paid for execution and how many for research and execution-related goods and services. This means that the new regime makes the total amount of commission paid by a particular investment manager for the research provided by a particular broker more transparent. Large investment managers may now use their relative buyer power to negotiate lower fees than they currently pay for the research provided by brokers. Agreeing on a fixed budget for research may further strengthen this effect.

Assuming that brokers' costs in providing research do not change, this would result in smaller investment managers bearing a larger share of the costs of research provided by brokers than before the change in regime. This may make smaller investment managers less attractive to funds and could, in principle, contribute to consolidation in the market for investment managers. Whether this will actually happen will depend on the significance of the increase in costs to smaller investment managers. Any consolidation in the market for fund management is likely to be driven by a range of other factors—the new regime for soft commissions and bundled brokerage could be just one of them.

Two means were identified for assessing the impact of the change in the regime for soft commissions and bundled brokerage arrangements on the distribution of research costs among investment managers. First, an increase in the differential between the commission rates paid by large and small investment managers may indicate that the share of the costs of research borne by small investment managers has increased. This provides the first performance indicator: the variation in the commission rates charged to investment managers of different sizes.

<sup>2</sup> These impacts were discussed in a meeting with the FSA, IMA, LIBA, NAPF and Oxera on January 24th 2006.

The second performance indicator relates to soft questions: qualitative and anecdotal evidence on the way in which brokers charge investment managers for research.

**Performance indicators: distribution of research costs among investment managers**

- Variation in commission rates charged to investment managers of different sizes.
- Qualitative and anecdotal evidence on the way brokers charge investment managers for research.

These indicators were measured by the survey among brokers and investment managers, using several quantitative and qualitative questions.

**f) Distribution of research costs among pension funds**

The change in the regime may also affect the distribution of research costs at the fund level. The costs of research provided by brokers to investment managers are paid for through commissions, and hence are borne by investment managers' clients.

Following the change in the regime, when agreeing bundled commission rates between investment managers and brokers, it must be decided how many basis points are paying for execution and how many for research or execution-related goods and services. This means that the new regime makes the total amount of commission paid for the research more transparent to the investment managers' clients. Large funds may use their buyer power to negotiate a lower allocation of the costs of research or a lower management fee (to offset part of the costs of research incurred from investment managers).

This would result in either an increase in smaller funds' share in the costs of research relative to their share before the change in regime, or higher management fees for smaller funds than for larger funds. This may make the management of smaller funds more costly than before the change in the regime, while providing an offsetting benefit to large funds.

Three means were identified for assessing the impact of the change in the regime for soft commissions and bundled brokerage arrangements on the distribution of research costs among pension funds.

- An increase in the commission rate paid by smaller funds relative to that paid by larger funds following the change in regime indicates that the share of research borne by small funds has increased. This provides the first performance indicator: the commission rates paid by smaller funds relative to those paid by larger funds, both before and after the change in the regime.
- An increase in the management fees paid by smaller funds relative to those paid by larger funds following the change in the regime indicates that the share of research borne by small funds has increased. This provides the second performance indicator: the management fees paid by smaller funds relative to those paid by larger funds, both before and after the change in the regime.
- The third performance indicator relates to soft questions: qualitative and anecdotal evidence on the way in which pension funds pay for the research provided to investment managers.

#### **Performance indicators: distribution of research costs among pension funds**

- The relationship of the commission rates paid by smaller funds relative to those paid by larger funds, both before and after the change in the regime.
- The relationship of the management fees paid by smaller funds relative to those paid by larger funds, both before and after the change in the regime.
- Qualitative and anecdotal evidence.

These indicators were measured by the survey among brokers and investment managers, using several quantitative and qualitative questions.

#### **g) Impact on the structure of the market for fund management**

Given that some costs of managing a fund may be fixed, smaller funds and smaller investment managers may have a cost disadvantage over larger funds and larger investment managers. The mechanisms outlined above would have the effect of exacerbating this cost disadvantage.

This effect may contribute to further consolidation in the market for fund management, resulting in fewer, but larger, investment managers. Funds might also consolidate, where possible, in order to reduce their costs per unit invested. This leads to the first performance indicator: the structure of the market for fund management.

Such consolidation could have positive or negative effects on the net performance of funds. By exploiting economies of scale, the consolidation would lead to a reduction in the total costs of fund management, which would raise the net return on funds. However, if the consolidation of investment managers reduced competitive pressure in the supply of fund management services, the total costs of fund management incurred by funds could rise, reducing the net return.

#### **Performance indicator: impact on the structure of the market for fund management**

- The structure of the market for fund management.

The direct measurement of market structure is likely to be best measured from existing data sources such as the FSA or IMA database, which contain market share data for fund management firms. Therefore, it was not necessary to include direct measures in the questionnaires. The changes in market structure can be analysed in the future surveys. Given that the new regime came into place only two years ago, it is too early to assess the impact on the structure of the market at this point in time.

#### **h) Impact on the structure of the market for brokerage and research services**

A different set of mechanisms could affect the market structure of brokers. The change in the regime makes it possible to use commissions paid to one broker to purchase research from another broker (eg, through a CSA). This leads to the possibility that investment managers could separate their choice of execution venue from their choice of where to purchase research. As a result, investment managers may choose to use a smaller number of brokers, and to select (for the execution of trades) only those brokers that offer the best execution service. This provides the first performance indicator: the distribution of trades between brokers, both before and after the change in the regime. This was supported by the second performance indicator: qualitative and anecdotal evidence.

If this results in investment managers all selecting the same set of brokers for the execution of trades, the concentration of the brokerage market could increase. This leads to the third performance indicator: the structure of the brokerage market.

The impact on investment managers (and funds) of this separation and concentration may again be positive or negative. The separation of brokers into those that specialise in

providing execution and those that specialise in providing research may lead to the execution specialists competing on the basis of the price and quality of execution. This would be expected to lead to a reduction in the price of trade execution and an increase in its quality. However, if the market for execution becomes too concentrated, this might lead to the reverse effect—the price of trade execution could increase and its quality decline.

As with concentration in the fund and investment manager markets, data from, for example, the FSA could be used to track overall trends in market concentration of execution. Furthermore, the first step in the process that would link the change in the regime to changes in the concentration of execution—ie, the change in individual investment managers' behaviour with respect to allocation of trading volume to brokers—could be tracked using the survey among brokers and investment managers.

#### **Possible indicators: impact on the structure of the market for brokerage and research services**

- The pattern of distribution of trades between brokers, both before and after the change in the regime.
- Qualitative and anecdotal evidence.
- The structure of the brokerage market.

The first two performance indicators were measured by the survey among brokers and investment managers, using several quantitative and qualitative questions.

The direct measurement of market structure is likely to be best measured from existing data sources such as the FSA database, which contains market share data for brokerage firms. Therefore, it was not necessary to include direct measures in the questionnaires. The changes in market structure can be analysed in the future surveys. Given that the new regime came into place only two years ago, it is too early to assess the impact on the structure of the market at this point in time.

#### **i) Quality of trade execution**

There was, therefore, a concern that the change in the regime may affect the quality of trade execution. However, measuring trade execution quality is difficult, particularly on an aggregate basis. Furthermore, owing to the range of other factors that may affect the quality of trade execution over time, it is even more difficult to determine the impact of the change in the regime for the quality of trade execution.

The principal means by which the quality of execution might be affected, as identified by LIBA and IMA, is through the liquidity of the market. The trade associations suggested that an impact of the change in the regime would be a reduction in trading, resulting in a reduction in liquidity of the markets. In assessing this impact, it should be taken into account that, in the cost–benefit analysis of the FSA's proposed modifications to the regulations on soft commissions and bundled brokerage arrangements, it was identified that there may be over-trading by some investment managers.<sup>3</sup>

Measuring the impact on market liquidity is far from straightforward. Even though measures of market liquidity exist, as does data, any changes in market liquidity may be driven by a range of factors. Therefore, it was agreed to attempt to measure the impact of the change in the regime for the quality of execution by means of a number of soft indicators.

