

# Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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London E14 5HS

6 January 2006

Our ref:PR8/MT

Dear Mark

## **CP05/13\*\*: Bundled brokerage and soft commission arrangements for retail investment funds**

This is the Consumer Panel's response to CP 05/13.

Although we support fully the need to ensure that retail customers have their interests protected, we agree with the conclusions in CP 05/13 that they will have little interest or understanding of bundled and soft commissions. Retail customers are more likely to focus upon the quality and track record of the investment manager/firm and the investment policy, the major drivers of performance. That said it is important to ensure best execution of trades and reasonable costs (particularly when there are intra-group charges) both of which will impact investment performance.

Overall we support the proposals within CP 05/13 to have a nominated, independent person or body of people to receive and consider information and ensure that funds are managed in the best interests of customers.

*Q1. Do you agree that compulsory provision of commission disclosures to all investors in retail products would not be beneficial? Would there be merit in any kind of wider availability of these disclosures?*

We agree that there would be little benefit in providing commission disclosures to retail customers. In general they will not understand the information and even if they do will have little ability to influence the arrangements entered into by investment managers.

Whilst we don't see a need to require any kind of wider availability of the disclosures, this information could assist financial advisers in making a judgement on what investments to recommend. This should be up to the fund to decide.

*Q2. Do you agree that an investors' model representative is, in principle, an appropriate model for considering the disclosures? Are there any other considerations regarding the representative's qualifications and duties?*

As stated above we support the proposed model. We believe the criteria set out in paragraph 3.1 adequately cover the duties and qualifications that the investor's representative should have. In summary they should have the ability and capability to ensure that the retail customer's are protected.

*Q3. Do you agree that the depositary is the best person to act as the investors' representative for the authorised fund? Should we consider further the role that independent directors might play in the governance of an ICVC?*

We agree that the depositary is the best person to act. We are unable to comment on the governance of ICVCs except to emphasise the need for independence.

*Q4. Do you agree that the independent directors of an investment trust are best placed to review disclosures of bundled brokerage arrangements? Do you think specific guidance on this subject in the listing rules is necessary to achieve our desired outcome?*

We agree that the independent directors of an investment trust are best placed. We do not believe there is a need to provide specific guidance on the subject in the listing rules – the general provisions of the AITC code, as mentioned in paragraph 3.13, should be sufficient.

*Q5. Do you agree that the various parties we have identified as potential investors' representatives for policyholders would be suitable? Are there others we should consider?*

We are happy that the parties identified in paragraphs 3.20 to 3.22 would be suitable for life assurance companies. Other alternatives that might be proposed must meet the overall requirements of independence and best interests.

*Q6. Do you agree that our expectations of AFMs and depositaries are adequately expressed? Could our expectations of depositaries be conveyed through guidance rather than a rule?*

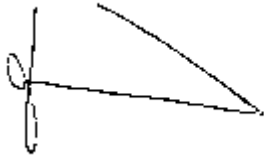
On the basis that the major requirement is to adhere to the underlying Principle to ensure the fair treatment of customers, and that compliance with the Principles will be required by COLL and CIS, we feel that the expectations of AFMs can be covered by guidance rather than detailed rules. Given the uncertainty expressed in paragraph 3.33, we agree that a rule, supported by guidance, should be considered further to cover the expectations of depositaries.

*Q7. Are there any other matters on which rules or guidance are necessary or desirable to indicate the behaviour we expect of authorised persons? In particular, should investors' representatives have wider powers or duties to report their views to investors in the fund?*

We feel that a simple statement should be included in the annual report that the investor's representatives have covered off their duties in this area. Whilst the decision to provide more information should be left with the firms we would expect them to be mindful of the need to ensure clear and simple information to customers and avoid including too much which customers are unlikely to understand.

We look forward to hearing the results of this consultation.

Yours sincerely,

A handwritten signature in black ink, consisting of a vertical line on the left, a horizontal line extending to the right, and a diagonal line crossing the horizontal one from the top right towards the middle.

John Howard  
Chairman  
Financial Services Consumer Panel