

Consultation Paper **CP24/21****

Investment research payment
optionality for fund managers

November 2024

How to respond

We are asking for comments on this Consultation Paper by **16 December 2024**.

You can send them to us using the form on our [website](#).

Or in writing to:

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- a list of the names of respondents who made representations where those respondents consented to the publication of their names,
- an account of the representations we receive, and
- an account of how we have responded to the representations.

In your response, please indicate:

- if you consent to the publication of your name. If you are replying from an organisation, we will assume that the respondent is the organisation and will publish that name, unless you indicate that you are responding in an individual capacity (in which case, we will publish your name),
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Chapter 1

Summary

Why we are consulting

- 1.1** Investment research plays a crucial role in providing analysis and forecasts to potential and existing investors. Historically, brokerage firms typically 'bundled' research costs with execution commissions (i.e. the cost charged to clients to trade in shares). The MiFID II introduced requirements to separate charges for execution and research, thereby 'unbundling' these two services. Firms were required to either pay for research themselves from their own resources (P&L model) or agree a separate research payment accounts with their clients (RPA model). In July 2023, the [UK Investment Research Review \(IRR\)](#) set out a series of recommendations to improve the investment research market, including allowing additional optionality for paying for investment research. As a result, we consulted on and implemented rules to enable a joint payment option for firms if they could meet a set of guardrails.
- 1.2** In July 2024, we published Policy Statement 'Payment optionality for investment research' (PS24/9) finalising rules for a new option of paying for investment research. The new rules enabled MiFID investment firms who wish to buy research for their segregated mandates to use joint payments for third-party research and execution services, provided firms meet certain requirements. The new option exists alongside those already available, such as payment from an asset manager's own resources, and payment from a dedicated research payment account, thereby allowing firms additional flexibility.
- 1.3** We received feedback that we should allow the new payment option for other asset managers, including managers of pooled vehicles under the UK alternative investment fund managers directive (AIFMD) and undertakings for collective investment in transferable securities (UCITS) regime ('fund managers'). We are consulting on proposed changes to the COBS 18 Annex 1 rules, and other related rules, allowing fund managers to purchase investment research with joint payments. Our proposals reflect rules introduced to COBS 2.3 but in the context of pooled funds.

What we want to change

- 1.4** The IRR concluded existing investment research payment options can be operationally complex particularly for firms who currently purchase research through RPAs. The IRR found that although asset managers are largely getting the research they need, the current regime that determines how research can be paid for is operationally complex and could impede UK asset managers' ability to purchase investment research produced outside of the UK (most notably in the US).

- 1.5** This consultation paper (CP) sets out proposals to take forward the recommendations of the IRR and feedback to the consultation paper on payment optionality for investment research (CP24/7), allowing pooled vehicles to adopt the new payment option, subject to certain guardrails, so pooled vehicles are treated consistently with segregated mandates.
- 1.6** Where fund managers of authorised retail funds decide to take up joint payments, the increase of existing payments from funds to fund managers would be a 'significant change' within our rules, requiring fund managers to give unitholders written notice of at least 60 days before adopting the new payment option. Any significant change to an authorised fund will require FCA approval through the usual process.
- 1.7** Mirroring the requirements for MiFID firms set out in PS 24/9, fund managers who take up the joint payment option will be required to meet several requirements of:
- Having a written policy on the approach of joint payments.
 - Establishing a research budget based on the expected amount of third-party research.
 - Having a cost allocation structure among research providers.
 - Assessing the price and value of research periodically.
 - Allocating the cost of research fairly for the funds they manage.
 - Being responsible for the operation and administration of research payment accounts.
 - Providing investors with appropriate disclosure of joint payments.

Outcome we are seeking

- 1.8** Our proposals are intended to:
- Promote effective competition among asset managers with the introduction of a new payment option that is more operationally efficient than RPAs to reduce the barrier for small, fast-growing firms and improve the ease for new entrants to enter the market.
 - Enhance the competitiveness of UK asset managers by introducing a payment option for investment research that is compatible with those operating in other in other jurisdictions, thereby providing operational efficiencies for asset managers accessing research in multiple jurisdictions.
 - Secure an appropriate degree of consumer protection with a set of guardrails to ensure discipline and transparency on joint payments.
 - Preserve the benefits following the MiFID II reforms.
 - Increase choice and avoid unnecessary regulatory costs with the introduction of a new option while keeping existing options unchanged.
- 1.9** Overall, we expect that if asset managers choose to take up joint payments, the additional flexibility will reduce the frictions they face when accessing research (particularly when accessing research from overseas jurisdictions). Our proposals should have the causal effect of lowering research procurement costs and improve competitiveness amongst small, fast-growing and new entrant firms, especially

those who currently use RPAs. Asset managers could gain benefits of enhanced understanding of new sectors, business models and product innovations from the increase in the amount or breadth of research purchased.

Measuring success

- 1.10** Under the Financial Services and Markets Act (FSMA) 2023, we must keep rules in our Handbook under review. The published [Rule Review Framework](#) is on our website.
- 1.11** CP 24/7 indicated although asset managers largely receive the research they need, research procurement can be operationally complex. Our proposals are intended to introduce a payment option that is operationally more efficient and adaptable to firms of different business models and sizes. When discharging our general functions, we are required, so far as reasonably possible, to act in a way which advances our secondary competitiveness and growth objective. In doing so, we have sought to make the new option compatible with rules and practices in other jurisdictions to better facilitate asset managers buying research across borders. We believe a 3-pronged approach to measuring success is most appropriate:
- Take up of the new option.
 - Positive changes in the trends of research production and consumption.
 - Verification this has not been achieved via undue costs or harms to consumers.
- 1.12** These could be measured by a survey building on the types of data and information previously surveyed for CP24/7. We will consider undertaking a survey after a reasonable period of time and compare the results versus the survey results from CP 24/7.
- 1.13** As we said in [Our Strategy 2022 to 2025](#) and the associated [Business Plan 2022/23](#) and [Business Plan 2023/24](#), we will use a variety of metrics to monitor and assess whether our work and actions more generally and as a whole are strengthening the UK's position in global wholesale markets. Regulation is not necessarily the key driver in the markets for investment research and asset management services, and we recognise that macro-economic and other capital market factors can significantly impact trends in these markets. Over time, we aim to consider the impact of our changes and their success by monitoring the size and breadth of the UK asset management market, as well as the size of assets under management relative to other jurisdictions.
- 1.14** In line with [Our Rule Review Framework](#), if our intervention has not achieved the intended effect, or had an unintended effect, we will consider whether to take further action.
- 1.15** Other measures of success include the perceived effectiveness of our intervention within the wholesale markets regulation and metrics described in our [Annual Report](#).

Who this applies to

- 1.16** Our proposals are designed to enable fund managers to purchase research with joint payments. They will apply to:
- UCITS management companies.
 - Full scope UK Alternative Investment Fund Managers (AIFMs).
 - Small authorised UK AIFMs and residual collective investment scheme operators.
- 1.17** Our proposals might be of interest if you are:
- An authorised fund manager.
 - An alternative investment fund manager.
 - A residual collective investment scheme operator.
 - A portfolio manager providing services to both professional and retail investors.
 - A depositary of authorised funds or alternative investment funds.
 - An investment platform provider.
 - A financial adviser.
 - An investment consultant or a professional investment adviser.
 - An investor in authorised funds or alternative investment funds.

Next steps

- 1.18** We want to know what you think of our proposals. Please send your response to us by 16 December 2024, using one of the methods in the 'How to respond' section on page 2. We will not consider your response confidential unless you have indicated otherwise. We will include the names of respondents where they have consented to the publication of their names. This is separate from any requests of keeping the contents of responses confidential.
- 1.19** We strongly encourage stakeholders to engage with us and respond before the consultation closes. This 6-week consultation period reflects the accelerated timescale of the IRR recommendations we previously committed to.
- 1.20** We will consider your feedback. If we choose to proceed, we will aim to publish any rules or guidance in a policy statement in the first half of 2025.

Chapter 2

The wider context

Why we are consulting

- 2.1** The UK Markets in Financial Instruments Regime is the collection of laws that regulate the buying and selling of financial instruments. The relevant rules originally implemented European Union (EU) legislation that came into force in 2018 (MiFID II).
- 2.2** MiFID II introduced requirements to separate charges of trade execution from charges of third-party research, thereby 'unbundling' these two services. Firms were required to either pay for research from their own resources or agree separate research payment accounts with their clients. MiFID II reforms were to manage conflicts of interest, improve accountability over costs passed to investors, and improve the price transparency for research. The MiFID II requirements were incorporated into the UK rules on inducements and research in COBS 2.3 and applied to collective portfolio managers through COBS 18 Annex 1. When these rules came into force, most asset managers made relevant changes to meet those requirements so that they could purchase research with their own resources.
- 2.3** The option of purchasing investment research through an RPA is operationally complex. Many asset managers who use this option are smaller asset managers who do not have the scale or financial resources to purchase investment research with their own resources. This potentially creates a barrier to entry for smaller asset managers.
- 2.4** In July 2023, the IRR put forward recommendations on how to improve the investment research market. One of them was to introduce additional payment optionality and remove any barriers for asset managers to purchase research in jurisdictions where payment on a bundled basis is standard practice.