The first performance indicator relates to brokers' and investment managers' assessments of liquidity in different segments of the market over time. The second performance indicator relates to investment managers' assessments of the quality of trade execution over time. If there are no significant changes in brokers' and investment managers' assessment of

<sup>3</sup> Oxera (2003), 'Cost–Benefit Analysis of the FSA's Policy Propositions on Soft Commissions and Bundling', April.

liquidity and the quality of trade execution over time, this would indicate that the change in the regime has not had a significant impact on liquidity and trade execution. If there are significant changes in brokers' and investment managers' assessment, further analysis would be needed to determine the extent to which these changes are caused by the introduction of the new regime. Follow-up interviews with brokers, investment managers and market experts could also be conducted. Furthermore, changes in liquidity and execution quality in other countries not affected by the change in the regime might be used to provide additional market comparison.

#### Performance indicators: quality of trade execution

- Brokers' and investment managers' assessment of liquidity in different segments of the market over time.
- Assessment of changes in the quality of trade execution over time.

These indicators were measured by the survey among brokers and investment managers, using several qualitative questions.

The 2006 survey found the following trends.

- **Commission rates**—the 2006 survey data from both investment managers and brokerage firms showed that commission rates for programme trades, execution-only brokerage and bundled brokerage were declining. With respect to bundled brokerage, the execution constituent of bundled brokerage commission rates remained constant, although the 'pure execution' constituent of bundled brokerage commission rates declined. This represented an increase in the price of 'worked execution'—ie, additional execution services provided to full-service brokerage clients. The 2006 survey data also suggested that the decline in bundled brokerage commission rates was due to a decrease in the non-execution constituent of bundled brokerage. The data suggested that this was driven by a reduction in the amount spent on non-permitted goods and services purchased through commissions.
- **Proportions of trading volumes according to types of brokerage**—the 2006 survey data from both investment managers and brokerage firms showed that there had been a switch from bundled brokerage trades to execution-only trades. The reduction in the bundled brokerage proportion of trades was primarily driven by a switch away from using liquidity trading. The increase in the execution-only proportion of trades was driven by both the increase in direct market access and algorithmic trading. The 2006 survey data from investment managers suggested that the programme trades' proportion of trades remained broadly constant.
- **Management fees**—the 2006 survey data from both investment managers and brokerage firms showed that management fees for both active and passive funds was declining. The decrease in management fees for active funds was more pronounced than that for passive funds.
- **Concentration of the brokerage market**—the 2006 survey data showed that investment managers were concentrating their use of brokerage firms for UK cash equity trades on a smaller number of brokers. This had been an increasing trend since 2004, which was expected to continue in 2006.

## A2 Questionnaire: pension funds

## **FSA questionnaire for pension funds**

**August 18th 2008**

### **Confidential**

Oxera has been commissioned by the FSA to conduct research for its assessment of the changes in January 2006 with respect to bundled brokerage and soft commission arrangements. This survey has been designed to elicit information on the use of brokerage commissions for non-execution goods and services since the implementation of the new regime.

This questionnaire is for the trustees of pension funds managed in the UK or any individual, acting on behalf of the trustees, with responsibility for the awarding of mandates to third-party investment managers for the management of pension funds in the UK.

### **Contact details**

When completed, please send the questionnaire to:

By email: [FSAsurvey@oxera.com](mailto:FSAsurvey@oxera.com)

By post: FSA Study, Reinder van Dijk, Oxera, Park Central, 40/41 Park End Street, Oxford, OX1 1JD, UK

If you have any questions regarding the completion of the questionnaire, please contact the Oxera helpdesk:

By telephone: +44 (0)1865 253232

By email: [FSAsurvey@oxera.com](mailto:FSAsurvey@oxera.com)

### **Structure of the questionnaire**

Part 1 [Respondent information](#)

Part 2 [Relationship with investment managers](#)

Part 3 [Additional comments](#)

**Thank you for taking part in this survey—your contribution is greatly appreciated.**

## Part 1 Respondent information

The first section of the survey establishes some high-level details about your fund, and requests contact details for both the principal contact and any additional contacts that you may wish to include.

- 1) Please complete Table 1.1 with details of your fund, and Table 1.2 with details of the principal and additional contacts for this survey. Please feel free to add rows for additional contacts.

**Table 1.1 Fund details**

Name of firm	Address
[Name]	[Address]

**Table 1.2 Contact details**

Name	Position	Responsibilities	Telephone no.	Email address
<b>Principal contact</b>				
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]
<b>Additional contacts</b>				
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]

**Part 2 Relationships with investment managers**

This section of the questionnaire asks for information about your relationship with investment managers responsible for the management of your pension funds in the UK.

- 1) Please give the year-end total market value of your fund for the last two years.

**Table 2.1 Total market value of fund**

	Average or year-end total market value of fund (£m)
2006	
2007	

- 2) How many different external UK investment managers did you use in 2007?

[Number]

- 3) How many UK mandates (funds/portfolios) have you divided your fund/assets between?

[Number]

- 4) Do you impose any restrictions on the extent to which commissions can be used by investment managers for non-trade execution goods and services?

[Yes/no]

- 5) Have you prohibited investment managers from entering into commission-sharing arrangements during the period 2006–2008?

[Yes/no]

- 6) Please indicate whether in 2007 you monitored any of the following data and, if so, whether this monitoring is conducted in-house, by the investment manager itself, or by third parties.

**Table 2.2 Monitoring activity**

	Monitor? (Y/N)	If yes, who monitors?		
		In-house	Investment manager	Third party
Fund performance (after deduction of commission/trading costs)				
Value of trading annually				
Broker commission rates paid by the investment manager				
Value of trades buying non-execution services				
Value of non-execution services bought by investment managers through commissions relating to trades in your investments				
The trading efficiency of the investment manager's trading desk and brokers				
The quality of research purchased by the investment manager				

- 7) For what proportion of your mandates did you provide feedback to investment managers in 2006 and 2007 in the following categories

**Table 2.4 Nature of feedback to investment managers**

	Proportion of mandates on which feedback given 2006	Proportion of mandates on which feedback given 2007
Execution quality		
Quality of research goods and services		
Quantity of research goods and services		
Quality of execution related services		
Quantity of execution related services		
Comparison to use of commission for research goods and services across all funds managed by the investment manager		
Commission rates		
Apparent inconsistencies between Level 1 and Level 2 information received		

- 8) When feedback was provided to the investment manager, was action taken as a result? Please answer: always/sometimes/never.

[Always/sometimes/never]

- 9) Where a response was received from the investment manager, please give some indication of any changes that resulted.

[Nature of changes that resulted]

### Selection of investment managers

- 10) Were you aware of the prior disclosure by UK investment managers of their use of brokerage commissions before you committed (or re-committed) your mandates to them?

[Yes/no]

- 11) To what extent did investment managers' prior disclosure of the use of brokerage commissions influence your decisions regarding the appointment of UK investment managers?

Please complete Table 2.3, indicating the extent to which this affected your decisions to appoint UK investment managers in 2006, 2007 and, so far, in 2008?

**Table 2.3 Impact of prior disclosure**

	2006	2007	2008
	[Yes to a large extent / yes somewhat / not at all]		
Did prior disclosure affect your decision?			

- 12) How important was the investment managers' use of brokerage commissions for research in affecting your decision regarding the appointment of UK investment managers?

Please complete Table 2.4 indicating the importance of the different factors that determined your decision to appoint UK investment managers in 2006 and 2007.

