Wholesale Markets Sector Team
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

FCA Smaller Business Practitioner Panel

By email

5 June 2024

Dear Sir/Madam,

CP24/7: Payment Optionality for Investment Research

The Panel supports the intent of the proposals to improve access to investment research to help drive competitiveness and growth in UK financial services. Our broad observation is that the proposed additional payment optionality would be unlikely to affect meaningful change and there is opportunity to take a more ambitious approach.

In our view the new option of "bundled" payments would be unlikely to be widely taken up by UK asset managers. There is little attraction for smaller firms, many of which use the Research Payment Account (RPA) model, to move to bundled payments as guardrails on transparency of fees and costs to investors would remain and could even entail more onerous administrative burden as trade execution costs would need to be unbundled from research for disclosure purposes. Larger asset managers are also unlikely to be incentivised to take up this option, as they were generally not significantly impacted by the original MIFiD II directive to separate charges for execution from charges for research, having well established research capabilities and the ability to absorb new costs, and have largely adjusted their operating practices to the Profit and Loss (P&L) model.

Smaller asset managers have been facing significant challenges in recent years including higher costs and reduced options for accessing research brokers and analysts. There is opportunity to consider wider changes to reduce operational and regulatory barriers to competitiveness and growth. Fundamentally, the overlay of the Consumer Duty alongside increased focus on firm culture and conflict in recent years provides a strong framework to underpin an approach that allows firms to manage research in an appropriate way and with a degree more freedom. It would also be helpful to align the new rules to those of the EU. This could include consideration of:

- Trusting firms to budget their research based on firm/ investment strategy need. Investor knowledge of products and cost has grown in recent years, and firms will be guided by client risk appetite in the context of the Consumer Duty.
- Removing the requirement of having to disclose research costs to investors as part of a fund's operating cash flow and allow this to be reported as a separate cost. If the cost is significant due to size of firm, Assets Under Management or status of investment made (e.g. an initial public offering or merger and acquisition), allowing investors to make their own choice accepting additional cost.
- Reducing constraints on scale of cost of research for investors, asset manager and clients to allow the smaller more specialist research providers to re-enter the market and charge appropriately for the provision of research in the less well provided for high growth sectors such as life sciences and technology.

We would be happy to discuss any of these points further.

Yours faithfully,

[signed]

Andy Mielczarek
Chair, FCA Smaller Business Practitioner Panel