

04/23

Financial Services Authority

# Bundled brokerage and soft commission arrangements

Update on issues arising from PS04/13

November 2004





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This supplementary Policy Statement sets out our conclusions on the scope of the terms 'execution' and 'research', and related issues arising from our Policy Statement 04/13 'Bundled brokerage and soft commission arrangements: Feedback on CP176'.

We invite comments on this Policy Statement by 17 December 2004.

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# 1 Overview

## Introduction

- 1.1 In May 2004, we published Policy Statement 04/13 ‘Bundled brokerage and soft commission arrangements: Feedback on CP176’ (PS04/13), in which we set out our assessment of the responses to our Consultation Paper 176 ‘Bundled brokerage and soft commission arrangements’ (CP176), and key policy decisions. In PS04/13, we concluded that our analysis of the problems arising from the use of commission to fund the purchase of goods and services, in addition to execution, that need not have any direct connection with the transaction, was basically sound. There was a general consensus that improvements in transparency and accountability were desirable, but we recognised that there were potential alternatives to our ‘rebate’ proposal in CP176 (that is, that fund managers be required to value goods and services that can be softed or bundled and rebate an equivalent amount to their clients’ funds) that could deliver this.
- 1.2 To address the concerns outlined in CP176, we concluded that we should limit fund managers’ use of commission to the purchase of ‘execution’ and ‘research’ – acknowledging we needed to do further work to determine the scope of these terms. We were also persuaded to allow the industry space to tackle the lack of transparency and accountability, through the development of an industry-led disclosure regime. We made it clear that we wanted to see, by the end of 2004, a credible disclosure proposal that would provide meaningful information to fund management clients on the costs to them of execution and research, together with a timetable for implementation.
- 1.3 In this paper we set out our conclusions on the scope of the terms ‘execution’ and ‘research’, and the types of goods and services that should be considered part of either. We also comment on the progress to date with development of an industry-led approach to improved disclosure.
- 1.4 On disclosure, the Investment Management Association (IMA) has taken up our challenge, working closely with the National Association of Pension

Funds (NAPF) and the London Investment Banking Association (LIBA). We are encouraged by the progress made to date. Although subject to broader consultation with fund managers and their clients following pilot studies, the IMA/NAPF proposals look to have the potential to deliver the improvements in transparency and accountability that we seek, and which would drive greater efficiency in fund managers' decisions on execution and research. We are also confident that IMA and LIBA will develop robust mechanisms which differentiate execution and research within commission in a way that will support a disclosure regime of real substance.

- 1.5 In the course of our work since May, we were asked to clarify:
- the implications for the currency of terms such as 'soft commission' and 'bundled brokerage';
  - the role that commission-sharing arrangements may play; and
  - the scope of application of the new regulatory and industry-led disclosure regime.
- 1.6 We provide here some preliminary views on these issues – we will cover them in more detail when we consult on rule changes next year. We also provide an update on work on the governance of retail funds and international co-operation.

### **Who should read this paper?**

- 1.7 This paper will be of interest principally to fund managers, investment banks, brokers and the providers of services such as market information services and independent research. It will be of direct interest to institutional investors such as the trustees of pension funds.
- 1.8 It will also be relevant to retail fund trustees and depositaries, investors in retail products and to the providers of these products – such as unit trust managers, authorised corporate directors, other investment companies (including investment trusts) and life assurance companies.

### **Next Steps**

- 1.9 This paper does not contain draft rules. We intend to issue a consultation paper setting out the necessary rule changes to implement the policy conclusions published in PS04/13 and this paper, in the first quarter of 2005. This will follow our assessment of the outcome of the IMA-led work on enhanced disclosure.
- 1.10 We invite comments on this paper by 17 December 2004.

## **CONSUMERS**

Managers of retail funds – such as unit trusts, open-ended investment companies, investment companies (including investment trusts), and life and pension funds – are commonly party to bundled brokerage and soft commission arrangements. So, consumers with interests in these funds, whether directly or through PEPs and ISAs, have an interest in the issues covered in this Policy Statement.