Payment optionality for investment research

- 2.5** CP 24/7 consulted on proposals for firms to purchase research with the joint payment option if they could meet certain requirements intended to preserve the benefits following the MiFID II reforms. Consultation responses indicated we should extend joint payments to pooled funds for consistency and to support wider take-up of the option.
- 2.6** When we finalised the rules in PS 24/9, we committed to consulting on proposals of allowing fund managers to purchase research with joint payments subject to a set of guardrails, similar to those for firms managing segregated mandates. Our proposals are intended to provide flexibility for fund managers on the payment for investment research and improve the accessibility of the investment research market.

How it links to our objectives

Competition

- 2.7** Our proposals should advance the competition objective by promoting effective competition in the interests of investors or potential investors in the market for regulated fund management services. The engagement on CP24/7 indicated smaller asset managers are more likely to use RPAs for investment research given they are less able to absorb research costs with their own resources. However, operating RPAs can be resource intensive and operationally complex. These complexities and resource demands have a proportionately larger impact on smaller asset managers. Such firms have limited resources to buy investment research. This can put them at a competitive disadvantage. Our engagement also indicated smaller asset managers who currently use RPAs would be most interested in the joint payment option. We believe our proposals will provide efficiency on research procurement to enable smaller asset managers better compete and improve the accessibility of investment research in multiple jurisdictions.

Consumer protection

- 2.8** Our proposals will advance the consumer protection objective by requiring fund managers to meet a set of guardrails if they choose to take up joint payments. The guardrails are to make sure the additional flexibility on payment options would not come with undue costs or harms to consumers. The guardrails are designed to provide discipline in the areas of research budget, value assessment, fair cost allocation and disclosure to investors. We believe the features of guardrails would ensure discipline and transparency to secure an appropriate degree of protection for consumers.

Market integrity

- 2.9** Our proposals should be neutral or marginally positive for the market integrity objective though benefits are less certain. Responses to CP 24/7 indicated reduced research availability and analyst coverage following the implementation of the MiFID II. The proposed joint payment option should increase the amount and breadth of investment research with improved information availability for the benefit of asset managers and the wider UK equity market functioning (e.g. liquidity levels). However, we are less certain on the causal link between the existing payment options and the reduction in investment research availability.

Secondary international competitiveness and growth objective

- 2.10** FSMA 2023 introduced a new secondary international competitiveness and growth objective for the FCA.
- 2.11** When discharging our general functions, we must, so far as reasonably possible, act in a way which facilitates the international competitiveness of the UK economy and its medium to long-term growth, subject to aligning with relevant international standards where appropriate.

- 2.12** To implement the joint payment option for firms managing segregated mandates we have considered payment structures in other jurisdictions including commission sharing arrangements. We believe the proposed joint payments for pooled funds are compatible with similar payment options in other jurisdictions. Our proposals are intended to provide flexibility for UK asset managers accessing investment research globally with limited implementation costs. We believe our proposals will provide efficiency on research procurement to enhance firms' competitiveness internationally.

Wider effects of this consultation

- 2.13** We have engaged with the statutory Listing Authority Advisory Panel, Market Practitioners Panel and the Smaller Business Practitioner Panel. Panel members agreed with our proposals of allowing pooled funds to purchase research with the joint payment option. They offered views that the effectiveness of the proposed payment option could be contingent on other factors, including the growth of the UK equity market, to increase the demand for investment research.

Unintended consequences of our intervention

- 2.14** We propose to widen the choice for fund managers for those who choose to purchase research with the joint payment option if they can meet a set of guardrails that were intended to preserve the benefits from the MiFID II reforms. If we determine firms have not implemented the joint payment option for pooled funds in a satisfactory way, further guidance and more prescriptive standards might follow.

The Consumer Duty

- 2.15** The Consumer Duty (the Duty) sets the standard of care that firms should give to customers in retail financial markets. The rules implementing the Duty include a price and value outcome to make sure the price customers pay for a product or service is reasonable compared to the overall benefits. To assess if a product or service provides value, the firm must consider the expected total price customers will pay including all applicable fees and charges. Where applicable this will also include the price of investment research if this cost is passed onto unitholders through the take up of the joint payment option. We would expect a fund manager to consider whether to adopt the new payment method through the value lens.
- 2.16** The rules implementing the Duty also require firms to support their customers' understanding by ensuring their communications meet their information needs and equip them to make effective decisions. If adopting the new joint payment option, this would include having appropriate disclosure and client communications explaining the impact of joint payments on unitholders.
- 2.17** In determining whether to adopt joint payments proposed in this paper, we expect fund managers to consider both the price and value, and customer understanding outcome under the Consumer Duty, where applicable.

Environmental, Social and Governance considerations

- 2.18** In developing this Consultation Paper, we have considered the Environmental, Social and Governance (ESG) implications of our proposals and our duty under ss. 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008 and environmental targets under s. 5 of the Environment Act 2021. Overall, we do not consider that the proposals are relevant to contributing to those targets. We will keep this under review during the consultation period and when considering whether to make the final rules.
- 2.19** In the meantime, we welcome your input to this consultation on this.

Equality and diversity considerations

- 2.20** We have considered the equality and diversity issues that may arise from the proposals in this Consultation Paper.
- 2.21** Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other antidiscrimination legislation applies). But we will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules.
- 2.22** In the meantime, we welcome your input to this consultation on this.

Chapter 3

Our proposals

Introduction

- 3.1** This chapter sets out proposals on allowing fund managers to purchase investment research using the new joint payment method already introduced for MiFID firms. The proposals are intended to treat managers of pooled vehicles (fund managers) consistently with managers of segregated mandates, subject to technical amendments reflecting the nature of pooled investment management. This is in line with the recommendation from the IRR to provide additional payment optionality for investment research, and the feedback to CP24/7 extending the joint payment option to pooled funds for the wider take up of the proposed payment option.
- 3.2** The joint payments will allow fund managers to combine the cost of third-party research with execution services if they meet a set of guardrails designed to preserve the benefits from MiFID II reforms including greater transparency on the cost of research and greater discipline on the utility of investment research.
- 3.3** Most of the rules introduced in PS24/9 allowing portfolio managers to buy research using joint payments can be applied to fund managers. But there are important differences in the relationship between a fund manager and the assets in the fund, compared to a MiFID portfolio manager and the assets they have been appointed to manage. Therefore, we need to apply the rules with modifications to reflect these differences.

Background

Differences between segregated accounts and pooled vehicles

- 3.4** Asset managers manage assets for clients either on a segregated basis, where the money of different clients is managed by agreement with each individual client (an aspect of MiFID business), or on a pooled basis, where the money of different clients is managed collectively, typically through a fund structure. The UK industry manages roughly equal amounts of pooled and segregated assets.
- 3.5** Investors who use segregated accounts agree terms with the asset manager through a contract. These clients are often large institutions that can negotiate and choose who to do business with.
- 3.6** If an asset manager wishes to use the new payment option for a segregated mandate, the asset manager would need to determine whether the existing contract permits this and, if not, agree with the client to amend the contract terms.

3.7 Pooled management includes both management of authorised retail funds, and management of (unauthorised) alternative investment funds and collective investment schemes primarily aimed at professional investors, including hedge funds. Investors hold a stake in the fund vehicle, and in turn the vehicle holds the investment.

3.8 As pooled funds may have many investors, under regulatory requirements the fund manager needs to act in the interests of the fund and its investors and treat them fairly. The fund manager therefore does not normally negotiate terms with each individual investor. If the fund manager wishes to change the terms of a pooled investment, the fund manager does this by changing the fund's constituting instrument or the prospectus (or both). As investors in pooled vehicles are often retail clients, existing rules reflect that, to achieve an appropriate degree of investor protection, we cannot rely only on disclosure and the negotiation powers of the investors.

Authorised retail funds

3.9 Our existing fund rules apply important investor protection provisions to fund managers of authorised retail funds. Fund managers, for example:

- i.** Are not allowed to charge undue costs to a fund.
- ii.** Are required to act in the best interests of the fund and its investors.
- iii.** Have to avoid conflicts of interest if possible or else ensure they are appropriately managed and, if not, disclosed.
- iv.** Are subject to restrictions on paying inducements to third parties out of the fund.

3.10 Managers of authorised retail funds are also required to assess whether the payments out of funds are justified in the context of value and to produce an annual public report on their assessment. For many funds, the Consumer Duty places additional overarching obligations on the fund manager. In determining whether to adopt the new joint payment option, we expect fund managers of authorised retail funds will need to consider and continue to comply with these existing regulatory requirements.

3.11 Our rules and the law also set out requirements for fund managers when they make changes to authorised retail funds. Fund managers are required to seek FCA approval when they make significant changes to a fund's prospectus. They are also required to engage with unitholders when they make changes to a fund. Our rules set out 3 categories of changes: notifiable, significant and fundamental.

