



Conference Suggests UK's FSA Won't Ban Soft Commissions

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By Alen Mattich

Of DOW JONES NEWSWIRES

LONDON -(Dow Jones)- The U.K. Financial Services Authority isn't likely to be draconian in how it regulates the practice of soft commissions in fund management, said one person who participated in closed conference on the subject hosted by the watchdog Monday.

Though the FSA's starting point has been to ban the practice of soft commissions, the tenor of the conference suggests the regulator might be willing to stop well short of prohibiting the practice outright, said James Stewart, head of institutional research and market at **Eden Group**, which specializes in European equity brokerage and trading.

The conference was for invited market participants on both the buy side and the sell side. The FSA would probably be content with ensuring that fund managers make fully transparent the commission arrangements they have with their brokers, Eden said.

"It would be an extreme step for the FSA to out of hand ban established practices...The U.K. tendency is to remain relatively democratic and relatively liberal," he said.

Fund managers routinely pay commissions to brokers in excess of the cost of trade execution to cover the additional costs of research and market information. These full service or soft commission arrangements were questioned in a 2001 Treasury review by Paul Myners, which concluded that there was an incentive for fund managers to steer trade through certain brokers to obtain additional services rather than to get the best execution for their clients.

Some fund managers have suggested that if fund managers were made to pay directly for the broker services they received and then to pass on these charges to their clients, many fund management firms would go bust while others would leave London for regulatory regimes that allow these practices.

Eden's Stewart said that both buy side and sell side participants of the conference agreed that there was a duty to protect the end investor.

"In general, everyone who spoke was clearly on balance in favor of transparency," Stewart said.
"People were not trying to safeguard an...untoward practice."

Participants also recognized that it wasn't possible to keep the status quo - either the market would force greater transparency in pricing or the FSA would do it.

But rather than banning the practice outright, the FSA would probably be content with ensuring that end investors had available to them information about these additional commission costs, said Stewart.

The conference was part of FSA consultation period, which ends Aug. 29. The conference was constructive and useful and the FSA will explore the issues raised, a spokesman said.

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