# 2 Policy conclusions: 'execution', 'research' and other issues

## **Introduction and purpose**

- 2.1 In May 2004, we published PS04/13 'Bundled brokerage and soft commission arrangements: Feedback on CP176'. In this, we set out our policy decisions following our consultation in CP176 'Bundled brokerage and soft commission arrangements'.
- 2.2 We concluded that our original analysis of the problems arising from bundled brokerage and soft commissions was basically sound. The essence of 'bundled' or 'softed' commission arrangements is that payment for a transactional event is used to pay for other goods and services that need not have any direct connection with that event. This practice lacks transparency and creates conflicts of interest for fund managers in their relationships both with clients and brokers. This lack of transparency and accountability makes it difficult for fund management clients to judge how well their fund manager is acting in their best interests or obtaining sufficient value for money on their behalf.
- 2.3 In PS04/13, we identified there is a general consensus that transparency and accountability for fund managers' expenditure of commission charged to their clients could – and should – be improved. Following consultation with the industry, we also acknowledged there were other ways to achieve our aims of greater transparency and accountability than our 'rebate' policy proposal in CP176 (that is, that fund managers be required to value goods and services that can be softed or bundled and rebate an equivalent amount to their clients' funds).
- 2.4 In PS04/13, we therefore set out the outcomes we sought, and the changes we believed necessary to deliver them<sup>1</sup>. Briefly, those outcomes are that fund managers should have better incentives to make efficient decisions about the purchase of trade execution and other services (such as investment research),

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1 See paragraphs 1.17 and 1.18 of PS04/13.

and they should be fully accountable to their clients for those decisions. To achieve this, we saw three complementary changes as necessary:

- fund managers' use of commission should be limited to the purchase of 'execution' and 'research';
- fund managers should give their clients better information about the respective costs of execution and research, and the overall expenditure on these services; and
- fund managers should be encouraged to seek, and brokers to provide, clear payment and pricing mechanisms that enable individual services to be purchased separately.

2.5 We accepted that it was for us to act on the first of these changes by clarifying what should be covered by the terms 'execution' and 'research'. In PS04/13, we said we would do further work, consulting the industry and other affected parties, to determine what the scope of these terms should be. We set out the conclusions of that work in this paper.

2.6 On the second and third changes, we were persuaded to allow the industry space to develop an industry-led solution, based on enhanced disclosure. This would give fund management clients meaningful information about the costs to them of execution and research, which should help facilitate the development of new payment and pricing mechanisms. The work would be led by IMA, and would involve NAPF and LIBA. We said that by the end of 2004, we will want to be satisfied that industry proposals were on track to provide the outcomes we seek.

2.7 To provide clarity for the industry in the finalisation of its proposals, we think it would also be helpful to give our views on a number of related issues. These include:

- the implications of our policy decisions for use of the term 'soft commission';
- the standing of commission-sharing arrangements;
- the scope of application of the revised regulatory regime and the industry's disclosure proposals; and
- an update on work underway on the governance of retail funds and on international co-operation.

### **'Non-permitted services', 'execution' and 'research'**

2.8 We concluded in PS04/13 that the use of commission should be limited to the purchase of execution and research. This implies a narrowing of the range of services for which this is currently an appropriate payment mechanism under

our existing soft commission regime<sup>2</sup>. This would set an ‘outer perimeter’ for permitted commission payments and draw a distinction between ‘non-permitted’ goods and services on the one hand and execution and research services on the other.

- 2.9 Within this perimeter, we believe there is a fair degree of industry consensus on what constitutes execution. Most fund managers have a clear view on the nature of the execution service they expect from their brokers, and how that may vary depending on the type of execution required (for example, between execution-only, programme trading, active order management, liquidity provision and so on). We also understand that some fund managers seek to negotiate different commission rates with their executing brokers for different types of execution service – sometimes excluding a research component. The fund management industry has consistently told us that execution quality is – or should be – the key factor in determining the choice of broker. We agree this should be the case. In our view, greater focus on execution, and the costs of execution, should reinforce this.
- 2.10 There appears to be less market consensus on what constitutes research: this is a more difficult concept to pin down. However, we believe it is possible to set some general principles. Subject to these, any commission paid in excess of that attributed to execution would be for ‘research’ – provided the services supplied fell within the outer perimeter of permitted commission payment.

*‘Non-permitted services’*

- 2.11 In drawing the outer perimeter – identifying ‘non-permitted services’ – our view is that all those goods and services we currently regard as outside our soft commission regime<sup>3</sup>, as well as some of those currently regarded as inside it<sup>4</sup>, should be classified as ‘non-permitted services’, for the reason that they are not sufficiently connected with particular investment management decisions or transactions to be classified as execution or research. These include:

- services relating to the valuation or performance measurement of portfolios;
- computer hardware;
- dedicated telephone lines;
- seminar fees;
- subscriptions for publications;
- travel, accommodation or entertainment costs;

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2 See COB 2.2.8R – COB 2.2.20R.

