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6 December 2006

Dear Mr Preston

CONSULTATION ON USE OF DEALING COMMISSION

This response is from the National Association of Pension Funds (NAPF). The NAPF is the leading voice of workplace pension provision in the UK. Some 10 million working people are currently in NAPF Member schemes, while around 5 million pensioners are receiving valuable retirement income from such schemes. NAPF Member schemes hold assets of some £750bn, and account for over one sixth of investment in the UK stock market.

The NAPF welcomes the opportunity to comment on the use of dealing commission.

Soft commission is the method by which investment banks reward asset managers for bulk business. As such, it reduces the ability of pension funds to be able to negotiate fees with their asset managers. The NAPF therefore believes that soft commission should be available to pay only for those third party research and execution services which are explicitly connected to the transactions for which the soft commission was paid. In the case of order and execution management systems, the NAPF feels that the costs of these systems is akin to a 'fixed' cost which asset managers must incur in order to be in business, as opposed to a 'marginal' cost which varies according to the volume of business. The NAPF therefore does not see these systems as appropriate expenses to be paid for from soft commissions. The same would apply to connectivity services such as electronic networks and dedicated telephone lines and to computer software.

Yours faithfully

Jonathan Hoffman
Policy Adviser – Investments