

7 September 2006

Nancy M Morris
Secretary
Securities and Exchange Commission
100 F Street
NE
Washington
DC 20549-1090
USA

Dear Ms Morris

**Commission Guidance regarding Client Commission Practices under
Section 28(e) of the Securities Exchange Act of 1934
Release No 34-54165; File No S7-13-06**

The IMA represents the UK-based investment management industry. Our members include independent fund managers, the investment arms of retail and investment banks and life insurers, and the managers of occupational pension schemes. They are responsible for the management of approaching £3 trillion of funds (based in the UK, Europe and elsewhere), including authorised investment funds, institutional funds such as pensions and life funds and a wide range of pooled investment vehicles.

The IMA is pleased that the Commission has reviewed and modified its prior guidance proposed in Release No 34-52635 in October 2005 with respect to the provision of third party research and to the interpretation of "provided by" and "effecting". The IMA supports the SEC's aim to permit the industry to structure commission arrangements which allow investment managers flexibility to seek best execution and separately obtain good quality research. We welcome the change to the requirement that a broker/dealer carry out all four key functions to satisfy "effecting the trade" to a requirement to fulfil only one, in order that the safe harbour is available to an investment manager.

The IMA agrees with the Commission's requirements to satisfy "provided by" in that its interpretation permits investment managers to use client commissions to pay for research produced by someone other than the executing broker-dealer in certain circumstances. The clarification that research is eligible under Section 28(e), even if the investment manager participates in selecting the research services or products that the broker-dealer will provide, is especially helpful. The three obligations on the broker-dealer do not appear unreasonable given the investment manager's over-

riding obligation to comply with the requirements in Section 28(e) when using client commissions to pay for brokerage and research services.

The Commission should be commended for recognising that execution arrangements have developed in recent years and that its endorsement of commission sharing arrangements will enable investment managers to buy both high quality execution and high quality research from different sources. The Commission's proposals will undoubtedly facilitate the establishment of commission sharing arrangements in other markets.

While the scope of what can be paid for out of client commissions is wider under Section 28(e) than the regime introduced into the UK last year, the IMA welcomes the clarity of the guidance which the Commission has issued regarding certain aspects of "market research" (including pre- and post-trade analytics) and market data services. This is helpful guidance to asset managers. In addition the clarity of the guidance regarding certain OMS functions as being brokerage services under a temporal standard is also helpful. However, the SEC's regime might have more credibility if it also dealt adequately with disclosure. The Commission should seriously consider whether disclosure of services obtained by managers under the safe harbour would be useful additional information to clients, after all it is their money.

Should you wish to discuss this further then please do not hesitate to contact me.

Yours sincerely

Gordon Midgley
Director of Research