3 See COB 2.2.14G.

4 See COB 2.2.12R(4) and COB 2.2.13G(5)-(8).

- office administrative computer software, for example, word processing or accounting programmes;
- membership fees to professional associations;
- purchase or rental of standard office equipment or ancillary facilities;
- employees' salaries; and
- direct money payments.

2.12 We acknowledge that all these goods and services are likely to be relevant, in a broader sense, to a fund manager's business, but we consider that the consequence of classifying them as 'non-permitted' goods and services (namely that fund managers will need to pay for them by means other than through trading commission) is the appropriate result. There are also other services which could, depending on the circumstances, fall outside the outer perimeter, and which follow from our discussion of execution and research below.

*The scope of 'execution'*

2.13 We view 'execution' as consisting of services provided by a broker (or other execution venue) that meet two criteria:

- they are demonstrably linked to the arranging and conclusion of a specific transaction (or series of related transactions); and
- they arise between the point at which the fund manager makes an investment decision and the point at which the transaction is concluded.

2.14 From our continuing discussions with the industry, we see a general consensus that the essential components of an execution service that may be recovered through commission charges include booking and processing of orders, and related costs arising directly from trading. In addition, a broker may provide active order management, carrying out programme trades and other complex trading strategies, and 'working' orders in tranches to minimise market impact costs. A broker may also choose to facilitate client orders by trading as principal. All of these could be categorised within the 'execution' element of commission.

2.15 However, we note there is less consensus on how to categorise other elements of a broker's service. One such element is sales and trading advice, which a number of people told us could relate to both execution and research. We see this as a component of execution if it can be attributed to a specific transaction (or transactions) after the point at which the fund manager makes an investment decision. For example, trading advice, which covers services such as advice on liquidity and market-related timing, negotiation of the terms of trade and other aspects of order handling, can be seen as part of execution. Generally, we see 'sales' as a transmission mechanism for execution (and possibly research) and not a 'service' in its own right.

- 2.16 A second issue is the provision of post-trade analytics, such as software designed to analyse execution quality. Although this undoubtedly relates to transactions, it is less obviously an element of execution. While this can provide information that could affect the fund manager's future trading strategy, it is more concerned with the making of investment decisions than the execution of specific decisions. So while we recognise that analytics are an important aid to fund managers' assessment of the quality of execution, we would not expect to see this type of service classified as execution without very strong reasons.
- 2.17 A third issue is the provision of custody. Custody is currently an allowable service under a soft commission agreement<sup>5</sup>. However, while there is a connection between transactions and the need for custody, we do not regard the provision of that service as meeting the criteria outlined in paragraph 2.13 above. Under the Financial Services and Markets Act 2000, 'safeguarding and administering investments' is a regulated activity in its own right. It is quite separate from 'dealing', 'arranging deals' or 'managing investments', for which firms require separate Part IV permissions.
- 2.18 We understand that, consistently with that, fund managers do not generally treat custody as part of execution. Some provide in-house custody services for their clients, and charge for them within the overall management fee. Other managers may delegate custody to a third party, in which case a variety of charging structures may operate. These may include a flat rate or *ad valorem* fee for the safeguarding of assets, combined with a transaction-related charge for the clearing and settlement aspects. Large institutions offering global custody services may provide the fund manager with a wide range of 'back-office' services for which separate charges are made.
- 2.19 Where the costs of custody are absorbed by the manager or charged to the client as a separate and explicit fee, we have no concern. However, we see no obvious reason why fund managers should use commission on transactions to pay for custody services. In addition, charging in this way would remove transparency to the underlying client, and it may involve the passing on of service costs which the client would reasonably expect to be covered by the fund management fee.
- 2.20 Finally, there is the treatment of clearing and settlement services. The arguments here are more finely balanced. Services such as netting of positions to reduce costs, corresponding with sub-custodians on specific trades, and resolving and reporting failed trades, are all relevant to execution. But, on the other hand, some settlement services are closely related to custody services. We query whether, for example, charges for failures by custodians to conduct

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5 See COB 2.2.12R.

efficient and timely administration required to avoid failed trades should be included in the commission charge. We would also doubt that expenses incurred by custodians in dealing with third parties, such as certificate and registration fees, and charges levied by central depositories on deposit or withdrawal of securities, should be included in the commission charge. Although related to specific transactions, they are more closely concerned with the safeguarding and administration of assets. However, where clearing and settlement, including any essential though temporary ‘safekeeping’ function, is an essential part of the broker’s service, we see no reason why this should not be considered part of execution.