**Table 2.4 Factors determining appointment of UK investment managers**

	2006	2007
	[On a scale of 1-5, with 5 being most important]	
Use of brokerage commissions for non-execution goods and services		
Proposed fund management fees		
Past performance of investment managers' funds		
Brokerage commission rates paid by the investment manager		
Investment managers' style/philosophy		
Reputation of investment manager		
Expertise in specific countries/sectors/securities		
Other (please specify below)		

### Disclosure of investment manager activities

- 13) With regard to the management of your funds, what information did your UK investment managers provide?

Please complete Table 2.5 indicating what proportion of your investment managers (by number of investment managers) complied with IMA NAPF Pension Fund Disclosure Code in 2006 and 2007.

**Table 2.5 Disclosure by investment managers**

	2006	2007
Fully complied with the code		
Failed to comply with the code		
Exceeded minimum standards in the code		

14) Do you think the information in the disclosure is:

[Too much/too little/about right]

15) If you answered 'too little', what additional information would you have liked to see? If you answered 'too much', what information could have been omitted or, more generally, how could the quality of the information be improved?

[Description of information to be added or omitted]

16) Did you use the information disclosed by UK investment managers?

[Yes to a large extent/yes, to some extent/No]

If 'Yes', please describe how you used this information.

[Description of use of investment managers' disclosure]

17) In addition to that information provided to you by investment managers (i.e., without specific requests), did you request any additional feedback on the use of brokerage commissions?

[Yes/no]

If 'Yes', what additional information did you request?

[Description of additional information requested from UK investment managers]

#### Use of pension fund consultants

18) Did you use pension fund consultants in 2006 or 2007?

[Yes/no]

If 'Yes', did they assist in interpreting disclosures on investment managers' use of brokerage commissions?

[Yes/no]

19) If 'No' what services do you think pension fund consultants could provide that would assist you in interpreting and utilising the disclosure?

[Description]

**Part 3 Additional comments**

If there are there any comments that you would like to add, please outline these below and provide relevant contact details, and we will contact you to discuss these in greater detail.

[Additional comments]

## A3 Questionnaire: investment managers

## FSA questionnaire for investment managers

### Confidential

Oxera has been commissioned by the FSA to conduct research for its assessment of the changes in January 2006 with respect to bundled brokerage and soft commission arrangements. This survey has been designed to elicit data on the use of dealing commissions for goods and services other than trade execution since the implementation of the new regime, which can then be compared with the baseline data collected in 2005/06. It is a follow-up to the previous survey undertaken for the FSA on this issue by Oxera in 2005/06.

### Instructions

Detailed instructions on how to complete the questionnaire have been provided in a separate document, 'Handbook for Completion of the FSA Questionnaire for Investment management firms'. This includes both a glossary of terminology used throughout the questionnaire and instructions on the completion of each question.

Oxera has prepared a non-disclosure agreement (NDA) tailored to the specific needs of this survey. The NDA is available at:

[www.oxera.com/FSAsurvey](http://www.oxera.com/FSAsurvey)

Please note that you are required to fill in the information **only** for cells highlighted in blue, cells highlighted in purple are automated calculations and cells highlighted in beige are internal cross-checks to assist in the validation process.

### Contact details

Please send the completed questionnaire to one of the following:

By email: [FSAsurvey@oxera.com](mailto:FSAsurvey@oxera.com)

By post: FSA Study, Reinder van Dijk, Oxera, Park Central, 40/41 Park End Street, Oxford, OX1 1JD, UK

If you have any queries regarding the completion of the questionnaire, please contact the Oxera helpdesk:

By telephone: +44 (0)1865 253 232

By email: [FSAsurvey@oxera.com](mailto:FSAsurvey@oxera.com)

### Structure of the questionnaire

- Part 1 [Respondent information](#)
- Part 2 [General questions](#)
- Part 3 [Relationships with pension funds](#)
- Part 4 [Relationship with retail funds](#)
- Part 5 [Relationship with brokerage firms and research providers](#)
- Part 6 [Additional comments](#)

**Thank you for taking part in this survey—your contribution is greatly appreciated.**

**Part 1 Respondent information**

The first section establishes some high-level details about your firm, and requests contact details for both the principal contact and any additional contacts that you may wish to include.

- 1) Please complete Table 1.1 with details of your firm, and Table 1.2 with details of the principal and additional contacts for this survey. Please feel free to add rows for additional contacts.

**Table 1.1 Firm details**

Name of firm	Address
[Name]	[Address]

**Table 1.2 Contact details**

Name	Position	Responsibilities	Telephone no.	Email address
<b>Principal contact</b>				
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]
<b>Additional contacts</b>				
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]

- 2) Please indicate the currency in which this questionnaire will be completed

[Select from: EUR, GBP, USD]

[Description]
---------------

- 3) To ensure consistency of data across time, it is necessary to take into account any mergers or acquisitions that have taken place since 2005.

Please provide details of any mergers or acquisitions of investment management firms or divisions in which your company has been involved since 2005, including the names of companies and sellers, and dates on which these mergers or acquisitions were completed. This information is purely for sampling purposes.

[Description of mergers and acquisitions and how each transaction has been handled in this questionnaire]
---

- 4) To ensure consistency of data across time, it is necessary to take into account any divestments that have taken place since 2005.

Please provide details of any divestments of brokerage firms or divisions that your firm has undertaken since 2005, including the names of companies and acquirers, and dates on which these divestments were completed. This information is purely for sampling purposes.

[Description of divestments, and how each transaction has been handled in this questionnaire]
---

**Part 2 General questions**

- 5) What was the value of assets that your firm managed in the UK in 2006 and 2007, and how was this allocated to different asset classes?

Please complete Table 2.1 with the total value of your assets under management and the total value allocated to: equities, fixed income securities and other asset classes in 2006 and 2007.

**Table 2.1 Value of assets under management**

	Assets under management	
	2006	2007
Total assets under management		
Equities		
Fixed income securities		
Other asset classes		

- 6) What was the distribution of your assets under management, by client, in 2006 and 2007?

Please complete Table 2.2 with the total value of assets that your company managed in the UK in 2006 and 2007 for each type of client.

**Table 2.2 Distribution of clients**

	Assets under management	
	2006	2007
<b>Total assets under management</b>		
Pension funds		
Insurance companies		
Hedge funds		
Unit trusts		
Investment company with variable capital		
Unit-linked funds		
With-profit funds		
Investment trusts		
Others		

7) To which trades do you apply the FSA regime for softing and bundling?

Please complete Table 2.3 indicating the trades to which you apply the FSA regime for softing and bundling regime.

**Table 2.3 Trades to which you apply the softing and bundling regime**

Types of trade	Yes/No
All trades (if Yes, go to Q 8)	
Trades sent to brokerage firms domiciled in the	
Trades sent to brokerage firms domiciled in Europe (not including UK)	
Trades sent to brokerage firms in Asia	
Trades sent to brokerage firms in the USA	
Trades for clients domiciled in the UK	
Trades for clients domiciled in Europe (not including the UK)	
Trades for clients domiciled outside Europe.	

**Part 3 Relationships with pension funds**

**Disclosure to pension funds**

- 8) How did you meet the disclosure requirements in COB 7.18 and COBS 11.6 in 2006 and 2007?

Please complete Table 3.1 indicating whether you used the IMA Pension Fund Disclosure Code or other means of disclosure in 2006 and 2007.

**Table 3.1 Disclosure arrangements**

	2006	2007
IMA Pension Fund Disclosure Code		
Other		

If you used the IMA Pension Fund Disclosure Code, when did you first adopt it?

[Month/Year]

If you did not use the IMA Disclosure Code in 2006 or 2007, please describe how you satisfied the disclosure requirements of COB 7.18 and COBS 11.6 and describe what factors influenced your decision not to use the IMA Disclosure Code

[Description of alternative disclosure arrangements]

- 9) What proportion of your pension fund clients (or their consultants) requested feedback on the use of dealing commissions?

Please complete Table 3.2 with the proportion of pension fund clients (by number of clients) that requested feedback on execution quality, quality of research, the volume/value of research, the quality of execution-related goods and services, and the volume/value of execution-related goods and services purchased with dealing commissions.