- For a **notifiable change**, for example a change to fund's name, the fund manager must notify investors at an appropriate point in time.
- For a **significant change**, for example any increase in existing payments from the fund to the fund manager, the fund manager must give investors prior written notice of at least 60 days.
- For a **fundamental change**, for example introducing a new type of payment from the assets of a fund, the fund manager must obtain unitholders consent by convening an extraordinary general meeting at which a resolution must be passed with no less than 75% (of those voting) voting in favour.

Proposal

Proposed approach to rules on joint payments

3.12 In applying the rules on joint payments to fund managers, we have considered 2 areas:

- How the guardrails should apply to fund managers.
- What our expectations are regarding changes to authorised retail funds.

Guardrails

3.13 The rules preventing the bundling of payments were introduced in 2018 for good reason. There was a concern that the practice led to less disciplined spending on duplicative or low-quality research, inappropriate influence of research procurement determined trade allocation decisions, and opaque charging structures. Combining payments for research with trade execution charges could risk these harms re-emerging. That is why we introduced appropriate guardrails to protect investors when we implemented the joint payment for firms managing segregated mandates. The guardrails were designed to ensure discipline on budgets for research spending, cost allocation, value assessment and disclosure requirements.

3.14 In relation to pooled funds, regulatory requirements do not just apply to the fund manager but also apply directly in relation to the fund. We therefore propose adapting the guardrails specified in PS 24/9 so that they can be effectively applied to pooled funds, including authorised retail funds.

3.15 The existing rules on best execution will continue to apply to UCITS and AIFs, where fund managers are required to take all reasonable steps to achieve best possible results for investors when overseeing execution of orders. The provision of investment research must not be considered as a factor when determining whether best execution can be achieved.

3.16 We plan to adopt the same over-arching approach to the guardrails for firms managing segregated accounts and modify them for fund managers when they are executing orders or placing orders with a third-party in relation to a particular fund. This is the same approach with the current rules that apply to fund managers using RPAs. We recognise that the approach does not integrate with the wider inducement rules for fund managers. But we have not had feedback that fund managers using RPAs consider this an issue. When we bring assimilated law into our Handbook, we will consider if these rules can be better integrated.

3.17 We propose that fund managers who choose to take up joint payments meet a set of guardrails similar to those we set out for firms that carry on MiFID business including portfolio management in relation to segregated accounts. We have adapted them as described below so that they work in the context of pooled funds.

- **Policy:** we require firms managing segregated accounts to establish a formal policy on firms' approach to joint payments. Similarly, fund managers would be required to establish a written policy on joint payments for each fund they manage

including governance, decision-making, controls, and the cost of research to be maintained separately from those of trade execution. The guardrail stipulates the overall approach to joint payments and underpins several other guardrails including obligations for fund managers if the cost of research increases or exceeds the budget.

- **Approach to research costs:** we require firms managing segregated accounts to establish arrangements on the methodology of calculating and separately identifying the cost of research. Fund managers would be required to stipulate the methodology for how the research costs will be calculated and identified separately within total charges of joint payments.
- **Research provider allocation:** we require firms managing segregated accounts to establish a pre-defined payment allocation structure between different research providers. We propose applying the similar guardrail to fund managers so that for each fund they manage, the fund manager would be required to establish a payment allocation structure for research providers including those who do and do not offer trade execution. The proposed guardrail will ensure discipline on the cost of research with the take up of joint payments not unduly influenced by trade transactions.
- **Operational requirements:** firms managing segregated accounts are responsible for the operation and administration of the account for purchasing research from joint payments. We propose applying the similar guardrail to fund managers so that for each fund they manage, the fund manager will be responsible for the administration of such accounts, timely reconciliation and reporting of the joint payment account with an appropriate frequency.
- **Research budgets:** firms managing segregated accounts are required to establish budgets for the purchase of research using joint payments. We propose to require fund managers to set the budget for each fund they manage based on the expected amount of third-party research, which is independent from the volume or value of trade transactions. Our rules require a fund manager to act in the best interests of the fund and its investors. Therefore, the budget should be set at the level of each fund to avoid one fund subsidising another.
- If the cost of research increases or exceeds the research budget, fund managers will be required to inform the governing body of the fund (if it is independent of the firm), assess whether the higher cost would be in the interests of investors and make sure that (where applicable) the increase in research charges is assessed as part of the assessment of value under COLL or the value assessment under the Consumer Duty. Fund managers will also be required to provide appropriate disclosure in relevant funds' documents. For authorised funds, we will require fund managers to provide appropriate disclosure on the reason for higher research costs for joint payments.
- **Value assessment:** we require firms managing segregated accounts to assess the value and quality of investment research at least annually. Similarly, we propose fund managers are required to periodically assess the value and quality of research for each fund they manage. We would like to clarify that an authorised fund manager using joint payments should assess the value and quality of investment research within the wider assessment of value under the COLL rules, and we do not expect an authorised fund manager to carry out a separate assessment of value for joint payments.

- **Cost allocation:** we require firms managing segregated accounts to determine the cost allocation for investment research appropriate to its business model. We propose fund managers allocate the cost of research fairly to the funds they manage taking into consideration of the budget set at the level of each fund.
- **Disclosure:** we require firms managing segregated accounts to inform clients on their approach to, and use of, joint payments. We propose applying the guardrail for pooled funds by requiring fund managers to provide appropriate disclosure of joint payments in funds' documents. For authorised funds, we propose to make relevant adjustments to COLL rules to reflect these disclosure requirements in funds' prospectuses and annual reports. We want to make it clear where relevant information should be disclosed. We will require information about the fund's policies and processes around joint payments to be disclosed in the prospectus, while information on what joint payments have been used for and how much they represent must be disclosed in the annual report.

Rules for authorised retail funds

- 3.18** When we introduced RPAs under MiFID II, we asked firms to treat the implementation of RPAs during the next 2 years as a significant change. After this, we expected firms to treat the implementation of RPAs as a fundamental change.
- 3.19** If the introduction of joint payment is considered a new type of payment out of a fund, our rules would require fund managers to treat this as a fundamental change. Our rules on fundamental changes are key in safeguarding the interests of retail investors. However, given the importance of investment research to investor outcomes, we think the proposed guardrails, together with existing requirements under the Consumer Duty (where applicable) will adequately protect retail investors so that the new payment option can be treated as a significant change.
- 3.20** We are therefore proposing for authorised retail funds, fund managers will be required to treat the take-up of joint payments as a significant change under the relevant COLL rules and guidance. Fund managers are required to inform unitholders of the new payment option at least 60 days before the payment option is adopted. Fund managers are also required to seek FCA approval for making a significant change to a fund.
- 3.21** Fund managers will have to continue to meet their ongoing costs and charges disclosure requirements in the key investor information (KII). If joint payments materially increase a fund's transaction costs, this will need to be disclosed in the 'objectives and investment policy' section of the KII document
- 3.22** For Qualified Investor Schemes (QIS), our rules are less prescriptive in relation to making changes to a fund and we do not plan to provide additional guidance to managers of QIS if they choose to take up the joint payment option. Managers of Long-term Asset Funds (LTAFs) who wish to take advantage of proposed joint payments would need to meet the relevant requirements within our existing rules, depending on whether the fund has been made available to retail investors who are not limited protection LTAF investors. For unauthorised funds, our rules do not set requirements for fund managers making changes nonetheless, we would expect managers to act fairly in the interests of investors.

- 3.23** As noted above, we are placing rules on prospectus and annual report disclosure into the relevant section of COLL. We think this makes it clearer and simpler to identify the information that needs to be included in relevant documents. Because of this, we also propose including equivalent rules for funds using RPAs in the COLL rules, rather than in COBS 18 Annex 1. This will not change the requirements on fund managers using RPAs, only the location of the rules in the Handbook. We consider it would be better to use the same approach for both RPAs and joint payments, and this should make the rules clearer.
- 3.24** We are also making our expectations clear for authorised funds when the research budget is exceeded or increased. Where the research budget is exceeded, we expect authorised fund managers to disclose this in the annual report and explain the reason why this has happened. Where the budget is increased, we expect authorised fund managers to disclose this in the annual report and also change the prospectus to reflect the increased amount. The authorised fund manager will need to consider how to treat this prospectus change within the relevant rules around changes to authorised funds.
- 3.25** In reviewing the rules for authorised funds, we considered that it would be clearer if payments for research, subject to proposed amendments to COBS 18 Annex 1, were specifically permitted in the rules determining which payments can be made out of scheme property. So we propose to amend the rules to clarify this. We have considered whether any other rules for authorised funds need to be modified to make joint payments work effectively. We are not aware that firms had any issues with fund rules on payments for investment research and we would welcome any feedback in this area.
- 3.26** Overall our proposals are intended to balance:
- Making the payment option for investment research more operationally efficient by aligning with rules governing payments for research in other jurisdictions and providing operational efficiencies for asset managers with diverse business models to purchase research across multiple jurisdictions.
 - Securing an appropriate degree of protection for consumers through guardrails to ensure sufficient discipline around budgets for research spending, fair allocation of research costs, value assessment and disclosure requirements.
 - Preserving the benefits following the MiFID II reforms.
 - Increasing choice and avoiding unnecessary regulatory costs by introducing a new option while keeping existing options unchanged.