- 2.21 It follows from this discussion there will be scope, within the guidelines set out above, for fund managers to agree with their brokers the nature of the execution service they require, and for the price to be subject to appropriate commercial negotiation.

#### *The scope of ‘research’*

- 2.22 Turning to the scope of ‘research’ for the purpose of this paper, the industry appears to take a reasonably intuitive approach to determining what it should cover. Research should be capable of adding value by providing new insights that inform fund managers when making investment or trading decisions about their clients’ portfolios. That is, the output (in whatever form):
- represents original thought – that is, the critical and careful consideration and assessment of new and existing facts – and does not merely repeat or repackage what has been presented before;
  - it has intellectual rigour and does not merely state what is commonplace or self-evident; and
  - it involves analysis or manipulation of data to reach meaningful conclusions.
- 2.23 Given this, we consider that original written research, whether produced by brokers or by independent providers, is likely to meet these criteria. We would also expect discussions between the fund manager and the author of the research to be covered, and probably – subject to the comments in paragraph 2.15 – ‘sales and trading advice’ that is not explicitly execution-related. And we do not rule out ‘artificial intelligence’ – that is, it is clearly possible that original analysis and meaningful conclusions on investment and trading decisions can be computer-generated (for example, where it is clear the design of the electronic process captures original intellectual ideas which determine the research product).
- 2.24 However, we do not think that ‘research’ should embrace raw data feeds – though we accept that they can be relevant to post-trade assessment of execution quality. Nor do we think it should cover information that is generally publicly

available – for example, through the mass media, specialist journals or other publications, and associated subscriptions. In addition, if the goods and services are in the list we regard as being beyond the ‘outer perimeter’ (such as seminar fees and portfolio valuation services), they remain excluded.

- 2.25 We acknowledge there is a wide range of services that could serve different uses between different fund managers. We are concerned not to dismiss particular types of inputs without understanding the value they provide to particular types of fund manager. We invite any comments on our approach before we formulate draft rules for consultation.

#### *Choice of payment mechanism*

- 2.26 A key point to emphasise is that the approach to fund managers’ use of commission set out in this paper is essentially permissive, not mandatory. That is, fund managers are not *required* to use commission to purchase any service. But where they decide to do so, they should have good reason for choosing this payment mechanism rather than paying cash – which would be more consistent with our longer-term vision of a market that is more transparent with enhanced accountabilities for the various players, as we explained in PS04/13<sup>6</sup>. This is an area we will keep under review.

#### *Treatment of different forms of communication*

- 2.27 Some respondents to CP176 expressed concern that in considering the terms execution and research, we could inadvertently favour one medium of information provision over another. This point was reiterated in our recent discussions with industry representatives. To avoid doubt, our view is that the medium of communication should be irrelevant when deciding whether a service should be regarded as execution, research or a non-permitted service. As indicated above, the emphasis should be on the fundamental nature and purpose of the information provided, not the medium of delivery. This is also consistent with the ‘medium-neutral approach’ used in our Handbook<sup>7</sup>.

### **Improving transparency and accountability**

- 2.28 In PS04/13, we accepted there was potential for improved transparency and accountability to meet the concerns identified in CP176 to be delivered in large part by an industry-led solution, based on enhanced disclosure. We therefore set the industry a challenge to develop a credible approach to disclosure that would deliver the outcomes we seek. We explained we would be looking for properly worked-through proposals to be developed by the end of 2004, with a timetable for implementation starting in 2005.

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6 See paragraphs 3.20-3.22 of PS04/13.

