EP/CJ – n° 2209/Div.

Ms. Pamela Vulpes
IOSCO General Secretariat
C/ Oquendo 12
28006 Madrid
Spain

March 15, 2007

Re: AFG's comments on IOSCO's Consultation Report on Soft Commission Arrangements

Dear Ms. Vulpes,

The Association Française de la Gestion financière (AFG)[1] would like to thank IOSCO and the members of Standing Committee 5 ("SC5") for the work that they have done in producing the *Consultation Report on Soft Commission arrangements* and welcomes the opportunity to comment on the Report.

General comments:

AFG welcomes the current IOSCO's initiative, which consists of mapping the regulatory framework for soft commissions within IOSCO-SC5 jurisdictions in the asset management area. It strongly supports the future establishment of IOSCO international standards for regulating soft commissions in the field of asset management, and more broadly the composition of the transaction fees paid by the Collective Investment Funds.

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[1] The Association Française de la Gestion financière (AFG)[1] represents the France-based investment management industry, both for collective and discretionary individual portfolio managements. Our members include almost 400 management companies and more than 700 investment companies. They are entrepreneurial or belong to French or foreign banking, insurance or asset management groups. AFG members are managing more than 2500 billion euros in the field of investment management, making the French industry the leader in Europe in terms of financial management location for collective investments (with nearly 1500 billion euros managed, i.e. 22% of all EU investment funds assets under management, wherever the funds are domiciled in the EU) and the second at worldwide level. In the field of collective investment, our industry includes – beside UCITS – the employee savings schemes funds and products such as regulated hedge funds/funds of hedge funds and a significant part of private equity funds. AFG is of course an active member of the European Fund and Asset Management Association (EFAMA) and of the International Investment Funds Association (IIFA).

Such an initiative would contribute to:

- a better international comparison between products or services (e.g. discretionary portfolio management) in the different countries, through a more common and precise definition of fees;
- a better transparency vis-à-vis investors on paid transaction fees;
- an harmonisation of the cross-border transaction processes.

AFG particularly wishes to thank SC5 for the very helpful compilation in the Appendix to the Report which sets forth the soft commission arrangement regulatory regime in the various SC5 jurisdictions. We believe that it will provide valuable guidance to financial services organizations which engage in cross-border soft commission arrangement activities, and also be of considerable assistance to regulatory authorities in coordinating their oversight activities.

We agree with the definition of soft commissions as "…*an arrangement on which a CIS operator receives a benefit in connection with a CIS's payment of commissions on CIS portfolio securities transactions*". However, we note that the rules relating to the payment have recently significantly changed in several countries, such as France, UK or USA.

French rules will prohibit all soft commissions as rebate fees, as from January 1, 2008. Some services will still be authorised through shared commissions, following a regime close to the regime existing in the UK. Therefore Appendix 1 should be amended accordingly to reflect the new French regime.

The mechanism of shared commission agreement consists of breaking down the commissions paid to the brokers, showing the split between the execution and the investment/trading decision support services, this latter could be provided by a better skilled third-party. According to us, this mechanism permits a better assessment of services provided by brokers, a better allocation of paid fees and a better transparency, while expressly excluding some services from the scope of the shared commissions.

AFG as well as AFEI (The French Association of Investment Firms) had anticipated changes of legislation and published a "*framework for broker compensation by investment managers*" on July 17, 2006. This document is attached to this letter.

This mechanism of commission sharing agreement should be taken under consideration by IOSCO, to reach at a later stage a better convergence between practices for all players in the financial markets.

<u>Specific comments relating to conflicts of interests:</u>

The description of the potential conflicts of interest as mentioned in the consultation paper is, in our opinion, relevant and comprehensive. In terms of prevention, the French rules require from each management company to state in its documents, publicly available at least once a year, potential conflicts of interests and the means set up to prevent them. However, in the list of conflicts of interests established by the Standing Committee, we wish to point out the difficulty to easily solve the question of the attribution of the benefit from the services covered by the soft commissions to the only persons who have financially supported the relevant services.

We would be pleased to discuss further with you on the content of this response.

Sincerely,

Pierre BOLLON