Question 1: Do you agree with our proposals to permit fund managers to purchase investment research with joint payments? [Yes, No, No View].

If yes or no, please explain your views.

Question 2: Are you likely to take advantage of the proposed new payment option? [Yes, No, No view].

If yes or no, please explain your views.

Question 3: Are there any features of the proposed payment option and associated guardrails would positively or negatively impact the take up of joint payments? [Yes, No, No view].

If yes or no, please explain your views.

Question 4: Do you agree with our proposals for authorised retail funds? [Yes, No, No views].

If yes or no, please explain your views.

Question 5: Do you have any additional comments on the proposals of allowing fund managers to adopt joint payments for investment research?

Other amendments

3.27 PS24/9 introduced other amendments to investment research rules for firms managing segregated accounts. We propose to replicate these changes in the relevant sections of COBS 18 Annex 1.

3.28 Our rules require firms, in relation to funds, not to accept any non-monetary benefits unless they are capable of enhancing the quality of service. We propose to add short-term trading commentary, which does not contain substantive analysis and bespoke trade advisory services, to the list of acceptable non-monetary benefits.

3.29 Responses to PS 21/20 indicated the joint payment option to purchase research on companies with market capitalisation below £200m has had limited take-up. In line with rules introduced in PS 24/9, the proposed joint payments will no longer distinguish purchasing of research in relation to companies of certain size. We propose to delete the existing rule on research for smaller companies from the list of acceptable non-monetary benefits. However, this will not affect corporate access service for smaller companies being an acceptable non-monetary benefit for firms.

3.30 We are also taking the opportunity to correct some incorrect cross-references included in the COBS 18 Annex1 rules.

Question 6: Do you agree with other amendments we are making in COBS 18 Annex 1? [Yes, No, No view].

If yes or no, please explain your views.

Annex 1

Questions in this paper

Question 1: Do you agree with our proposals to permit fund managers to purchase investment research with joint payments?
[Yes, No, No View]

If yes or no, please explain your views.

Question 2: Are you likely to take advantage of the proposed new payment option for investment research?
[Yes, No, No view]

If yes or no, please explain your views.

Question 3: Are there any features of the proposed payment option and associated guardrails would positively or negatively impact the take up of joint payments ? [Yes, No, No view].

If yes or no, please explain your views.

Question 4: Do you agree with our proposals for authorised retail funds?
[Yes, No, No view].

If yes or no, please explain your views.

Question 5: Do you have any additional comments on the proposals of allowing fund managers to adopt joint payments for investment research?

Question 6: Do you agree with other amendments that we are making in COBS 18 Annex1? [Yes, No, No view].

If yes or no, please explain your views.

Annex 2

Cost benefit analysis

Introduction

1. The Financial Services and Markets Act (2000) requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.
2. This analysis presents estimates of the significant impacts of our proposal to allow pooled vehicles to adopt joint payments for investment research, subject to certain guardrails, so pooled vehicles are treated consistently with segregated mandates. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide a qualitative explanation of their impacts. Our proposals are based on weighing up all the impacts we expect and reaching a judgement about the appropriate level of regulatory intervention.
3. The CBA has the following structure:
 - The Market
 - Problem and rationale for intervention
 - Options assessment
 - Our proposed intervention
 - Baseline and key assumptions
 - Summary of impacts
 - Benefits
 - Costs
 - Wider economic impacts
 - Monitoring and evaluation

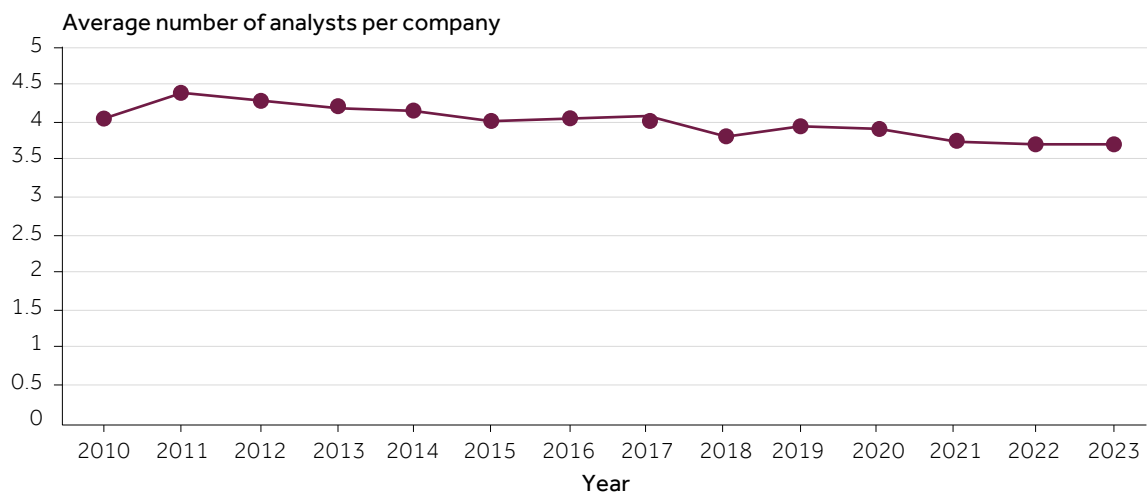
The Market

4. Investment research plays a crucial role in improving information availability to fund managers on listed companies and the wider market. Many ('buy-side') investors in public capital markets utilise investment research to varying extents and for different reasons. Asset managers and investment advisers will typically use investment research to help identify and assess investment opportunities on behalf of their clients. There were over 800 buy-side firms identified in December 2023 with assets over £10m.
5. Investment research is produced by two categories of providers. 'Sell-side' investment research is produced by analysts employed by investment banks, brokers and other financial institutions who provide execution and brokerage services. Most UK financial institutions will have such analysts' capabilities. Investment research is also produced by analysts who are not connected with investment banks, brokers or other financial institutions providing execution and brokerage services. These providers are often referred to as 'independent' research providers.

6. Historically, brokerage firms typically 'bundled' research costs with transaction commissions (i.e. the cost charged to clients for trade execution). However, this arrangement was altered with the UK Markets in Financial Instruments regime that is the collection of laws regulate the buying and selling of financial instruments. The relevant rules originally implemented the European Union (EU) legislation that came into force in 2018 (MiFID II). MiFID II rules prevent MiFID investment firms from purchasing research with so called "soft commission", whereby payments for execution and research are combined. This requirement was also extended to UK asset managers to bring transparency to opaque charging structures and manage conflicts of interest.
7. Following the implementation of MiFID II and the extension to asset managers, most asset managers chose to pay for research from their own resources, with smaller asset managers typically establishing dedicated RPAs (Research Payment Account, a dedicated payment account funded by a specific, separate pre-agreed charge to investors) for investment research. In 2019, our multi-firm review of the MIFID II research unbundling rules indicated the unbundling of research costs from execution resulted in the reduction of £140m research spend annually on equity funds.
8. The 2023 UK Investment Research Review (IRR) concluded that the MiFID II unbundling requirements have had adverse impacts on the provision of investment research in the UK. Such adverse effects could potentially have negative impacts on economic growth, as the provision of increased amounts of investment research could be beneficial to UK capital markets thereby increasing the amount of funding available to UK companies. The IRR also found that the existing unbundling requirements may reduce UK asset managers' access to global investment research, placing them at a competitive disadvantage with regards to their international peers.

The following chart (Figure 1) shows the trend in investment research coverage between 2010 and 2023. There has been a downward trend of analysts' coverage of UK public companies over the period, but no significant change in coverage around the implementation of MiFID II in January 2018.

Figure 1: Average number of research analysts covering UK public companies



(Source: FCA, Bloomberg. All dates correspond to November of the year)

Problem and rationale for intervention

- 9.** The issues we identified in CP 24/7 for firms managing segregated mandates also apply to pooled funds including:
- The IRR concluded the MiFID II unbundling requirements have had adverse impact on the provision of investment research and this could potentially have some impact on capital markets depth and funding available to UK companies, might in turn hinder UK economic growth prospects.
 - In addition, the US regulatory framework creates challenges around the acceptance of unbundled payments for research. This presents barriers for UK asset managers who are subject to MiFID II requirements when buying research from US broker dealers. In 2017, the SEC issued a no action letter to alleviate these barriers temporarily and give time for the market to adjust. The relief expired in July 2023. While there is limited evidence of significant constraints on the ability of UK asset managers to access research from US providers, we expect this will restrict the use of the research on the margin.
 - Our survey of asset managers undertaken in Q1 found the impact of MiFID II on the availability of investment research had been neutral. Less than 15% of asset managers surveyed said the impact of MiFID II on availability of investment research had been negative, while very few said it had a positive effect. With respect to the SEC's relief expiring, 12% of asset managers said there had been a negative impact of the expiry of the SEC no action letter on MiFID II unbundling requirements on access to investment research.
- 10.** We therefore concluded there was a rationale for greater flexibility on payment options for investment research.
- 11.** Below we set out options considered to take forward the recommendations of the IRR and feedback to CP 24/7 on payment optionality for investment research to allow pooled vehicles to adopt the new payment option, subject to certain guardrails, so pooled vehicles are treated consistently with segregated mandates.