7 See GEN 2.2.14R and COB 1.8.

- 2.29 The industry accepted this challenge, and IMA has taken the lead in devising an enhanced disclosure regime. This work has made encouraging progress. IMA established two industry working groups – one with NAPF and one with LIBA. The first has been working on proposals to modify the existing IMA/NAPF Disclosure Code to cover the disclosure by fund managers to clients of the amounts of commission paid for execution and for research, in a format that clients will find useful. Following successful completion of pilot exercises, on 28 October 2004 IMA commenced its broader consultation with its members on its proposals. The approach to disclosure that has been developed promises to go a long way to meeting the desired outcomes. We are hopeful that the presentation of information to the client on the use of commission by the fund manager to purchase execution and research services, and on the significance of the figures, will provide the basis for more effective dialogue between client and manager on the efficiency of the fund manager's purchasing decisions. This, in turn, should sharpen incentives and accountability in the relationship between fund managers and brokers.
- 2.30 The second working group has focused on developing proposals which would support fund managers in making this separate disclosure. We expect that this will incentivise them to manage conflicts better. A key aspect of these proposals – that is, the important element that is central to delivery of our outcomes – is how the attribution of commission between execution and research required under the Disclosure Code should be embedded in the commercial reality of broker-fund manager relationships.
- 2.31 In our view, a prior agreement on what rates or amounts a fund manager expects to pay for execution over the coming period will add an incentive for the fund manager to look carefully at value for money in the execution services and other services for which he is paying with commission. An *ex ante* agreement on commission rates for one or more types of execution service does not mean that revisions after the event will not be possible or desirable. But it is reasonable to expect fund managers and brokers to agree a commission rate or rates, based on shared assumptions that relevant variables meet expectations. On that basis, we expect them to be able to agree an indicative rate or rates for the execution component. Adjustments may be necessary after the event to reflect the fact that the expectations about, for example, trading flow characteristics were not fulfilled.
- 2.32 We are confident that the industry proposals can satisfactorily address these issues. LIBA and IMA have proposed to their members that an indicative forward-looking split is a sensible approach. NAPF are encouraged by these developments and hopeful that they will deliver an improved degree of rigour to the disclosure to clients in a way that will be meaningful to them, and will also secure real improvements in the accountability of fund managers for commission spend.

## Further consequential issues

### *Implications for the terms 'soft' and 'bundled'*

- 2.33 Since the release of PS04/13, we have been asked to clarify the impact of the policy conclusions we set out in that statement on the use of the term 'soft commission'.
- 2.34 In CP176 we said that we believed there should be equality of regulatory treatment between bundled and softened services. Following consultation, we concluded that this view was generally shared by the industry. We made it clear in PS04/13 that limiting the uses of commission to payments for 'execution' and 'research' should apply regardless of the provider of, and the means of providing, these services.
- 2.35 Accordingly the term 'soft commission' – which denotes a particular type of arrangement for paying for third-party goods and services – would become redundant as a regulatory concept in the UK. As indicated above, in future the key issue will be whether particular goods and services will be 'non-permitted', however they are supplied. We envisage the proposed changes to our rules will focus on the legitimate uses of commission, and effective disclosure to clients of payment for execution and research – however sourced. This is likely to replace the current focus on soft commission arrangements.

### *Commission-sharing arrangements*

- 2.36 We have also recently been asked to clarify our views on commission-sharing arrangements (CSAs)<sup>8</sup> and how they should be treated for regulatory purposes – now and in the future.
- 2.37 We said in PS04/13 that we saw the potential for CSAs to form part of the market-led solution to deliver greater transparency and accountability in the use of commissions. However, we also noted there were potential limitations to the effectiveness of CSAs, and that we therefore saw them as a partial solution to the market failures we described in CP176<sup>9</sup>.
- 2.38 Our reservations focused on the potential risks to market efficiency if a widespread use of CSAs resulted in order flow being concentrated in the hands of a small group of large brokers. We also focused on doubts about the extent to which CSAs would make the value of the executing brokers' proprietary research any more transparent. We would also be concerned about the potential for CSAs to create conflicts of interest if they contained specific obligations on the volume or value of business the fund manager would put through the broker.

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<sup>8</sup> In a CSA, the executing broker agrees that part of the dealing commission it earns will be redirected to one or more third parties, nominated by the fund manager, as payment for research services, that they have provided to the manager.

<sup>9</sup> See paragraph 2.90 of PS04/13.

- 2.39 Following further discussions with the industry, we acknowledge there are strong counter-arguments. For example, concentration of execution in the hands of the more efficient brokers should lead to overall improvements in execution quality. This would be particularly true if their use meant that fund managers were not tied to arrangements with brokers having poorer execution quality than others and who receive order flow largely in order to reward the provision of research. We also note that a concentration of trading in more liquid stocks would not necessarily exclude smaller brokers that provide valuable execution capability in niche markets, such as small and mid-cap stocks. And we understand it is possible to structure CSAs so that there is no compulsion on firms to trade up to particular commission levels.
- 2.40 Clearly CSAs can enable fund managers to separate decisions about the most appropriate providers of execution and research services. To the extent that CSAs are a means of providing access to independent third party research providers (that is, independent from the executing brokers for the fund) they can also play a useful role in promoting this sector.
- 2.41 In short, we do not consider the use of CSAs inappropriate, provided that:
- fund management clients understand their nature and purpose;
  - the commission flows generated are properly reflected in the industry's disclosure regime; and
  - they do not create new, unmanageable conflicts of interest for the fund manager.