**Table 3.2 Requests for feedback on use of dealing commissions: proportion of clients (or their consultants) asking for feedback on the following**

	2006	2007
Execution quality		
Quality of research goods and services		
Quantity of research goods and services		
Quality of execution-related goods and services		
Quantity of execution-related goods and services		

**Actual fees**

- 10) What were the actual fees that you charged pension fund clients for active and passive equity fund management in 2006 and 2007?

Please complete Table 3.3 with details of your total funds under management in UK equities for pension fund clients, and total fund management fees that you charged for those funds, for both active and passive equity fund management in 2006 and 2007.

**Table 3.3 Actual fund management fees**

	Active UK equity funds		Passive UK equity funds	
	2006	2007	2007	2007
Funds under management (UK equities for pension fund)				
Total fees earned (excluding VAT)				
Non-performance-related fees				
Performance-related fees				

**Typical fees**

- 11) What were the typical fees that you would have charged pension fund clients for mandates of different types and sizes in 2006 and 2007?

Please complete Table 3.4 with the fund management fees that you would have charged a pension fund client for an active or passive UK equity fund of £50m, £100m, £200m, £500m and £1 billion, in 2006 and 2007, excluding any performance-related elements of the fund management fees.

**Table 3.4 Typical fund management fees**

Size of mandate (£m)	Active UK equity fund		Passive UK equity fund	
	2006	2007	2006	2007
1,000				
500				
200				
100				
50				

**Part 4 Relationships with retail funds**

**This section should be completed only if you manage retail funds.**

**Retail fund management**

- 12) How do you manage your transactions relating to retail funds?

[Please select: co-mingled with institutional funds/separate from institutional funds/both]

- 13) In your relationship with brokerage firms, is there any distinction between transactions for institutional pension funds and transactions for retail funds?

[Yes/No]

If yes, what are the differences? (eg, type of transaction method, commission rates, allocation between execution and research, amount of research used, etc).

[Description of differences]

**Disclosure to retail funds**

- 14) Please complete Table 4.1 indicating the proportion of your retail funds for which you have produced disclosure on dealing commissions.

**Table 4.1 Ways in which the disclosure obligations have been met**

	2006	2007	2008	Intention for second half of 2008
IMA pension fund disclosure code				
IMA/DATA disclosure code				
Other				

If you did not use any of the IMA Disclosure Code in 2006 or 2007, please describe how you satisfied the disclosure requirements of COB 7.18 and COBS 11.6 and describe what factors influenced your decision not to use the IMA Disclosure Code

[Description of alternative arrangements]

- 15) Does the information disclosed to retail funds differ substantially from that disclosed to pension funds? If so how?

[Description of differences]

- 16) With respect to retail funds, to whom is this information disclosed?

Please complete Table 4.2 indicating the parties that the information is disclosed to.

**Table 4.2 Parties to whom the information is disclosed**

	Yes/No
Depositories	
Trustees	
Actuaries	
PPFM committee/individual	
Independent directors	
Other (please specify)	

- 17) Are you aware of how the disclosed data on dealing commissions is used by retail funds? Please describe.

[Description of use of disclosure for retail funds]
---

**Part 5 Relationships with brokerage firms and research providers**

This section asks for information on your relationship with institutional brokerage firms and research providers when undertaking transactions in UK equities.

**Use of brokerage firms and research providers**

- 18) For transactions in UK equities, how many brokerage firms and research providers did you have on your approved list in 2006 and 2007?

**Table 5.1 Number of approved brokerage firms and research providers**

	2006	2007
Number of approved brokerage firms		
Number of approved research providers		

- 19) What was the concentration of brokers that you used for transactions in UK equities in 2006 and 2007?

Please complete Table 5.2, indicating the proportion (by value) of your total trade orders for UK equities that were sent to the following brokers in 2006 and 2007.

**Table 5.2 Concentration of trade orders sent to brokers**

	2006	2007
Your top 5 brokers (ie, brokers 1–5, by value of trade orders)		
Next 5 brokers (ie, brokers 6–10, by value of trade orders)		
Next 5 brokers (ie, brokers 11–15, by value of trade orders)		
Next 5 brokers (ie, brokers 16–20, by value of trade orders)		
Other brokers (ie, those outside the top 20)		
<b>Total</b>	<b>100%</b>	<b>100%</b>

- 20) If the number of approved brokerage firms and/or the concentration of trade orders sent to brokers has changed significantly since 2005, please explain what the three most important drivers of these changes have been (eg, MIFID, new regime for softing and bundling, etc).

[Explanation]

- 21) What was the concentration of research providers that you used for research in UK equities in 2006 and 2007?

Please complete Table 5.3, indicating the proportion (by expenditure) of your total research expenditure for UK equities through hard cash and commissions (with and without commission sharing arrangements (CSA)) that was obtained from the following research providers in 2006 and 2007.

**Table 5.3 Concentration of research providers paid through hard cash and commissions (with and without CSAs)**

	2006	2007
Your top 5 research providers (ie, providers 1–5, by research expenditure)		
Next 5 research providers (i.e., providers 6–10, by research expenditure)		
Next 5 research providers (ie, providers 11–15, by research expenditure)		
Next 5 research providers (ie, providers 16–20, by research expenditure)		
Other research providers (ie, those outside the top 20)		
<b>Total</b>	<b>100%</b>	<b>100%</b>

22) What proportion of your top 10 research providers are also your top 10 execution brokers?

[Proportion]

23) If there have been any substantial changes in your purchasing of research in recent years, please comment on the extent to which the change in the softing and bundling regimes has played a part in this, as opposed to other factors?

[Comment]

24) What proportion (by value) of your total transactions for UK equities were undertaken using core brokerage, electronic trading, programme trading and other types of trading?

Please complete Table 5.4 indicating the proportion (by value) of your total transactions for UK equities that were undertaken using the following transaction methods in 2006 and 2007. For each transaction method, please indicate what proportion of transactions incorporated commissions for either non-execution goods and services and/or the use of the brokers' capital.

**Table 5.4 Use of transaction methods (% by value of transaction)**

Transaction method	2006			2007		
	Total	Included brokers' capital commitment	Included non-execution goods and services	Total	Included brokers' capital commitment	Included non-execution goods and services
Core brokerage						
Electronic						
Algorithmic						
DMA						
Programme trading						
Other						
<b>Total</b>						

If there are a significant proportion of transactions, by value, that relate to others, could you please explain what these transaction methods are

[Explanation]

- 25) If the mix of transaction methods used has changed since 2005, please explain what the three most important drivers of these changes have been.

[Explanation]

- 26) Is there a difference in the mix of transaction methods and research used for active and passive funds (eg, do passive funds use more transaction methods that do not include a research component)? If so, please describe and explain these differences.

[Explanation]

- 27) What proportion (by value) of your total retail fund transactions in UK equities were undertaken using core brokerage, electronic trading, programme trading and other types of trading?

Please complete Table 5.5 indicating the proportion (by value) of your total retail fund transactions in UK equities that were undertaken using the following transaction methods in 2006 and 2007. For each transaction method, please indicate what proportion of transactions incorporated commissions for either non-execution goods and services and/or the use of the brokers' capital.

**Table 5.5 Use of transaction methods for retail funds (% , by value of transaction)**

Transaction method	2006			2007		
	Total	Included brokers' capital commitment	Included non-execution goods and services	Total	Included brokers' capital commitment	Included non-execution goods and services
Core brokerage						
Electronic						
Algorithmic						
DMA						
Programme trading						
Other						
<b>Total</b>						

If there are a significant proportion of transactions, by value, that relate to others, could you please explain what these transaction methods are

[Explanation]

- 28) If there are significant differences between the mix of transaction methods in Tables 5.4 and 5.5, please explain the main reasons for these differences.

