



Council of Institutional Investors
The Voice of Corporate Governance

Statement on Guiding Principles for Trading Practices, Commission Levels, Soft Dollars and Commission Recapture

The most important voice in discussions of soft dollars, commission levels and directed brokerage belongs to us, as institutional investors. Commissions are an asset of the plan, and as plan sponsors and trustees it is our right and responsibility to decide how they are managed. We have the power to assert our authority in these matters through our contractual arrangements with money managers and brokers. We also have the broader duty to communicate the interests and desires of the institutional investor community to regulators, to the public and to the industry regarding trading practices and commissions.

- Like any other expense of the plan, trading costs need to be managed to minimize the cost and ensure that maximum value is received. But current brokerage industry practices of bundled pricing for services make it difficult to break out the exact costs of services (for trade execution, research or other things), may be antithetical to the fiduciary obligation of obtaining best execution, and hold too much potential for conflicts of interest and abuses.
- We support and urge full unbundling of pricing for investment management, brokerage and research services, so that institutional investors can purchase and budget for these services as they do any other expense of the plan.
- Clarity and transparency of disclosure of all money management and brokerage arrangements is essential, and it is up to plan sponsors to require it. Simple reliance on brokers, money managers and consultants for volunteered information is insufficient to discharge the obligations of plan fiduciaries. Plan sponsors should require regular reports and affirmative representations that fiduciaries are pursuing best execution in their trading practices.

To the extent that any money manager or plan sponsor is engaged in using soft dollars or directing brokerage to obtain commission recapture, it is the duty of fiduciaries to ensure that all such practices are engaged in for the exclusive benefit of the plan and its members.

(Adopted March 31, 1998)