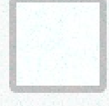
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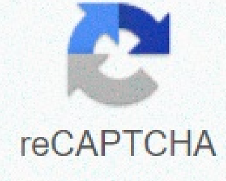

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Commission sharing agreement vs soft dollar

The Commission Sharing Agreement (CSA), or in the U.S.-named Client Commission Agreement (CCA), is a type of soft dollar agreement that allows money managers to pay brokers separately to make trades and requires the broker to allocate part of the commission directly to an independent research provider. [1] CSAs include a percentage of the implementation fee, which is instructed to pay for research reports from the seller bank. The form of a CSA can be as short as a page. [2] One of the disadvantages of CSAs is partner risk, which the broker becomes when cash is kept on the broker's balance table[3] and not in separate client accounts. Moves included in MiFID II such as the creation of research payment accounts (RPAs) are aimed at solving this problem. Reference ^ IND-X Advisors | Home (PDF). Retrieved February 29, 2012. ^ Example of CSA (PDF). Archived from the original (PDF) on March 19, 2015. Retrieved February 29, 2012. ^ Are CCAs safe? - Increasing partner risk motivates the buyer to rethink the client's commission agreements and strengthen the 2014-06-21 hosted brokerage relationship at the Wayback Machine Taken from On October 26, The Securities and Exchange Commission (SEC) issued three long-awaited letters clarifying legal requirements in the European Union (EU), which came into effect on January 3, 2018, that will affect U.S. money managers. The context of the EU Requirements Market Directive in Financial Instruments (MiFID), which has been in force since 2007, is the framework of EU law for regulating a wide range of investment companies (including, among others, intermediaries providing services to clients for financial instruments) and organized trading of financial instruments (including regulation of EU trading locations). The EU updates this regulatory structure (in the form of revised and revised directives, an EU regulation and basic subordinate legislation (the same is known as MiFID II)), which will, among other things, prohibit some money managers from receiving inducements from a third party in connection with providing any investment or ancies services to a client. According to MiFID II, an inducement may include receiving of a money manager within the scope of research from a performing broker, among others. For the purposes of MiFID II, the type of research to the range is research material or service: (1) involving one or several other financial instruments or assets; or (2) in relation to a potential financial instrument issue or issueer; or (3) is closely related to a particular industry or market so that it informs views on financial instruments assets or issue organizations in that area, and in each case, explicitly or implicitly recommend or propose an investment and provide a proven opinion on the current or future value or price of such instruments or assets, or contain initial analysis and understanding and make conclusions based on new or existing information that may be used to inform investment strategies or potentially add value to company decisions on behalf of clients (Research investment). According to MiFID II, Investment Research provided by third parties to advisors will not be considered a prohibited touch under MiFID II if investment research is received back for: (1) paid directly by the advisor out of its own resources; (2) payments from a separate research payment account (RPA) that are controlled by the advisor and funded by a research budget established, evaluated regularly and agreed with each client; or (3) a combination of both arrangements. According to MiFID II, research payments can continue to be collected together with the brokerage commission to fund the RPA, as long as the amount charged to the client in relation to the transaction includes both separate performing components and separate research components; and a separate research component (i.e. a research fee) is determined based on the client's own agreed research budget. In an RPA depending on MiFID II, an advisor will direct a transaction to a broker-agent and transfer payment research along with payment made. The broker-agent will then with hold back the payments made and file the research payments, collected together with the payment made, to RPA. Advisors can then distribute funds in RPA to pay for investment research products and services. An investment manager who uses RPA to purchase Investment Research must meet certain requirements, including an investment manager: (1) funds with research fees for clients agreed on a per-client basis; (2) place and regularly evaluate research budgets, with any surplus reimbursed to relevant clients or used to offset future research costs; (3) regularly assess the quality of research received; (4) provide clients and EU regulators, on request, certain information about the use of RPA to purchase Investment Research; and (5) establish a written policy that refers to how investment research purchased through RPA will be used to benefit the client's portfolio and how the costs will be allocated between clients. When the EU MiFID II Rule applies to US Advisers or Regulators, the UK Financial Conduct Agency (FCA) has confirmed that a US sub-adviser to the FCA-managed MiFID manager must also be required (as a representative of the FCA-regulated manager) to comply (under contract) research and incentive rules under MiFID II on a significantly similar basis. The FCA commented this summer that non-EU regulators acting as delegates to UK regulators should within a framework that achieves the same investor protection outcomes for their basic clients - with the FCA highlighting three areas where consistency can be achieved by asking the UK manager under the contract to require the manager outside the EU (in an investment management agreement or revised sub-consultation) to : set a budget with maximum research expenditure and implement procedures for how that budget will be used; full account for investment research received in relation to authorized funds; evaluate the value of this Investment Study and control payments to such suppliers on the basis of this assessment; and maintaining systems and controls to ensure that research does not compromise best practice or give a conflict of interest. As with EU regulators, the FCA also noted that if a delegate of a UK regulator had to pay for the study itself it would also meet mifid II research rules. It remains unclear whether other EU regulators will take a similar approach to sub-advisers. We recommend that advisors and managers seek guidance where they are representatives of a sub-adviser to any EU mifid management company. The issues raised by MiFID II that the SEC resolved when a broker charged separately for the study, did it enter into a consulting relationship with the client? Historically, full service brokers have not addressed the cost of research (whether investment research or otherwise) from performing services. This model is consistent with the so-called brokerage exemption from the definition of an investment advisor in Section 202 (a) (11) (C) under the Investment Advisory Act of 1940, as amended (Advisory Act). It can be said that the waiver of the broker will no longer be available if