[Explanation]
---------------

**Dealing commissions for brokers**

- 29) What were the dealing commissions paid to brokers for trading in UK equities for funds managed in the UK on behalf of pension fund clients, and what proportion of these commissions were used to purchase trading and non-trading goods and services?

Please complete Tables 5.6–5.10 with data on the funds under management, trading volumes and use of dealing commissions for your trading in UK equities, for funds managed in the UK on behalf of pension fund clients in 2006 and 2007.

**Table 5.6 Total value of trading**

	2006	2007
Total value of funds under active management		
Total value of funds under passive management		
Total value of trades transacted on a net basis		
Total value of trades transacted on a commission basis		
Gross turnover ratio		
Net turnover ratio (i.e., transacted on a commission basis)		

**Table 5.7 Use of different transaction methods**

	2006	2007
<b>Core brokerage</b>		
Total value of core brokerage trades		
Total spent on commissions for core brokerage trades		
Average commission rate on core brokerage trades		
Proportion of core brokerage commissions for brokers' capital commitment		
Total core brokerage commissions for brokers' capital commitment		
Proportion of core brokerage commission for non execution goods and services		
Proportion of core brokerage commissions for non execution goods and services using a CSA		
Proportion of core brokerage commissions for non execution goods and services outside a CSA		
Total core brokerage commissions for non-execution goods and services		
<b>Electronic trades</b>		
Total value of electronic trades		
Total spent on commissions for electronic trades		
Average commission rate on electronic trades		
Proportion of electronic trade commissions for brokers' capital commitment		

Total electronic trade commissions for brokers' capital commitment		
Proportion of electronic trade commissions for non-execution goods and services		
Proportion of electronic trade commissions for non-execution goods and services using a CSA		
Proportion of electronic trade commissions for non-execution goods and services outside a CSA		
Total electronic trade commissions for non-execution goods and services		
<b>Programme trades</b>		
Total value of programme trades		
Total spent on commissions for programme trades		
Average commission rate on programme trades		
Proportion of programme trade commissions for brokers' capital commitment		
Total programme trade commissions for brokers' capital commitment		
Proportion of programme trade commissions for non-execution goods and services		
Proportion of programme trade commissions for non-execution goods and services using a CSA		
Proportion of programme trade commissions for non-execution goods and services outside a CSA		
Total programme trade commissions for non-execution goods and services		
<b>Totals</b>		
Total value of trades		
Total value of commissions paid		
Total commissions for brokers' capital commitment		
Total commissions for non-execution goods and services		
Total commissions for non-execution goods and services paid for using a CSA commission		
Total commission for non-execution goods and services paid for commissions, outside CSAs		

**Table 5.8 Purchase of non-execution goods and services with dealing commissions**

	2006	2007
<b>Total spent on non-execution goods and services with dealing commissions</b>		
<b>Proportion of commissions for non-execution goods and services spent on goods and services provided by brokers where the commissions were generated by bundled brokerage (ie, outside a CSA)</b>		
<b>Proportion of your commission expenditure on non-execution goods and services (using CSAs) that was at:</b>		
the same brokerage firm at which the CSA commissions were generated		
brokerage firms that you use for execution but where trading at a different brokerage firm generated the commission to pay for these services		
third parties (which may include other brokers that you do not use for execution)		
<b>Value of expenditure on non-execution goods and services spent on goods and services provided by:</b>		
brokers where the commissions were generated by bundled brokerage (ie, outside a CSA)		
the same brokerage firm that the CSA commissions were generated		
brokerage firms that you use for execution but where trading at a different brokerage generated the commission to pay for these services		
third-parties (which may include other brokers that you do not use for execution)		

**Table 5.9 Non-execution goods and services purchased with dealing commissions**

	2006	2007
Total spent on non-execution goods and services with dealing commissions		
Proportion of non-execution goods and services purchased which constituted research		
Total spent on research goods and services		
Proportion of non-execution goods and services purchased that were execution-related goods and services		
Total spent on execution-related goods and services		
Proportion of non-execution goods and services purchased that were goods and services disallowed under the new regime		
Total spent on goods and services that were disallowed under the new regime		

**Table 5.10 Non-execution goods and services purchased with hard cash**

	2006	2007
Total spent on research paid for by hard cash		
Total spent on execution-related goods and services paid for by hard cash		
Total spent on goods and services that were disallowed under the new regime paid for by hard cash		
Cost of research produced in-house		

**Table 5.11 Total spent on non-execution goods and services**

	2006	2007
Total spent on research goods and services		
Total spent on execution-related goods and services		
Total spent on goods and services disallowed under the new regime		

- 30) If you manage retail funds, what were the values of your retail funds under management and what were the trading expenditures that you have undertaken in 2006 and 2007?

Please complete Table 5.12 with data on the value of your retail funds under management and commission expenditure on non-execution goods and services in 2006 and 2007.

**Table 5.12 Value of retail funds and transaction details**

	2006	2007
Total value of retail funds under active management		
Total value of retail funds under passive management		
Total value of retail fund trades transacted on a net basis		
Total value of retail fund trades transacted on a commission basis		
Gross turnover ratio		
Net turnover ratio (ie, transacted on a commission basis)		
Total value of commissions paid		
Proportion of commissions for brokers' capital commitment		
Proportion of commissions for non-execution goods and services		

- 31) If the commission rates you have paid to your brokerage firms have changed significantly since 2005, please identify the three most important drivers of these changes.

[Explanation]

**Arrangements for use of dealing commissions**

- 32) What arrangements were in place for the purchase of non-execution goods and services with dealing commissions in 2005, 2006 and 2007?

Please complete Table 5.13, indicating for each type of provider of non-execution goods and services the number of firms from which you purchased non-execution goods and services, both outside of and through commission-sharing agreements in 2005, 2006 and 2007.

**Table 5.13 Arrangements for the use of dealing commissions**

Means of providing non-execution goods and services	2005		2006		2007	
	Without a CSA	Through a CSA	Without a CSA	Through a CSA	Without a CSA	Through a CSA
Provider of non-execution goods and services (number of providers used in the year)						
Number of transaction brokers used (ie, brokers to whom execution commissions were paid)	Same as above		Same as above		Same as above	
Number of third parties used	NA		NA		NA	
of which, third-party brokers						
of which, third-party research providers						

33) How do you typically set annual budgets for research paid for through commissions?

[% of trade volumes, an absolute amount, other (please specify)?]
---

- 34) What do you typically do if you find that you are close to generating more commissions through CSAs for non-execution goods and services than you consider to be required?

Please complete Table 5.14 indicating whether this is an issue, and, if so, how it is managed

**Table 5.14 Treatment of CSA commissions generated when there is a potential surplus**

	Yes/No
The issue has not arisen, and no policy is in place	
Switch to trading without CSAs	
Roll positive balance into next year	
Renegotiate commission rate to reflect a lower proportion of commission required to purchase research	
Other	

If other, please specify.

- 35) What do you typically do if you find that you are close to generating more commissions with a brokerage firm (outside CSAs) for non-execution goods and services than you consider to be required to cover the costs of non-execution goods and services received from this firm?

Please complete Table 5.15, indicating whether this is an issue, and, if so, how it is managed.

**Table 5.15 Treatment of non-CSA commissions generated when there is a potential surplus**

	Yes/No
The issue has not arisen, and no policy is in place	
Switch to commission rate without a research component	
Renegotiate commission rate to reflect a lower proportion of research	
Ask the brokerage firm to provide you with more research	
Other	

If other, please specify.

36) If you have CSA's do you use an external supplier to manage the CSAs and the CSA commission pot? [Yes/No]

Yes/No

a) What are the reasons for your decision on whether to use an external manager for a commission pot?

Description

**Monitoring performance**

37) In 2007, did you have a process in place to monitor the quality of execution by your trading desk and your broker?

[Yes/No]

a) If Yes, how often did this process take place?

