CESR
11-13 avenue de Friedland
75008 PARIS
FRANCE

27 May 2007

Dear Sirs

FIDELITY INTERNATIONAL RESPONSE TO CESR SECOND CONSULTATION ON INDUCEMENTS

Fidelity International is a global asset management organisation with US$277bn under management across some 1,088 funds[1]. With a range of European funds based in Luxembourg, the UK, Dublin, Germany and France we are a key player in the cross-border European financial services industry.

We welcome the opportunity to respond to CESR's second consultation as we did the first. We recognise that CESR has improved the proposals in a number of ways.

We note that the focus on fund commission has been replaced by a more balanced consideration of remuneration structures generally for instruments covered by MiFID, though we do not underestimate the complexity of deconstructing some of the more complicated financial instruments, such as certificates.

The concept of proportionality that could all too easily become a proxy for price control has been removed and we feel this too is helpful. There is sufficient investor protection material in the concept of impairment.

The interpretation of enhancement has become more flexible clearly permitting payments to administration-oriented intermediaries which are not advisers, such as platforms.

The references to intra-group remuneration are in particular helpful as is CESR's explicit confirmation that is does not seek to differentiate between open and closed market models for the purposes of inducements.

However, we have three comments where we feel that there are still flaws within the proposals.

Firstly, there remains the significant unlevel playing field concern that MiFID instruments will be held to a standard of disclosure that will not apply to other financial products with which MiFID instruments compete. We continue to believe that this represents a systemic anomaly that will mislead investors and reverse what has been a welcome trend towards more transparent products. The Commission appears to share these concerns and we urge CESR and its members to do three things.

[1] All figures are as at 31st December 2006

For the long term we ask that CESR set out a programme of work to look at level playing field issues between financial products across the retail sector with a view to eliminating regulatory anomalies.

In the short term we ask that individual regulators have regard to market impact and investor protection issues in the manner in which they implement CESR's recommendations.

Also in the short term we ask that regulators in their own jurisdiction consider extending MiFID standards on inducements to all financial products, if necessary initiating discussions with their counterparts in the insurance and banking sectors where appropriate. We are pleased to see that this appears to be being considered in some Member States where it is not already the case, but it needs to become more widespread.

Secondly, the first consultation had a very clear statement that the responsibility of disclosure rested with the intermediary (and the intermediary alone) which had the relationship with the client. That clarity is missing from this second consultation and we would suggest that it is a key discipline that could usefully be included within the recommendations. This is particularly necessary as certain jurisdictions already require a degree of commission disclosure by product providers. If investors also receive disclosure from their intermediary this is at best unnecessary duplication and at worst will confuse the investor.

Finally, we note CESR's comment on the fact that the recommendations do not cover payments within a firm such as internal bonus programmes. It points out that such arrangements are covered by the general conflicts of interest provisions under Article 21 which can require disclosure in certain circumstances. We feel it would be both appropriate and helpful if this were to be included within a recommendation (Recommendation 1 would seem the most suitable) or at least as a commentary to that recommendation.

We are, as always grateful for CESR's consideration of our comments, and are happy to respond to any requests for further information or explanation.

Yours faithfully

Gareth Adams
Executive Director, Regulatory Strategy