Options

- 12.** We have not considered a wide variety of guardrails for fund managers who choose to take up joint payments as we are seeking to maintain a consistent approach with firms managing segregated mandates.
- 13.** Our rules and the law also set out requirements for fund managers when they make changes to authorised retail funds. Fund managers are required to seek FCA approval when they make significant changes to funds' prospectuses. We have considered several alternative specifications of our proposals including treating the take up of the new payment option being a fundamental change rather than a significant change for authorised retail funds. If we consider the take up of joint payments as a fundamental change it would have been more expensive for fund managers preventing them from

adopting the new option. This is because for a fundamental change the fund manager must obtain unitholders approval by convening an extraordinary general meeting at which a resolution must be passed with no less than 75% (of those voting) voting in favour.

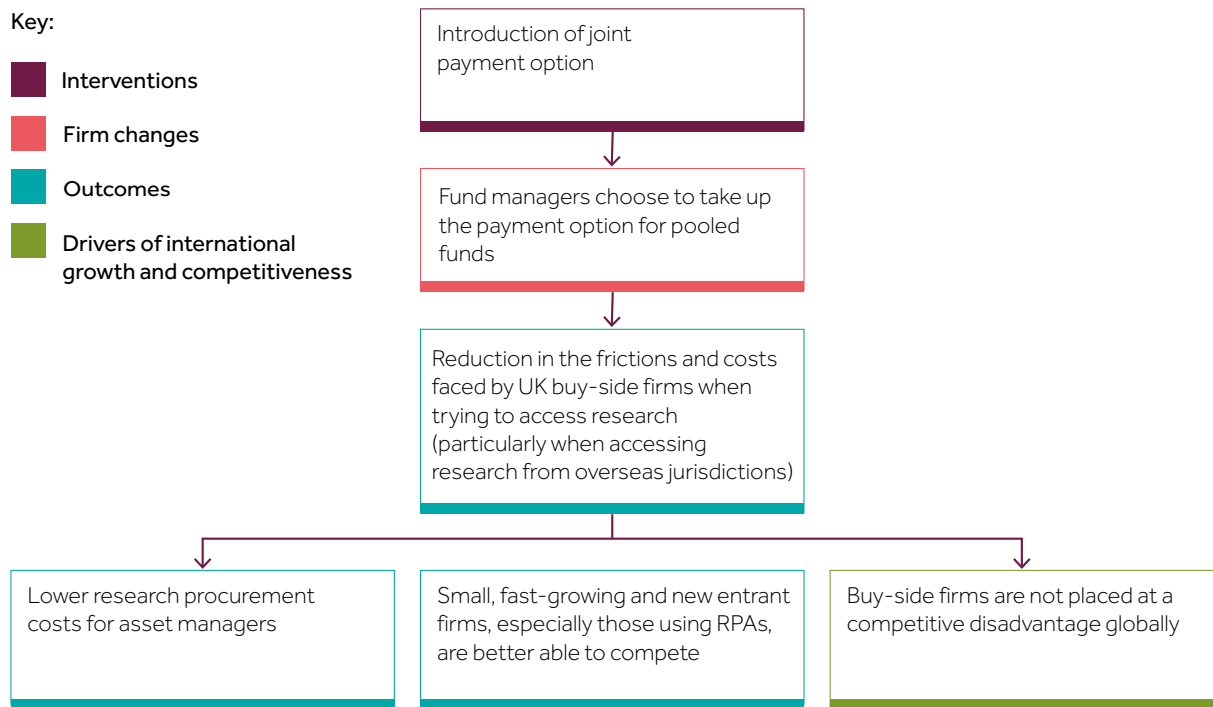
- 14.** Our rules on fundamental changes are key in safeguarding the interests of retail investors. However, given the importance of investment research to investor outcomes, we think the proposed guardrails, together with existing requirements under the Consumer Duty (where applicable) will adequately protect retail investors so that the new payment option can be treated as a significant change.
- 15.** We have also considered letting firms decide if the adoption of the new payment option would be a significant or fundamental change, taking into consideration of their obligations under the Consumer Duty (where applicable). This however would likely lead to inconsistency for investors and result in a less efficient implementation of the new payment option for investment research.

Our proposed intervention

- 16.** We propose to enable the joint payment option of third-party research and execution services for pooled funds, provided fund managers to meet a set of guardrails in relation to the operation of this, in line with the rules introduced for firms managing segregated mandates, including requiring fund managers to:
 - Have a written policy on their approach to joint payments.
 - Stipulate how the cost of research is calculated and ensure it is separately identifiable from the cost of trade transactions.
 - Establish a payment allocation structure for research providers including those who do and do not offer trade execution.
 - Responsible for the operation and administration of the joint payment account.
 - Set research budget based on the expected amount of third party research which is independent from the volume or value of trade transactions.
 - Periodically assess the quality and value of investment research.
 - Ensure fair allocation of research cost among different types of funds to prevent cross subsidisation.
 - Appropriately disclose the approach on joint payments to investors.
- 17.** We consider firms who made necessary adjustments to implement joint payments for segregated mandates would be likely to adopt the payment option for pooled funds. This should enable firms to implement the payment option to a wide range of products and services if they choose to. Our proposals should be net beneficial to firms with limited one-off implementation costs.

18. The following chart shows our proposed intervention and intended outcomes.

Figure 2: The causal chain



Baseline and key assumptions

19. We will evaluate the proposals based on a set of baseline assumptions which describes what would happen without the proposed intervention. Essentially, we will consider what the alternative might be without introducing the joint payment option for pooled funds.
20. We have included the estimates from CP 24/7 in our baseline assumption. We estimated that up to 20% of firms could take up joint payments. They will have amended their systems, processes and IT within the guardrails applied.
21. CP 24/7 indicated firms either chose to absorb research costs with their own resources or through dedicated RPAs following the implementation of MiFID II. Our baseline assumption is that firms will continue to purchase research with existing options in the absence of introducing the joint payment option.
22. Our proposals are intended to provide flexibility for fund managers with the new option to be available alongside existing payment options of funds own resources and dedicated RPAs. Our proposals are relevant to over 800 buy-side firms. We expect these firms are most likely to adopt joint payments where expected benefits would outweigh potential costs for the funds they manage.
23. Other key assumptions of the cost and benefits analysis include:

- The familiarisation costs are calculated with the standardised cost model (SCM) and its cost assumptions.
- The SCM categories regulated firms being large, medium or small reflecting those from annual FCA fee blocks.
- Our estimates are based on 2023 prices. We consider the costs and benefits of our proposals over a 10-year appraisal period with a 3.5% discount rate.

Summary of Impacts

Table 1 – Summary table of benefits and costs

Group affected	Item description	Benefits (£m)		Costs (£m)	
		One off	Ongoing	One off	Ongoing
Firms	Familiarisation costs			0.18	
	Update funds prospectus			2.7	Minimal
	Approval of significant changes for authorised retail funds			Not quantified	0
	IT costs			2.5	
	Lower research procurement costs		Not quantified		
Investors			Not quantified	Not quantified	0
Total				5.38	

Table 2 – Present Value and Net Present Value

	PV Benefits	PV Costs	NPV (10 yrs) (benefits-costs)
Total impact		£5.38	£5.38m
-of which direct		£5.38	£5.38m
-of which indirect		£0m	£0m
Key unquantified items to consider			Lower research procurement costs Potential ongoing benefits for investors and higher one-off costs for investors Costs from approval of significant changes for authorised funds

Table 3 – Net direct costs to firms

	Total (Present Value) Net Direct Cost to Business (X yrs)	Equivalent Annual Net Direct Cost to Business
Total net direct cost to business (costs to businesses - benefits to businesses)	£5.38m	£0.63m

- 24.** The proposals we are making are optional for fund managers if they choose to take up joint payments. We would expect that fund managers would only take up the option provided by our proposals where the expected benefits would outweigh the costs. This implies that our proposals are inherently proportionate. We have considered where the costs might arise from a reduction in the protections from the principal-agent problems that we previously observed when research was bundled with trade execution. Our guardrails are designed to prevent these costs reoccurring. We therefore believe our proposals are net beneficial.

Benefits

- 2.1** In CP 24/7, we set out the benefits of the joint payment option. The benefits for firms managing segregated mandates apply equally to pooled funds. We described two sets of benefits:
- A more efficient investment research procurement
 - competition from supporting smaller asset managers growing their business
- 2.2** The first benefit arises from making procuring research from other jurisdictions more efficient, especially the US. In addition, there may also be an increase in the amount or breadth of research purchased that would provide fund managers with enhanced understanding of new sectors, business models and product innovations, which improves investment decision making rather than through investment outperformance in the funds themselves.
- 2.3** The second arises when the adoption of joint payments could be more scalable for the business models of new entrants and small fast-growing asset managers. This could bring competition benefits for these asset managers when they grow their business.
- 2.4** As in CP24/7, we do not think it is reasonably practicable to estimate these benefits. Asset managers were unable to meaningfully provide estimates of the costs in our survey for CP 24/7. In CP 24/7, we said that we believe this uncertainty equally applies to the benefits and reduction in costs. We also noted that take-up of the option by fund managers were inherently uncertain.