#### *Scope issues*

- 2.42 In our discussions with industry representatives, issues have arisen as to the intended scope of the revised regulatory regime and the industry's proposals for enhanced disclosure. There are two elements to this: territorial scope, and coverage in relation to types of fund management firm and business. We will address these points in more detail when we consult on changes to our rules in due course. However, we set out our preliminary views below.
- 2.43 On the territorial scope of our conduct of business rules, the general position is that they apply to UK authorised firms carrying on designated investment business in the UK, regardless of the location of the client. For the purposes of our policy decisions in PS04/13 and in this paper, the determining factors are therefore the location of a firm's fund management activity and the identity of the client. So we envisage that our regulatory regime will, in principle, apply to fund management carried on in the UK. However, we recognise that practical problems could arise where, for example, mandates are delegated to a UK firm from an overseas affiliate that may be subject in its own jurisdiction to particular regulatory requirements and client reporting conventions.

- 2.44 We will give careful consideration to these issues as our thinking on rule changes develops, by which time we expect the implications of MiFID<sup>10</sup> for the existing UK conduct of business regime to be clearer.
- 2.45 On the territorial scope of the industry's disclosure regime, some firms have questioned whether it would be practical to apply it to business for non-UK clients. Others have indicated that they would like to adopt it as the standard for all clients. Our view is that we would expect it to become the standard for UK clients' mandates. For non-UK clients, we consider that – in the first instance – it is for the industry to determine whether the UK disclosure regime should or could apply.
- 2.46 On the application of the new regime to particular types of investment management firm and activity, some trade bodies and firms have asked us whether a differentiated approach would be appropriate. That is, whether certain constituencies and sectors of the industry should be subject to differential treatment that takes account of their specific circumstances.
- 2.47 We recognise that our analysis and proposals in CP176, our conclusions in PS04/13, and the market-led approach to enhanced disclosure are principally designed to address issues arising in the institutional fund management market. As such, the disclosure regime, and the principles that underpin it, may not necessarily be relevant to all firms that carry on investment management activity. We will give this issue further consideration when we prepare our consultation paper on rule changes.
- 2.48 The proposals in this paper relate to commission arrangements in the equity markets. In principle, they could apply to any situation in which brokerage arrangements raise similar conflicts of interest. We will consider in due course through informal discussions with stakeholders whether it would be appropriate to extend their application to trading in other asset classes.

#### *Retail fund governance*

- 2.49 In PS04/13, we said we would carry out work on strengthening the corporate governance of retail funds (that is, collective investment schemes, investment trusts and funds of life assurers) as a means of sharpening the accountability of fund managers. We noted IMA was carrying out its own review in this area, although its scope was limited to reviewing the governance arrangements for UK authorised collective investment schemes, and that we would take their findings into account in our work. We understand that IMA is currently consulting its membership on this review and expects to complete it and release the results in December 2004.

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10 The Markets in Financial Instruments Directive (2004/39/EC).

- 2.50 As part of our work, we will examine the practical implications of proposals that arise from the IMA review. We also intend to examine the governance arrangements for investment trusts and funds of life assurers, as well as collective investment schemes.
- 2.51 We expect to complete our information gathering by the end of 2004 and to release our findings and recommendations in the first quarter of 2005.

*International co-operation*

- 2.52 As mentioned in PS04/13, the US Securities and Exchange Commission (SEC) has established an internal task force, which is currently carrying out a review of 'soft dollar' arrangements. We continue to have discussions with the SEC on issues surrounding dealing commission and on ways we might be able to co-ordinate our efforts in this area.

# 3 Next steps

- 3.1 As we stated in PS04/13 and above, the target for the industry is to satisfy us by the end of 2004 that its proposals are on track to provide the outcomes we seek. On that basis, we plan to publish a consultation paper with draft rule changes from PS04/13 and this paper in the first quarter of 2005 and to finalise the changes to Handbook text in the summer of 2005.
- 3.2 We invite comments on this paper by 17 December 2004.



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