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Ashley Kovas  
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Our ref: PR8/DJF

Dear Ashley

### **Bundled Brokerage and Soft Commission Arrangements**

I am responding on behalf of the Consumer Panel to CP176.

The Panel agrees that the existence of 'bundling' and 'softing' arrangements seems to create a conflict of interest between fund managers and their customers and could even encourage fund managers to trade other than in the best interests of their customers. Moreover, because of the lack of transparency or accountability in relation to commission costs, it is difficult or impossible for consumers to ascertain whether or not their fund manager is acting in their best interests. Accordingly, we strongly support the FSA's proposal to amend the regulatory regime.

On the measures for improving the regulatory regime, may I firstly welcome the fact that the FSA does not propose to rely merely on more information being disclosed to - and understood by - consumers. The proposal to 'locate' the solution in the market itself is a sophisticated one, to which the Panel is particularly attracted in the sense that it places no additional burdens on consumers and yet, potentially, enables them to get more out of their investment.

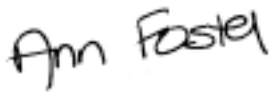
On the first of the measures - to limit the purchase of bundled and softened goods and services - we agree intuitively with the conclusions of OXERA that there is no economic justification for using commission payments to purchase goods and services for which demand is reasonably predictable. Accordingly, we support the proposal to apply the restriction to market pricing and information services and we see no reason not to extend it to other services such as custody, computer hardware and dedicated telephone lines, and the payment of fees for seminars and publications.

The proposal to require a fund manager using customers' commission to buy services additional to trade execution to determine the cost of those services and to rebate an equivalent amount to his customers' funds also seems to be a pragmatic way of ensuring greater transparency and accountability to consumers. Importantly, we can see that it would also provide fund managers with a more direct incentive to

exercise stricter control over the purchase of additional services currently acquired through bundled or soft arrangements. The Panel is not in a position to assess the practicalities of implementing this proposal in relation to the valuation of additional services. However, we agree that, as indicated in paragraph 4.19 of CP176, as long as the commission rate attributable to trade execution can be identified, the difference between those costs and the total commission payable would seem to represent the total costs of the additional services, whatever services were actually provided. From the consumer perspective, the unbundling of broker services would on the face of it seem to represent an equally attractive - and perhaps more straightforward - way of identifying the commission rate charged to funds. We will be interested in seeing the comments of market practitioners in this respect.

In summary, the Panel takes a keen interest in the FSA's proposals in respect of Bundled Brokerage and Soft Commission Arrangements and strongly supports the measures put forward for improving the regulatory regime. Please keep us in touch with developments; we would welcome further discussions with you before the FSA's proposals are finalised.

Yours Sincerely,



Vice Chairman

cc. John Tiner  
Anna Bradley  
Stuart King  
Michael Folger  
Christina Sinclair

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