Costs

Familiarisation costs

- 25.** There will be one off familiarisation costs for buy-side firms whether or not fund managers choose to take up the joint payment option, as they will seek to understand the proposed changes.
- 26.** We use the Standard Cost Model to estimate the familiarisation costs based on assumptions of the time required to read the approximately 20 relevant consultation pages excluding legal instruments. We assume 300 words per page and a reading speed of 100 words per minute therefore likely to take around 2 hours to read the document. In our assumption, we expect 20 compliance staff per large firm, 5 staff per medium firm and 2 staff per small firm to read the consultation.
- 27.** We convert this to a monetary value by applying an estimate of the cost of time to firms, based on Willis Towers Watson 2022 salary data, including 30% overheads. We assume the hourly compliance costs (including overheads) are £61, £57 and £47 for large, medium and small firms respectively. We expect the consultation is likely to be reviewed by 20 staff in large firms, 5 in medium firms and 2 in small firms.
- 28.** We do not expect firms to conduct a legal review of our proposals. The total familiarisation costs apply to around 800 buy-side firms with the following table showing costs by type and size of firms.

Table 4 – Estimates of familiarisation costs for buy-side firms

Size of firm	Number of firms	Cost per firm	Total one-off cost for all firms
Small	618	£130	£80,000
Medium	163	£394	£60,000
Large	24	£1,689	£40,000

- 29.** In total we expect one-off familiarisation costs of £180,000.
- 30.** We did not include familiarisation costs for sell-side firms in this consultation as those requirements remains the same specified in CP24/7.

Costs of investor notification and approval

- 31.** Where fund manager choose to take up the joint payment option they are required to disclose to investors by updating funds' documentation. We expect there will be one-off costs in relation to updating funds' documentation and any ongoing costs should be of minimal significance. This is because we expect fund managers would find the most efficient ways of communicating with investors, including through existing communications mechanism.

- 32.** Firms' review of fund documentation will involve compliance and legal departments and internal sales staff. While the resources required to undertake the review will vary depending upon the number of funds that an authorised fund manager (AFM) manages, we are assuming an estimated average of 35 funds per AFM, many AFM will have a couple of funds, and few may have more than 100. We are establishing our estimate at the AFM level, rather than the fund level. This is because we are assuming AFMs will review all their funds in a single batch, rather than reviewing them on an individual basis. We estimate each AFM will take approximately 280 hours to review the existing fund documentation across its fund range.
- 33.** This is equivalent to around 3 weeks reviewed by a member of the sales team, 3 weeks review by a member of the compliance team, and 2 weeks for legal review and executive sign off. This is equivalent to a total of 8 hours to identify and review each affected fund. We do not expect entry level personnel will be undertaking this work, a combination of senior sales, compliance and legal staff will be required. To estimate these costs, we use the hourly rate of £61 per hour that we used for compliance staff in large firms.
- 34.** We therefore estimate costs of £17,000 per firm.
- 35.** In CP24/7, we assumed that up to 20% of firms (161 firms) take up the option. We apply the same estimate here with total one-off costs of £2.7m for firms choose to take up the joint payment option for pooled funds.
- 36.** Were the implementation period of our rules to coincide with the regular updating of documentation performed by firms, the costs to firms would be incurred only for certain sections of the prospectus. This would require significantly less time than if an ad hoc review of all outstanding fund documentation was undertaken, therefore, both one off and ongoing costs would be negligible.

IT, system and process costs

- 37.** When we introduced the joint payment option for firms managing segregated accounts the estimated one-off IT costs were around £4.9m in total. We expect the IT costs will be significantly lower for pooled funds for those firms have already implemented the changes for segregated mandates. In CP 24/7, we estimated that up to 20% firms take up joint payments. Our survey of buy-side firms suggested around 30% firms would be interested in the new option. Therefore, an additional 10% of buy-side firms may use joint payments for pooled funds as a result of our proposals. The one-off IT costs would be incurred by the additional 10% of buy-side firms with those 20% firms would have already borne the costs of implementing joint payments for segregated mandates. In CP 24/7, we estimated a cost of £223k for large firms, £61k for medium firms and £14k for small firms using data on salaries. Consequently, if the additional 10% buy-side firms choose to take up joint payments, we estimate the one-off IT, system and process costs of £2.5m.
- 38.** In PS 24/9, we said that firms may incur ongoing costs for maintaining guardrails for adopting joint payments in relation to segregated mandates. However, we also noted that we did not receive meaningful estimates from firms on these ongoing costs and they are unlikely to be as large as the one-off implementation cost. Given firms likely to have incurred these costs for segregated mandates, we do not expect significant ongoing costs for pooled funds.

Increased costs of research

39. Our proposals might increase the amount of investment research produced that would in turn require additional resources. As we said in CP24/7, we do not consider it would be reasonably practicable to estimate the increased costs of research (at an aggregate or fund level) given it is difficult to predict the take-up of the new option and the subsequent effects on research production and spend.

Costs to investors

40. We have considered where the costs might arise from a reduction in the protections of the principal-agent problems that we previously observed when research was bundled with trade execution. We believe the guardrails will prevent fund managers from not having adequate discipline and pass the costs of low quality or duplicative research back to investors or increasing the price of research. We believe our proposals would be net beneficial for the interests of investors.

FCA costs

41. The FCA will incur supervisory costs in ensuring firms that take up joint payments would comply with the necessary guardrails. In CP 24/7, we said we would not use more supervisory resources than the baseline. This applies equally to the changes we proposed in this consultation. The FCA will also incur some resource costs in reviewing applications for significant changes to authorised retail funds. Given relatively limited resources for these reviews, we expect the increase in costs would be of minimal significance.

Wider economic impacts, including on secondary objective

42. We considered the relevance of our proposals with regards to the drivers of productivity designed to advance our Secondary International Competitiveness and Growth objective. Our proposals are intended to reduce barriers for fund managers accessing investment research therefore advance the proportionate regulation and effective competition in the interests of consumers.
43. Our proposals are intended to enhance the efficiency of research procurement and provide fund managers with greater flexibility on research payment options driving greater competition for the benefits of investors. The added flexibility in payment options could also better enable small fast growing firms and new entrants to enter the market. We believe the proposals should advance our secondary international competitiveness and growth objective.

Monitoring and evaluation

44. The changes we proposed in this consultation would be included in our review of the changes implemented for firms managing segregated mandates. As noted in PS

24/9, our survey data in CP 24/7 indicated that asset managers largely receive the research they need, however existing payment options for investment research can be operationally complex particularly for smaller asset managers. We intended to introduce a payment option that is operationally efficient and adaptable to firms of different business models and sizes. We will be considering three measures of success in the review:

- Take-up of the new option.
- Positive changes in trends of research production and consumption.
- Verification that this has not been achieved via undue costs or harms to consumers. In CP 24/7 we said we would measure the take up of joint payments by a firm survey or as part of a future multi-firm review.

This could be achieved by undertaking a survey, after a reasonable period of time, and potentially building on the types of data and information that were previously surveyed on to inform CP 24/7. Conducting a survey after an appropriate period of time will also allow consideration of different time horizons that firms might choose to adopt joint payments for investment research.

Annex 3

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).
2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules (a) is compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA, and (c) complies with its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA. The FCA is also required by s 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.
3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (section 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.
4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.
5. This Annex includes our assessment of the equality and diversity implications of these proposals.
6. Under the Legislative and Regulatory Reform Act 2006 (LRRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. In discharging our general functions we must, so far as reasonably possible, to act in a way which is compatible with the strategic objective of ensuring relevant markets work well. We consider our proposals are compatible with our strategic objective because investment research plays a crucial role in improving information availability to fund managers on listed companies and the wider market. The proposed joint payments will allow fund managers to combine the cost of third-party research with execution services if they meet a set of guardrails designed to preserve the benefits from MiFID II reforms including greater transparency on the cost of research and greater discipline on the utility of investment research. In relation to our operational objectives, the proposals set out in this consultation are primarily intended to advance the FCA's objective of promoting effective competition in the interests of consumers. Our proposals should advance the objective by improving the ease with which asset managers can access investment research. This would in turn mean investors are able to benefit from greater competition among asset managers. Our proposals should also make research procurement less complex and scalable for smaller asset managers who currently purchase research through RPAs.
8. We consider our proposals also advance the FCA's objective of securing an appropriate degree of protection for consumers given the proposed guardrails for fund managers who choose to take up joint payments.
9. We consider our proposals are compatible with the FCA's secondary objective in advancing competitiveness and growth. The proposals are intended to reduce barriers for asset managers accessing research contribute to the wider competitiveness and growth objective.
10. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s 3B FSMA.