[Continuously or daily/weekly/monthly/quarterly/semi-annually/annually/less frequently]

b) What criteria do you use to assess the quality of execution?

Please provide a description.

c) Did you share the results of this monitoring process with your pension fund clients or their consultants?

[Yes/No]

38) In 2007, did you have a process in place to monitor the quality of research provided by brokers and independent research providers?

[Yes/No]

a) If Yes, how often did this process take place?

[Continuously or daily/weekly/monthly/quarterly/semi-annually/annually/less frequently]

b) What criteria do you use to assess the quality of research?

[Please provide a description]

c) Did you share the results of this monitoring process with your pension fund clients or their consultants?

[Yes/No]

**Perception of market conditions**

39) What was your perception of market liquidity for transactions in UK equities?

Please complete Table 5.16 with your assessment of the market liquidity for the FTSE 100, FTSE 250 and FTSE Small Cap segments, and your assessment of the change in market liquidity between 2005 and 2007.

**Table 5.16 Assessment of market liquidity for UK equities**

	2006	2007	Change between 2005 and 2007
Market segment	Excellent/good/reasonable/somewhat poor/poor		Better/same/worse
FTSE 100			
FTSE 250			
FTSE Small Cap			

- 40) If the market liquidity has changed significantly since 2005, please explain what the main drivers of these changes have been.

[Explanation]

- 41) How has the quality and availability of research on different companies changed over the last three years (ie, in 2007 compared with 2005 or 2006)?

Please complete Table 5.17 giving your assessment of the availability of research on different types of companies.

**Table 5.17: Assessment of availability and quality of research**

Market segment	2006		2007		Change between 2005 and 2007	
	Excellent/good/reasonable/somewhat poor/poor		Excellent/good/reasonable/somewhat poor/poor		Better/same/worse	
	Availability	Quality	Availability	Quality	Availability	Quality
FTSE 100						
FTSE 250						
FTSE Small Cap						

- 42) If the availability and quality of research has changed significantly since 2005, please explain what the main drivers of these changes have been.

[Explanation]

**Additional comments**

- 43) If there are there any comments that you would like to add, please outline these below.

[Additional comments]

## A4 Questionnaire: brokerage firms

## FSA questionnaire for brokerage firms

### Confidential

Oxera has been commissioned by the FSA to conduct research for its assessment of the changes in January 2006 with respect to bundled brokerage and soft commission arrangements. This survey has been designed to elicit data on the use of dealing commissions for goods and services other than trade execution since the implementation of the new regime, which can then be compared with the baseline data collected in 2005/06. It is a follow-up to the previous survey undertaken for the FSA on this issue by Oxera in 2005/06.

### Instructions

Detailed instructions on how to complete the questionnaire have been provided in a separate document, 'Handbook for completion of the FSA questionnaire for brokerage firms'. This includes both a glossary of terminology used throughout the questionnaire and instructions on the completion of each question.

Oxera has prepared a non-disclosure agreement (NDA) tailored to the specific needs of this survey. The NDA is available at: [www.oxera.com/FSAstudy](http://www.oxera.com/FSAstudy)

Please note that you are required to fill in the information **only** for cells highlighted in blue, cells highlighted in purple are automated calculations and cells highlighted in beige are internal cross-checks to assist in the validation process.

### Contact details

Please send the completed questionnaire to one of the following:

By email: FSAsurvey@oxera.com  
By post: FSA Study, Reinder van Dijk, Oxera, Park Central, 40/41 Park End Street, Oxford, OX1 1JD, UK

If you have any queries regarding the completion of the questionnaire, please contact the Oxera helpdesk:

By telephone: +44 (0)1865 253 232  
By email: FSAsurvey@oxera.com

### Structure of the questionnaire

[Part 1: Respondent information](#)  
[Part 2: General questions](#)  
[Part 3: Relationship with fund management firms](#)  
[Part 4: Additional comments](#)

**Thank you for taking part in this survey—your contribution is greatly appreciated.**

**Part 1 Respondent information**

The first section establishes some high-level details about your firm, and requests contact details for both the principal contact and any additional contacts that you may wish to include.

- 1) Please complete Table 1.1 with details of your firm, and Table 1.2 with details of the principal and additional contacts for this survey. Please feel free to add rows for additional contacts.

**Table 1.1 Firm details**

Name of firm	Address
[Name]	[Address]

**Table 1.2 Contact details**

Name	Position	Responsibilities	Telephone no.	Email address
<b>Principal contact</b>				
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]
<b>Additional contacts</b>				
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]

- 2) Please indicate the currency in which this questionnaire will be completed.

[Select from: EUR, GBP, USD]

[Selection]
-------------

- 3) To ensure consistency of data across time, it is necessary to take into account any mergers or acquisitions that have taken place since 2005.

Please provide details of any mergers or acquisitions of brokerage firms or divisions in which your company has been involved since 2005, including the names of companies and sellers, and the dates on which these mergers or acquisitions were completed. This information is purely for sampling purposes.

[Description of mergers and acquisitions and how each transaction has been handled in this questionnaire]
---

- 4) To ensure consistency of data across time, it is necessary to take into account any divestments that have taken place since 2005.

Please provide details of any divestments of brokerage firms or divisions that your firm has undertaken since 2005, including the names of companies and acquirers, and the dates on which these divestments were completed. This information is purely for sampling purposes.

[Description of divestments, and how each transaction has been handled in this questionnaire]
---

**Part 2 General questions**

- 5) What was the total value of trade orders for UK equities from UK-based clients in 2006 and 2007, and how was this distributed between trade orders from fund management firms, brokers or private investors?

Please complete Table 2.1 with the total value of trade orders that your firm received in the UK in 2006 and 2007, and the value of trade orders received from the six types of client in 2006 and 2007.

**Table 2.1 Value of trading in UK equities**

	Value of trading in UK equities	
	2006	2007
<b>Total value of trading in UK equities</b>		
Pure hedge funds		
Long-only funds/fund management firms		
Other funds/fund management firms		
Retail brokers		
Private investors		
Other brokers/market counterparties		

- 6) What were the gross commission revenues (excluding stamp duty) that you received from total UK equity trades for UK-based fund management firms in both 2006 and 2007?

Please complete Table 2.2 with the gross commission revenues (excluding stamp duty) received from total UK equity trades for UK-based fund management firms in 2006 and 2007.

**Table 2.2 Gross commission revenues**

	Gross commission revenues	
	2006	2007
<b>Gross commission revenues</b>		

**Part 3 Relationships with fund management firms**

This section asks for information on your relationship with fund management firms when undertaking transactions in UK equities.

**Provision of trading services**

- 7) What were the transaction methods used for trading in UK equities for UK fund management firms?

Please complete Table 3.1 with the proportions, by value, of your total trading business in UK equities in 2006 and 2007 for UK fund management firms, using the following transaction methods.

**Table 3.1 Use of transaction methods (% by value of transactions)**

	2006	2007
Core brokerage		
Electronic trading		
of which, algorithmic trading		
of which, direct market access		
Programme trading		
Other (please describe below)		
Total		

Please describe any other types of brokerage service.

[Description of other transaction methods]
--

8) What factors affected how you competed for brokerage business in 2007?

Please complete Table 3.2 by rating the importance of the following factors in how your firm competed with other brokerage firms for trade execution business from UK fund management firms in 2007.

**Table 3.2 Factors affecting competition for trade execution business in 2007**

Factors affecting competition for trade execution business	Level of importance
	[Very important/ Important/Reasonably important/Somewhat unimportant/Unimportant]
Execution quality	
Commission rates	
Liquidity	
Access to multiple markets	
Expertise in specific markets/securities	
Availability of trade-execution-related goods and services	
Availability of in-house research	
Access to in-house analysts	
Access to third-party research	
Access to IPOs	
Access to CSAs	
Other significant factors (please describe below)	

Please describe any other significant factors affecting competition for trade execution business.

