

04/23 newsletter



Financial Services Authority Bundled brokerage and soft commission arrangements Update on issues arising from PS04/13 November 2004

About this newsletter

This newsletter provides a summary of FSA Policy Statement 04/23.

This paper is particularly relevant for fund managers, investment banks, brokers, independent research providers, market information service providers and institutional investors such as pension fund trustees.

- You can download the complete Policy Statement from the PS04/23 Resource Page – see details below.

Alternatively, to order hard copies of the Policy Statement:

- Copies are available at £10 each.
- Phone our helpline on 0845 608 2372, quoting reference PS04/23.
- Or alternatively order online at <http://www.tso.co.uk/bookshop/bookstore.asp?FO=38383&DI=510776>.
- Please allow five working days for delivery.

Subscription

If you wish to subscribe to our new targeted email alert service for all FSA newsletters please visit:

http://www.fsa.gov.uk/ecrm/email_communications.html

If you have previously registered for this service and have received a hard copy of this newsletter there may be a problem for us with your email address. As this is a new service we would be grateful if you would re-register as above.

Useful links

PS04/13: [Resource Page](#)

http://www.fsa.gov.uk/pubs/ps/04_13/

CP176: [Resource Page](#)

<http://www.fsa.gov.uk/pubs/cp/176/>

For information about FSA publications, please visit:

<http://www.fsa.gov.uk/pubs/>

For a full copy of the Policy Statement: Call 0845 608 2372 and quote PS04/23

The Financial Services Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

Main switchboard: 020 7066 1000
Fax: 020 7066 1099
Website: <http://www.fsa.gov.uk/>
PS04/23 Resource Page: http://www.fsa.gov.uk/pubs/policy/04_23/
Email: cp176@fsa.gov.uk

Overview

In May 2004, we published Policy Statement 04/13 ‘Bundled brokerage and soft commission arrangements: Feedback on CP176’ (PS04/13). In this, 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 be directly connected to the transaction, was basically sound. There was a general consensus that improvements in transparency and accountability were desirable. However, we recognised 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.

To address the concerns outlined in CP176, we concluded 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.

This policy statement

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.

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 seem to have the potential to deliver the improvements in transparency and accountability

that we seek, which would drive greater efficiency in fund managers' decisions on execution and research. We are also confident IMA and LIBA will develop robust mechanisms that differentiate execution and research within commission in a way that will support a disclosure regime of real substance.

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.

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?

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.

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

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.

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.

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.

Please address any comments on this Policy Statement to:

Paul Craig
Wholesale and Prudential Policy Division
Financial Services Authority
25 The North Colonnade
Canary Wharf
London E14 5HS
Telephone: 020 7066 5406
Fax: 020 7066 9734
E-mail: cp176@fsa.gov.uk

For a full copy of the Policy Statement: Call 0845 608 2372 and quote PS04/23

The Financial Services Authority
25 The North Colonnade
Canary Wharf
London
E14 5HS

Main switchboard: 020 7066 1000
Fax: 020 7066 1099
Website: <http://www.fsa.gov.uk/>
PS04/23 Resource Page: http://www.fsa.gov.uk/pubs/policy/04_23/cp176@fsa.gov.uk
Email: cp176@fsa.gov.uk