The need to use our resources in the most efficient and economic way

11. We have had regard to this objective when applying the existing rules in COBS 2.3B with modifications.

The principle that a burden or restriction should be proportionate to the benefits

12. We believe our proposals would be net beneficial for fund managers who choose to purchase investment research with joint payments. We have included relevant details in the Cost Benefit Analysis section of the consultation paper.

The need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target) and section 5 of the Environment Act 2021 (environmental targets)

13. This principle is not applicable to our proposals.

The general principle that consumers should take responsibility for their decisions

14. We have had regard to this principle including consideration of proportionate disclosure requirements based on different types of funds.

The responsibilities of senior management

15. Our proposals do not specifically relate to the responsibilities of senior management. Nevertheless, we have had regard to this principle and do not consider that our proposals undermine it.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

16. We have had regard to this principle including proposing different disclosure requirements in relation to authorised retail funds and recognising that investors in (unauthorised) alternative investment funds and collective investment schemes are primarily likely to be professional investors.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

17. We have regard to this principle with the consideration of guardrails. If fund managers choose to adopt joint payments they are required to provide appropriate disclosure in funds' documents.

The principle that we should exercise of our functions as transparently as possible

18. By providing the rationale for each of our recommendations and the anticipated outcomes, the FCA has regard to this principle.
19. We have regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s 1B(5)(b) FSMA).

Expected effect on mutual societies

- 20.** The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies. The relevant rules we propose to amend will apply, according to the powers exercised and to whom they are addressed, equally regardless of whether it is a mutual society or another authorised body.

Compatibility with the duty to promote effective competition in the interests of consumers

- 21.** In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers.

Equality and diversity

- 22.** We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and foster good relations between people who share a protected characteristic and those who do not.

As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters is stated in paragraph 2.20 to paragraph 2.22 of the Consultation Paper.

Legislative and Regulatory Reform Act 2006 (LRRRA)

- 23.** We have had regard to the principles in the LRRRA for the parts of the proposals that consist of general policies, principles or guidance relating to the proposed payment option for investment research. We consider these parts of the proposals have had regard to the five LRRRA principles of carrying out regulatory activities in a way which is transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed.
- 24.** We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider that any proposed guidance is intended to clarify the proposed rules.

Annex 4

Abbreviations in this document

Abbreviation	Description
FSMA	Financial Services Markets Act 2000
MiFID II	Markets in Financial Instruments Directive II
COBS	Conduct of Business Sourcebook
COLL	Collective Investment Scheme Sourcebook
UCITS	Undertakings for Collective Investment in Transferable Securities
QIS	Qualified Investor Schemes
LTAf	Long-term Asset Funds
AIFMD	Alternative Investment Fund Managers Directive
AIF	Alternative Investment Funds

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Appendix 1

Draft Handbook text

**PAYMENT OPTIONALITY FOR FUND MANAGERS (INVESTMENT RESEARCH)
INSTRUMENT 2024**

Powers exercised

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the following powers and related provisions:
- (1) the following sections of the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 137A (The FCA’s general rules);
 - (b) section 137T (General supplementary powers);
 - (c) section 138D (Actions for damages);
 - (d) section 139A (Power of the FCA to give guidance);
 - (e) section 247 (Trust scheme rules);
 - (f) section 248 (Scheme particulars rules);
 - (g) section 261I (Contractual scheme rules); and
 - (h) section 261J (Contractual scheme particulars rules);
 - (2) regulation 6 (FCA rules) of the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228); and
 - (3) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA’s Handbook.
- B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on *[date]*.

Amendments to the Handbook

- D. The Conduct of Business sourcebook (COBS) is amended in accordance with Annex A to this instrument.
- E. The Collective Investment Schemes sourcebook (COLL) is amended in accordance with Annex B to this instrument.

Citation

- F. This instrument may be cited as the Payment Optionality for Fund Managers (Investment Research) Instrument 2024.

By order of the Board
[date]

Annex A

Amendments to the Conduct of Business sourcebook (COBS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

18 Specialist regimes

...

18 Research and inducements for collective portfolio managers

Annex 1

1	Application		
...			
1.2	G	...	
<u>1.3</u>	<u>G</u>	<u>Where a rule or guidance in COBS 2.3B contains a cross-reference to another provision in COBS 2.3B which is applied by virtue of this Annex, the cross-reference is to the provision as modified or amended, unless the contrary intention appears (see GEN 2.2.11R and GEN 2.2.12G (Application of the Interpretation Act 1978)).</u>	
...			
3	Acceptable minor non-monetary benefits		
3.1	R	A <i>firm</i> must not accept a non-monetary benefit unless it is a minor non-monetary benefit which is reasonable, proportionate and of a scale that is unlikely to influence the <i>firm's</i> behaviour in any way that is detrimental to the interests of the <i>fund</i> , and which consists of:	
		...	
		(6)	free sample <i>research</i> provided for a limited trial period where:
			...
		(d)	the recipient <i>firm</i> keeps records of the dates of any trial periods, and sufficient records to demonstrate compliance with the conditions in (a) to (c) above; <u>or</u>
		(7)	research on listed or unlisted companies with a market capitalisation below £200m, provided that it is offered on a rebundled basis or provided for free. The market capitalisation is to be calculated with reference to the average closing price of the shares of the company at

			the end of each month to 31 October for the preceding 24 months . For companies newly admitted to trading, determination of the threshold should be based on the market capitalisation at the close of day one trading and apply until the date of the next re-assessment (i.e., 31 October). For these purposes, <i>firms</i> may reasonably rely on the assessment of a third party that the <i>research</i> is on a company with a market capitalisation below £200m; [deleted]
		(8)	third party <i>research</i> that is received by a <i>firm</i> providing investment services or ancillary services to clients where it relates to fixed income, currency or commodity instruments; <u>or</u>
		(9)	<i>research</i> received from a research provider where the research provider is not engaged in <i>execution</i> services and is not part of a financial services group that includes an <i>investment firm</i> that offers <i>execution</i> or brokerage services; <u>or</u>
		...	
		(11)	corporate access services which relate to listed or unlisted companies with a market capitalisation below £200m in accordance with paragraph 3.1R(7); <u>or</u>
		(12)	<u>short-term trading commentary that does not contain substantive analysis, and bespoke trade advisory services intrinsically linked to the execution of a transaction in <i>financial instruments</i>.</u>
		...	
4		Inducements and research	
		...	
		General modifications	
		...	
4.3	R	Where <i>COBS</i> 2.3B applies to a <i>firm</i> , the following modifications apply:	
		(1)	in <i>COBS</i> 2.3B.3R:
		(a)	the reference to “providing <i>investment services</i> or <i>ancillary services</i> to <i>clients</i> ” is to be construed as a reference to “ <i>executing</i> orders, or placing orders with other entities for execution, that relate to <i>financial instruments</i> for, or on behalf of, the <i>fund</i> ”; and
		(b)	the reference to “ <i>COBS</i> 2.3A.5R, <i>COBS</i> 2.3A.15R or <i>COBS</i> 2.3A.16R” is to be construed as a reference to <i>COBS</i> 18 Annex 1 2.1R; <u>and</u>

			(c)	in <i>COBS 2.3B.3R(3)</i> , after the reference to “ <i>COBS 2.3B.25R to COBS 2.3B.33G</i> ” insert “(as applied and modified by <i>COBS 18 Annex 1 4.15R to COBS 18 Annex 1 4.26G</i>) and the related <i>rules in COLL</i> ”;
		...		
		(4)		in <i>COBS 2.3B.22G</i> :
			(a)	the reference to “ <i>COBS 2.3A.19R or COBS 2.3A <u>COBS 2.3A.22G</u></i> ” is to be construed as a reference to “ <i>COBS 18 Annex 1 3.1R or COBS 18 Annex 1 3.2G</i> ”; and
			(b)	the reference to “ <i>COBS 2.3A.15R or COBS 2.3A <u>COBS 2.3A.16R</u></i> ” is to be construed as a reference to “ <i>COBS 18 Annex 1 2.1R</i> ”; and
		(5)		in <i>COBS 2.3B.24G</i> , the reference to <i>COBS 11.2A</i> is to be construed as a reference to:
			(a)	<i>COBS 11.2</i> for <i>small authorised UK AIFMs</i> ; <u>and residual CIS operators</u> ; and full-scope UK AIFMs ; and
			(b)	<i>COBS 11.2B</i> for <i>UCITS management companies</i> ; <u>and</u>
			(c)	<u>articles 27 and 28 of the AIFMD level 2 regulation for full-scope UK AIFMs.</u>
		...		
Disapplication of disclosure provisions				
4.7	R	The following provisions do not apply and references to them in <i>COBS 2.3B</i> are to be ignored:		
		...		
		(5)		<i>COBS 2.3B.12R</i> ; and
		(6)		<i>COBS 2.3B.20R</i> ; <u>and</u>
		(7)		<u><i>COBS 2.3B.31R</i></u> (but see <i>COBS 18 Annex 1 4.23R to COBS 18 Annex 1 4.26G</i>).
Disapplication and modification of provisions relating to joint payments for research				
4.7A	R	The following provisions also do not apply and references to them in <i>COBS 2.3B</i> are to be ignored:		