[Description of other factors]

**Typical commission rates for different transaction methods**

- 9) What were the typical gross commission rates charged for UK equity trades for UK fund management firms for different transaction methods in 2006 and 2007?

Please complete Table 3.3 with the typical gross commission rates that would have been charged for UK equity transactions for UK fund management firms sending £100m, £250m or £500m of transactions per annum, for the following transaction methods in 2006 and 2007.

**Table 3.3 Typical gross commission rates for different transaction methods**

Annual value of transactions	£100m		£250m		£500m	
	2006	2007	2006	2007	2006	2007
Transaction method						
Core brokerage (rate for execution plus non-execution goods and services)						
of which rate for execution (high-touch) services						
of which rate for non-execution goods and services						
Electronic trading (without research)						
Algorithmic trading						
Direct market access						
Programme trading (without research)						
Other						

**Actual commission rates for different transaction methods**

- 10) What proportion of your transactions were undertaken on a commission basis in 2006 and 2007?

Please complete Table 3.4, indicating the total value of transactions in UK equities undertaken for UK fund management firms, and the proportion of those transactions that were undertaken on either a net basis or a commission basis in 2006 and 2007.

**Table 3.4 Proportions of transactions on a net or commission basis**

	2006	2007
Value of transactions		
Proportion of transactions undertaken on a net basis		
Proportion of transactions undertaken on a commission basis		

- 11) What were the gross commission revenues charged to UK fund management firms in 2006 and 2007, and what were the proportion of commissions for: non-execution goods and services and capital commitment for each transaction method?

Please complete Table 3.5 with the gross commission revenues and the proportion of commissions for non-execution goods and services and capital commitment, from charges to UK fund management firms for each transaction method.

**Table 3.5 Actual commission revenues from different transaction methods**

	2006	2006	2006	2006	2007	2007	2007	2007
	Total value of trades	Gross commission revenues	Proportion of commissions for non-execution goods and services (based on average implied disclosure rates)	Proportion of commissions for brokers' capital commitment	Total value of trades	Gross commission revenues	Proportion of commissions for non-execution goods and services (based on average implied)	Proportion of commissions for brokers' capital commitment
<b>Core brokerage</b>								
<b>Electronic trading</b>								
of which algorithmic trading								
of which direct market access								
<b>Programme trading</b>								
<b>Other</b>								

- 12) What are the drivers of any of the trends in commission rates that you have observed? Please discuss the extent to which the softing and bundling regime has played a part in this, and any other factors that you consider to have been important determinants of commission rates in recent years.

[Discuss]

**Provision of non-execution goods and services**

13) How did you provide non-execution goods and services?

Please complete Table 3.6 with the proportion of non-execution goods and services that were provided to brokerage clients, either with or without a commission sharing agreement, to non-brokerage clients through commission-sharing agreements or for hard cash, in both 2006 and 2007.

**Table 3.6 Proportion of non-execution goods and services provided through different types of relationship**

Provision of non-execution goods and services (value)	2006	2007
Provided to brokerage clients outside of a commission-sharing agreement ('bundled brokerage')		
Provided to brokerage clients through a commission-sharing agreement in respect of trades provided by that client (include here clients who paid you a top-up fee where this represents 50% or less then the total charged for these services)		
Provided to non-brokerage clients through a commission sharing agreement (ie, you were a 'CSA commission recipient') (include here clients who are brokerage clients, but where more than 50% of the total charge comes from top-up fees)		
Provided to brokerage clients for hard cash alone		
Provided to non-brokerage clients for hard cash alone		
<b>Total</b>		

14) How is the price that you charge for research determined?

a) Please describe how you price your research

[Description of pricing of research]

b) When is the price of research determined?

In Table 3.7, please indicate which approaches were used to price research in 2006 and 2007.

**Table 3.7 Means of pricing research**

	2006	2007
Individually for each client, at the beginning of the year		
Individually for each client, at the end of the year		
Each research publication is individually priced		
Other (please describe)		

If you indicated that the prices of research are determined at other times, please describe when and how this approach is applied.

[Description of other times/approaches to pricing]

15) Has there been more pressure for explicit research pricing since the new regime has been implemented?

[Discuss]

16) Is there more demand for explicit pricing of more specialised research—for example, sector-, region- or company size-specific research?

[Discuss]

17) As a result of the regime changes in softing and bundling have you changed the scope/extent of the research that you undertake? If so please describe the change and reasons for it.

[Discuss]

**Disclosure**

18) Do you disclose information to your fund management firms on the use of dealing commissions?

[Yes/No]

a) If yes, what information on the split between execution and research is provided to fund management firms?

[Description of information provided]

b) If yes, how frequently is this information provided?

[Continuously or daily/weekly/monthly/quarterly/semi-annually/annually/less frequently/on request]

c) If yes, are you aware of how your fund management firms use this information? Please provide a description.

[Description of how fund management firms use disclosed information]

**Perception of market conditions**

- 19) What is your perception of market liquidity for transactions in UK equities?

Please complete Table 3.8 with your assessment of market liquidity for the FTSE 100, FTSE 250 and FTSE Small Cap segments, and your assessment of the change in market liquidity between 2005 and 2007.

**Table 3.8 Assessment of market liquidity for UK equities**

	2006	2007	Change between 2005 and 2007
Market segment	Excellent/good/reasonable poor/poor	/somewhat	Better/same /worse
FTSE 100			
FTSE 250			
FTSE Small Cap			

- 20) If the market liquidity has changed significantly since 2005, please explain what the main drivers of these changes have been.

[Explanation]

- 21) How has the coverage of research that you provide on different companies changed over the last three years (i.e. in 2007 compared to 2005 or 2006)?

Please complete Table 3.9 giving your assessment of the coverage of research you provided on different types of companies.

**Table 3.9 Assessment of the coverage of research**

	2006	2007	Change between 2005 and 2007
	Excellent/good/reasonable poor/poor	/somewhat	Better/same /worse
Market segment	Coverage	Coverage	Coverage
FTSE 100			
FTSE 250			
FTSE Small Cap			

- 22) If the coverage of research has changed significantly since 2005, please explain what the main drivers of these changes have been.

[Explanation]

**Part 4      Additional comments**

If there are there any comments that you would like to add, please outline these below.

[Additional comments]

## **A5 Questionnaire: authorised providers of retail investment products**

## **FSA questionnaire for authorised providers of retail investment products**

**Separate questionnaires are also being sent to brokerage firms, investment managers and pension fund trustees.**

**August 19th 2008**

### **Confidential**

Oxera has been commissioned by the FSA to conduct research for its assessment of the changes in January 2006 with respect to bundled brokerage and soft commission arrangements. This survey has been designed to elicit information on bundled brokerage and soft commission arrangements since the implementation of the new regime.

This questionnaire is for authorised providers of retail investment products whose investment activity is carried out in the UK. This includes authorised fund managers of collective investment schemes, the managers of investment trust savings schemes, and other kinds of investment companies and life assurance companies when managing with-profits or unit-linked funds.

The questionnaire has been sent to heads of compliance of a sample of fund management firms in the UK. You are requested to pass on this questionnaire to the authorised providers of the retail investment funds managed by your firm. This includes both retail funds provided by your own firm and retail funds provided by other firms (but managed by your firm). When forwarding this questionnaire to the authorised providers, please copy the email to [FSAsurvey@oxera.com](mailto:FSAsurvey@oxera.com).

