

## STATEMENT OF GOOD PRACTICE

### Introduction

This statement of good practice has been issued by the London Investment Banking Association. It has been developed in consultation with the Investment Management Association and the UK Financial Services Authority ("FSA"), and in the light of concerns considered by the FSA in Consultation Paper 176. The FSA has reviewed this statement of good practice and the FSA agrees it is consistent with its position as set out in Policy Statements 04/13 and 04/23. It is not FSA guidance, and in the event of any conflict, the FSA's Handbook text prevails. Members will be aware that the interpretation of the FSA's Rules is ultimately a matter for the courts.

LIBA continues to support strong competition in the market for services provided to funds and their managers by LIBA members. This statement is not intended to stifle the innovation and new approaches which have characterised the market for these services in recent years. Nor is it intended to limit the significant progress which has been made in the way fund managers evaluate the services provided by LIBA members.

### Background and Scope

In response to market developments since the publication of the Myners report, the Investment Management Association has agreed an enhanced disclosure code which is available from <http://www.investmentuk.org/news/standards/pfdc2.pdf>. LIBA expects that IMA members will request discussions with LIBA members in connection with this code.

This statement of good practice is intended to provide guidance to LIBA members on how they should respond to such requests, while recognising that the disclosure being made by IMA members is for IMA members to determine. LIBA has agreed to recommend that this statement should be taken into account by LIBA members which are paid commissions from funds managed by IMA members.

This guidance reflects our understanding of current tax positions. Should those positions change, the guidance would be reviewed accordingly.

### Broker Review Process

It is good practice for LIBA members to co-operate with IMA members who follow the process described below in regular reviews of commission payments.

It is good practice for the review to take place at least annually; where the level of commission payments is significant, members should respond to requests for more frequent reviews.

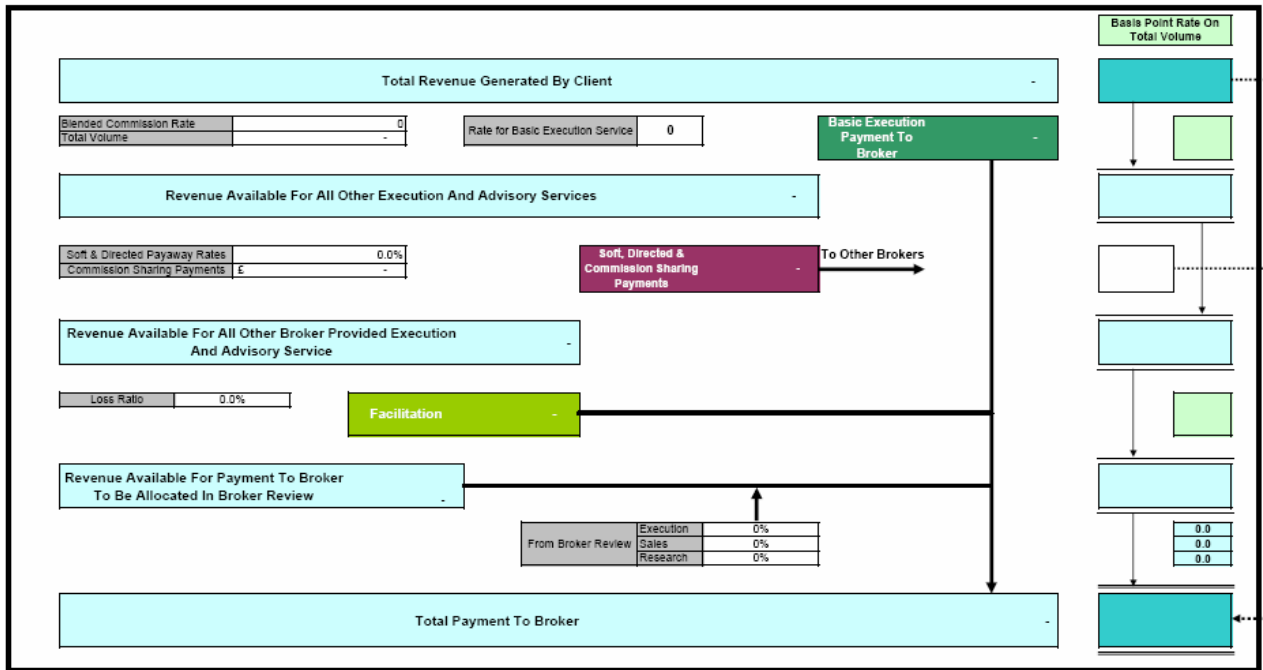
This discussion should be forward looking, and should be designed to agree an indicative forward-looking split between research and execution components of commission that will be applied to the relationship between that broker and that manager.

The forward-looking indicative split should be logged alongside the agreed commission rates for the period ahead in the management information systems of both parties, and subject to controls reasonably designed to ensure the integrity of the data. It is to be expected that FSA will want to inspect these records, either as part of a themed series of visits or as part of the regular 'Arrow' process.

At the subsequent regular meeting the outcome over the period should be assessed using the same methodology as before. This should inform the subsequent iteration of the forward-looking conversation. None of this precludes the manager and broker from agreeing to changes in commission rates or service requirements at any point if necessary.

An example of a format which might be used to calculate an indicative split is included as an Appendix. This is merely an example and is not prescriptive; LIBA members may use more or less complex formats. An electronic version, in Microsoft Excel format is available from LIBA as freeware, for members to use should they wish.

# Appendix



IMA / LIBA Possible Disclosure Basis (Basis Points)		
Execution		Other Service
Basic Execution Payment	Execution Advisory Services Payment: Facilitation & Execution Component of Broker Review	Other Advisory Services Payment: Advisory Component of Broker Review

Payaways
Payaways

IMA / LIBA Possible Disclosure Basis (Pounds Sterling)		
Execution		Other Service
0	0	0
Basic Execution Payment	Execution Advisory Services Payment: Facilitation & Execution Component of Broker Review	Other Advisory Services Payment: Advisory Component of Broker Review
0	0	0

Payaways
0
Payaways
0