

June 2006

06 / 5 *newsletter*



This newsletter provides a summary of PS06/5. Please see 'Who should read the full paper?' to see if PS06/5 is relevant to you.

Financial Services Authority

Bundled brokerage and soft commission arrangements for retail investment funds

Feedback on CP05/13

Why are we issuing this Policy Statement?

In this Policy Statement (PS) we give feedback on Consultation Paper 05/13 (*Bundled brokerage and soft commission arrangements for retail investment funds*), which we published at the end of September 2005. We have decided not to introduce new rules and guidance on this now.

Who should read the full paper?

This paper will be of interest to the operators and investment managers of retail funds, such as authorised unit trusts and open-ended investment companies, investment trust companies, and with-profits and unit-linked life funds. Consumers with interests in these types of fund – whether directly or through wrappers such as individual savings accounts (ISAs), personal equity plans (PEPs) and child trust funds – are affected by the issues covered in the paper.

What is the background to this?

CP05/13 concerned retail investment funds in cases where the investment manager of the fund was receiving goods and services from third parties through commission arrangements.

We proposed there should be an ‘investors’ representative’ to receive and consider any commission-related disclosures about a retail fund, on behalf of the underlying investors. The representative would be a person or body with suitable knowledge, experience and authority, who could act independently in investors’ interests and deal with the investment manager on a comparable basis to a major institutional client. That would ensure the investment manager was properly held to account for the use of all its customers’ funds.

What feedback did we get to our consultation?

The consultation feedback was broadly supportive of the principle that any disclosures relating to retail funds should be considered by a suitably qualified person able to represent the interests of the fund’s investors. But views differed on the detail of who might be suitable to carry out the representative function for different types of fund, how prescriptive we should be concerning the role, and what information – if any – should be made available to investors.

What happens now?

We think it is desirable to continue, where possible, to resolve issues relating to softed and bundled services through initiatives led by the industry. We have also reconsidered our proposals in the light of our public commitment to ‘better regulation’. This calls on us to take a more risk-based approach and to rely more on principles and high-level rules than additional detailed Handbook text. In view of these considerations, we have decided it would not be proportionate to introduce new rules and guidance now.

We shall monitor developments in the market over the next 18 months or so, leading to the review of the effectiveness of industry-led measures which we previously announced we would undertake in 2008. At that point we shall judge whether the disclosure-based approach has been effective in bringing about the outcomes we want to see – that investment managers are making decisions focused on getting value for money from commission spending, and are accountable to their clients for the decisions made.



This Policy Statement reports on the main issues arising from Consultation Paper 05/13 (*Bundled brokerage and soft commission arrangements for retail investment funds*).

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How can I get the full paper?

You can download the full Policy Statement from:

www.fsa.gov.uk/pages/Library/Policy/Policy/2006/06_05.shtml

Or you can order hard copies of the paper:

Phone our helpline on 0845 608 2372, quoting reference PS06/5

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