### **Contact details**

When authorised providers of retail investment products have completed the questionnaire, please send it:

By email: [FSAsurvey@oxera.com](mailto:FSAsurvey@oxera.com)

If you have any questions regarding the completion of the questionnaire, please contact the Oxera helpdesk:

By telephone +44 (0)1865 253232

By email: [FSAsurvey@oxera.com](mailto:FSAsurvey@oxera.com)

**Thank you for taking part in this survey—your contribution is greatly appreciated**

### **Structure of the questionnaire**

- Part 1 [Respondent information](#)
- Part 2 [Relationships with investment managers who provide investment management services for your retail investment products](#)
- Part 3 [Disclosure to investors](#)
- Part 4 [Additional comments](#)

**Part 1 Respondent information**

The first section of the questionnaire establishes some high-level details about your firm (or other legal entity that is the provider of retail investment products), and requests contact details for both the principal contact and any additional contacts who you may wish to include.

- 1) Please complete Table 1.1 with details of your firm, and Table 1.2 with details of the principal and additional contacts for this survey. Please feel free to add rows for further additional contacts.

**Table 1.1 Provider details**

Name of provider	Address
[Name]	[Address]

**Table 1.2 Contact details**

Name	Position	Responsibilities	Telephone no.	Email address
<b>Principal contact</b>				
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]
<b>Additional contacts</b>				
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]
[Name]	[Position]	[Responsibilities]	[Tel no.]	[Email]

- 2) What retail investment products for whom you are the authorised providers you currently offer to investors?

**Table 1.3 Nature of assets under management**

Type of fund	Number of funds at end of 2007	Market value of assets at end of 2007
Authorised unit trusts		
Investment companies with variable capital (ICVCs)		
Unit-linked funds		
With-profit funds		
Investment trust savings schemes		
Other (please specify)		

If you have other types of funds, please specify below.

[Other funds description]
---------------------------

**Part 2 Relationships with investment managers who provide investment management services for your retail investment products**

This section of the questionnaire asks for information about your relationship with UK investment managers of your retail investment products.

**Monitoring of investment managers**

- 3) Do you monitor prior disclosure by the investment managers of your retail products of their use of brokerage commissions?

[Yes/no]

- 4) Comparing the years 2005 and 2007, to what extent were the following factors important in your ongoing assessment of the investment managers of your retail investment products? Please answer on a scale of 1–5 with 5 being very important and 1 being unimportant.

**Table 2.1 Factors considered in the monitoring of investment managers of retail investment products**

	2005	2007
	On a scale of 1–5 with 5 being very important	
Past performance of products		
Use of brokerage commissions for non-execution services		
Brokerage commission rates negotiated by the investment manager		
Extent of portfolio turnover		
Fees charged by investment manager		
Research spending by investment manager		
Other (please specify below)		

If there are any other factors you consider, please specify them below.

[Description of others]

- 5) Do you impose any restrictions on the extent to which commissions can be used by investment managers for non-trade execution services?

[Yes/no]

- 6) What measures, if any, have you used to assess the effectiveness of the investment manager in controlling commission costs passed directly to the fund?

[Description of measures]

- 7) Do you have any passive investment management mandates?

[Yes/no]

- 8) If 'Yes' do you have any passive investment management mandates where research or other non-execution brokerage commission is charged to the fund?

[Yes/no]

**Selection of investment manager**

- 9) Do you make use of external investment managers for any of the retail investment products for which you are the authorised provider?

[Yes/no]

- 10) If 'Yes' how important are the following factors in determining your choice of investment manager? Please answer on a scale of 1–5 with 5 being very important and 1 being unimportant.

**Table 2.2 Factors determining appointment of UK investment managers**

	2006	2007
	On a scale of 1–5 with 5 being very important	
Use of brokerage commissions for non-execution services		
Proposed investment management fees		
Past performance of the investment managers		
Brokerage commission rates negotiated by the investment manager		
Investment managers' style/philosophy		
Reputation of investment manager		
Expertise in specific countries/sectors/securities		
Other (please specify below)		

If there are any other factors, please specify them below.

[Description on other factors]

**Disclosure by investment managers to authorised providers**

- 11) What proportion of the investment managers of your retail investment products used the IMA Pension Fund Disclosure Code in 2006/2007 and what proportion do you expect to use this, the IMA/DATA CIS Disclosure Code (published 26/06/08), or some other means of disclosure in 2008? Please indicate in Table 2.3 below.

**Table 2.3 Disclosure arrangements**

	2006	2007	2008	
			Received or scheduled as per previous years	Expected
IMA Pension Fund Disclosure Code				
IMA/DATA CIS Disclosure Code				
Other				

Please describe the alternative disclosure arrangements.

[Description of alternative disclosure arrangements]

- 12) In 2007, was the information disclosed by the investment manager, passed directly to you as authorised product provider?

[Yes/no]

- 13) If 'No' please indicate the route by which you received the information.

[Description of routes]

- 14) For what proportion of products, for which you are the authorised product provider, did you provide feedback to investment managers in 2006 and 2007 in the following categories?

**Table 2.4 Nature of feedback to investment managers**

	Proportion of funds on which feedback given 2006	Proportion of funds on which feedback given 2007
Execution quality		
Quality of research goods and services		
Quantity of research goods and services		
Quality of execution related services		
Quantity of execution related services		
Comparison to firm average		
Comparison to brokerage fees paid by other funds		
Apparent inconsistencies between qualitative (Level 1) and quantitative (Level 2) disclosures		
Other (please specify)		

Please specify other nature of feedback below.

- 15) Was this feedback a result of your analysis or that of an investors' representative?

[Your analysis/investors' representative]

- 16) When feedback was provided to the investment manager, was action taken as a result? Please answer: always/sometimes/never.

[Always/sometimes/never]

- 17) Where a response was received from the investment manager, please give some indication of any changes that resulted.

**Disclosure by the authorised product provider**

- Q18) The FSA suggested using an investors' representative model for retail products. Do you make use of the following persons or bodies as an investors' representative? Please put an X in the appropriate box, where applicable.

**Table 2.5 Nature of investors' representatives in 2006**

	Who was the investor's representative in 2006?	Who received the disclosures for 2006 data?	For what type of fund was the disclosure made (eg, unit trust, ICVC etc)?	For what proportion of funds was disclosure of 2006 data made?	How often were disclosures received (annually, half-yearly, quarterly, more frequently)?
Depositories					
Trustees					
Actuaries					
PPFM committee/individual					
Independent directors					
Authorised product provider (ie, your firm)					
Other (please specify)					

**Table 2.6 Nature of investors' representatives in 2007**

	Who was the investor's representative in 2007?	Who received the disclosures for 2007 data?	For what type of fund was the disclosure made (eg, unit trust, ICVC etc)?	For what proportion of funds was disclosure of 2007 data made?	How often were disclosures received (annually, half-yearly, quarterly, more frequently)?
Depositories					
Trustees					
Actuaries					
PPFM committee/individual					
Independent directors					
Authorised product provider (ie, your firm)					
Other (please specify)					

**Table 2.7 Nature of investors' representatives in 2008 (including your intentions for the remainder of 2008)**

	Who is or will be the investor's representative in 2008?	Who has received or will receive the disclosures for 2008 data?	For what type of fund was the disclosure made (eg, unit trust, ICVC etc)?	For what proportion of funds is disclosure of 2008 data made?	How often are disclosures received (annually, half-yearly, quarterly, more frequently)?
Depositories					
Trustees					
Actuaries					
PPFM committee/individual					
Independent directors					
Authorised product provider (ie, your firm)					
Other (please specify)					

- 19) If you did not pass the information you received from the investment manager on to the investors' representative, please give the reasons why you did not do so.

[Reasons for not passing on the information]

- 20) If you did not pass this information on to the investors' representative, are you intending to do so in 2008?

[Yes/no]

**Part 3 Disclosure to investors**

- 21) Have you, the product provider, or the investors' representative disclosed the information you received in some form to investors?

[Yes/no]

- 22) If 'Yes' describe the medium, type and frequency and nature of disclosures.

[Description of nature of disclosure]

- 23) If information was disclosed to investors, has any feedback or comment been received from them and what form did it take?

[Nature of feedback]

**Part 4 Additional comments**

[Additional comments]

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