a separate broker charges for the provision of research services, as will soon be required by MiFID II. This means that brokers who charge separately for research will have to be registered as advisors and, more importantly, will be subject to Section 206(3) of the Advisory Act in their transactions to clients. In agency markets, such as NASDAQ and bond markets, brokers trade their own inventory and thus trade on a primary basis with clients. If such a transaction is subject to Section 206(3) of the Advisory Act, because of the loss of a broker's immunity due to separate research prices and sales, such transaction may become unsomerible because disclosure to the client and the client's consent will be required on a commercial basis by trade. To address this concern, the SEC's Investment Management Division provided temporary relief for 30 months from the date of MiFID II's implementation under the Advisory Act that allows a broker-agent to receive payments in hard dollars or through MiFID-administered RPAs from mifid-affected clients without being considered an investment advisor.1 Set of transactions when It is possible to pay different amounts in such transactions For decades, the SEC has allowed client transactions to be synthesized and carried out together, among other conditions, the transaction costs shared by pro rata clients based on each client's involvement in the transaction. Advisors subject to MiFID II will be required to enter into new agreements with clients on payments for Investment Research, with each client having their own budget for research (or without a budget) depending on individual arrangements. The amount paid as a result of the study may vary depending on the arrangement applied by the client in connection with the payment to that Investment Research. The amount of research fees collected for a particular transaction through RPA depends on the current research budget. Alternatively (or alternatively), an adviser may choose to pay for investment research from its own resources to other clients where an RPA is not feasible. Therefore, although the execution rate is constant, the total cost associated with a particular transaction may vary depending on the arrangement applied by the client. As a result of various potential research agreements and that combination, all customers may not have to pay a pro rata part of all costs (i.e., research payments) in relation to an overall order as enmity in the SEC no letter action although all customers will continue to pay the same price average security and implementation rate. This then begs the question of whether MiFID II prohibits the collection of orders for customer accounts. To address this concern, the Investment Management Department provided relief under the Investment Companies Act of 1940, as amended (The Investment Company Act), and the Advisory Act that allows investment advisors to continue to synthesize client orders for buying and selling securities , in which some customers may pay different funds for research because of the requirements of MiFID II, but all customers will continue to receive the same average price for security and implementation costs. The feasibility of Section 28(e) Safe Harbor for Soft Dollar Agreements Section 28(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act), creates a safe harbor from federal and state law that may be understood to prohibit an investment advisor from using a client's commission to pay for research services rescue and brokerage. Safe Harbor Section 28(e) is considered essential protection under certain circumstances, such as for client accounts regulated under the ERISA or The Investment Company Act and is a valuable protection for investment advisors for all types of customer relationships. To qualify for safe harbor, the soft dollar arrangement must meet certain requirements, including research and brokerage services provided by a affect transactions to create soft dollar credits. In a 2006 explanation of Section 28(e), the SEC amended previous explanations of Section 28 (e) to allow client commission arrangements (CCA) 2 to qualify under Section 28(e). However, a different RPA is partly from a CCA under the framework established by the SEC under Section 28(e) of the Exchange Act. First, in the RPA model, the amount paid for the study is determined separately from the amount paid to be made before the money manager makes payments to the performing broker-agent. In a CCA, brokers (including implementations) and research portions of commissions are separated at a later point in time (i.e., when the broker-agent with retains its payment to the broker, including the make, and credits or transmission of research payments to CCA). Secondly, RPA is required to be under the control of the money manager and the organized money manager is responsible for the RPA. When an RPA is operated in connection with CCA, the research payments will continue to be paid to the implementing broker-agent, and the payments to the CCA will then be converted to RPA. Money managers may in some cases engage in brokerage-agent or third-party administrators to manage RPA. However, in any case, the performing broker will be required under the contract to collect the research payments along with payments for the services performed by the money manager from the client's assets and pay that amount to the RPA. Under the contract, once these research payments are deposited into the RPA, they can only be used to pay for research or be reimbursed to the client. Because of the differences between CCAs and RPAs, there was a question of whether RPA arrangements would be able to rely on Section 28 (e) safe ports. To address these concerns, the Chamber of Commerce and Markets has stated that, according to MiFID II, Section 28(e) will be available to RPAs if investment advisors pay a broker-agent made on the client's assets for research along with payments to execution orders and broker-agents make transmission payments to RPAs. Conclusion The actual effect of SEC letters is that U.S. brokers-agents may charge and receive payments for Investment Research from EU regulators and money managers within the scope of the United States without violating the U.S. Advisors and Money Managers Act may charge various clients for research save that investment. The SEC explanation could also affect the unbundling of research costs in the United States since regulatory obstacles to such unbundling have now been removed. It is likely that after 30 months, the SEC will decide what to do on a long-term basis. It may only extend the waiver explanation to the broker, but it is not clear at the present time. 1 There is a question of whether The SEC has the authority to explain the waivers of brokers in this way. Fin. Plan Ass'n v. Securities & Exch. Comm'n, 482 F.3d 481 (D.C. Cir. 2007) 2 A client commission agreement (CCA), widely referred to in the EU and elsewhere as a commission sharing agreement (CSA), is a kind of soft dollar agreement that allows investment advisors to pay the broker privately to make trades and requires the broker to allocate a portion of the commission directly to a provide independent research. CCAs include a percentage of the implementation fee that is instructed to pay for research services provided to investment advisors and paid with the client's commission. Commission.

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