		(1)	<i>COBS 2.3B.3R(3)</i> ;
		(2)	<i>COBS 2.3B.23G(12)</i> ;
		(3)	<i>COBS 2.3B.25R</i> ;
		(4)	<i>COBS 2.3B.26R</i> ;
		(5)	<i>COBS 2.3B.27G</i> ;
		(6)	<i>COBS 2.3B.28R</i> ;
		(7)	<i>COBS 2.3B.29R</i> ;
		(8)	<i>COBS 2.3B.30R</i> ;
		(9)	<i>COBS 2.3B.31R</i> ;
		(10)	<i>COBS 2.3B.32G</i> ; and
		(11)	<i>COBS 2.3B.33G</i> . [deleted]
4.7B	R	Where <i>COBS 2.3B</i> applies to a <i>firm</i> , the following modifications apply:	
		(1)	in <i>COBS 2.3B.21R</i> , the words ‘and must use the separately identifiable <i>research</i> charge of joint payments for <i>research</i> and execution services under <i>COBS 2.3B.3R(3)</i> only to pay for <i>research</i> ’ are omitted; and
		(2)	in <i>COBS 2.3B.23G</i> , the words ‘or joint payments for <i>research</i> and execution services’ are omitted. [deleted]
Prior disclosure of the research account to investors			
...			
4.9	R	An <i>authorised fund manager</i> of an <i>authorised fund</i> must publish the information in paragraph 4.8 in the <i>fund’s prospectus</i> . [deleted]	
4.10	G	...	
		(2)	...
		(3)	<u>The <i>authorised fund manager</i> of an <i>authorised fund</i> is required to publish the information in paragraph 4.8 in the <i>fund’s prospectus</i> under the relevant <i>rules</i> in <i>COLL</i>.</u>
...			

		Periodic disclosure of the research payment account to investors	
...			
4.13	R	An authorised fund manager of an authorised fund must publish the information in paragraph 4.12 in the annual long report of the authorised fund. [deleted]	
4.13	G	(1)	A full-scope UK AIFM of an unauthorised AIF may wish to publish the information in paragraph 4.12 with the information to be made available about AIFs in accordance with FUND 3.3 (Annual report of an AIF).
		(2)	The authorised fund manager of an authorised fund is required to publish the information in paragraph 4.12 in the annual long report of the authorised fund under the rules in COLL.
4.14	R	...	
		<u>Additional modifications relating to joint payments for third-party research and execution services</u>	
4.15	R	The modifications in COBS 18 Annex 1 4.16R to COBS 18 Annex 1 4.26G to the rules and guidance in COBS 2.3B apply where a firm:	
		(1)	<u>is executing orders, or placing orders with other entities for execution, that relate to financial instruments for, or on behalf of, a fund; and</u>
		(2)	<u>uses, or intends to use, joint payments for third-party research and execution services.</u>
4.16	R	COBS 2.3B.25R is modified as follows:	
		(1)	<u>for the first use of the term in COBS 2.3B.25R(1) and (4), and for each use of the term in paragraphs COBS 2.3B.25R(2) and (3), a reference to “the firm” is to be read as a reference to “in relation to a fund, the firm”;</u>
		(2)	<u>in COBS 2.3B.25R(4)(b), omit “under this chapter”;</u>
		(3)	<u>in COBS 2.3B.25R(5):</u>
		(a)	<u>before “the firm must set a budget”, insert “at least annually, in relation to a fund.”;</u>
		(b)	<u>in (5)(a), for “third-party research in respect of investment services rendered to its clients”, substitute:</u>

					<u>“third-party research relating to financial instruments in respect of which the firm is executing orders, or placing orders with other entities for execution, for, or on behalf of, the fund”</u> ; and
			(c)		omit (5)(b);
		(4)			for COBS 2.3B.25R(6), substitute:
			“(6)		<u>in relation to a fund, the firm must allocate fairly the costs of research purchased using joint payments;</u> ”
		(5)			for COBS 2.3B.25R(7), substitute:
			“(7)	(a)	<u>(in relation to an unauthorised AIF or an unregulated collective investment scheme) the firm must periodically, and at least annually:</u>
				(i)	<u>assess the value, quality and use of research purchased using joint payments and its contribution to the investment decision-making process; and</u>
				(ii)	<u>ensure that the amount of research charges to clients is reasonable compared with those for comparable services; and</u>
				(b)	<u>(in relation to an authorised fund) the firm must assess, as part of an assessment of value under COLL 6.6.20R (Assessment of value), COLL 8.5.17R (Assessment of value), and COLL 15.7.17R (Assessment of Value) the value, quality and use of research purchased using joint payments and its contribution to the investment decision-making process; and”</u> ; and
		(6)			in COBS 2.3B.25R(8) the reference to “disclose to its clients” is to be read as a reference to:
			(a)		<u>(if the fund is a collective investment scheme) “disclose to unitholders in the fund”</u> ; and
			(b)		<u>(if the fund is not a collective investment scheme) “disclose to investors in the fund”</u> .
4.17	R				COBS 2.3B.26R is modified as follows:

		(1)	<u>in the opening words, for “clients” substitute “the fund”;</u>	
		(2)	<u>in COBS 2.3B.26R(1), the “relevant actions” to be included in the firm’s policy must include at least:</u>	
			(a)	<u>a requirement to inform the governing body of the fund if it is independent of the firm (see COBS 18 Annex 1 4.5G);</u>
			(b)	<u>a requirement for the firm to consider whether the increase in research charges is in the best interests of the fund and its unitholders or investors; and</u>
			(c)	<u>a requirement to ensure that (where applicable) the increase in research charges is assessed as part of the:</u>
			(i)	<u>assessment of value under COLL 6.6.20R (Assessment of value), COLL 8.5.17R (Assessment of value), COLL 15.7.17R (Assessment of Value); or</u>
			(ii)	<u>value assessment under PRIN 2A.4 (Consumer Duty: retail customer outcome on price and value); and</u>
		(3)	<u>in COBS 2.3B.26R(2), the reference to “disclosed to clients” is to be read as a reference to (as applicable):</u>	
			(a)	<u>where the fund is a collective investment scheme, “disclosed to unitholders in the annual report for the fund (if there is one), a periodic statement or similar notification to unitholders”; or</u>
			(b)	<u>where the fund is not a collective investment scheme, “disclosed to investors in the fund in the annual report for the fund (if there is one), a periodic statement or similar notification to investors”; and</u>
		(4)	<u>where the fund is an authorised fund, the information to be disclosed to unitholders under COBS 2.3B.26R(2) includes the following:</u>	
			(a)	<u>in the annual report for the fund:</u>
			(i)	<u>if the amount of research charges to the authorised fund exceeds the budget set under COBS 2.3B.25R(5), at least:</u>
			(A)	<u>the fact that the amount of research charges has exceeded the budget;</u>
			(B)	<u>the amount of the excess over the budgeted amount; and</u>
			(C)	<u>the reason for the excess; and</u>

			(ii)	if the budget for <i>research</i> is increased, at least:
			(A)	the fact that the <i>research</i> budget has been increased; and
			(B)	the amount of the increase;
			(C)	the amount of the new budget for <i>research</i> ; and
			(D)	the reasons for the increase;
		(b)		in the <i>prospectus</i> for the <i>fund</i> , if the budget for <i>research</i> is increased, at least the amount of the new budget for <i>research</i> .
4.18	G	<u>COBS 2.3B.27G</u> applies with the following modifications:		
		(1)	for “the <i>firm</i> ”, substitute “in relation to a <i>fund</i> , the <i>firm</i> ”;	
		(2)	for “individual <i>clients</i> ”, substitute “the <i>fund</i> ”; and	
		(3)	omit from “The approach” to the end.	
4.19	R	In <u>COBS 2.3B.28R</u> , omit “under this chapter”.		
4.20	R	In <u>COBS 2.3B.29R</u> , the reference to “ <u>COBS 11.2A.2R</u> ” is to be read as a reference to:		
		(1)	(for a <i>small authorised UK AIFM</i> and a <i>residual CIS operator</i>) “ <u>COBS 11.2.1R (Obligation to execute orders on terms most favourable to the client)</u> ”;	
		(2)	(for a <i>UCITS management company</i>) “ <u>COBS 11.2B.5R (Obligation to execute orders on terms most favourable to the scheme)</u> ”; and	
		(3)	(for a <i>full-scope UK AIFM</i>) “ <u>article 27(2) of the AIFMD level 2 regulation (Execution of decisions to deal on behalf of the managed AIF)</u> ”.	
4.21	R	<u>COBS 2.3B.30R</u> is modified as follows:		
		(1)	in the opening words, the reference to “relevant <i>clients</i> ” is to be read as a reference to (as applicable):	
		(a)	(where the <i>fund</i> is a <i>collective investment scheme</i>), “ <u>unitholders in the <i>fund</i></u> ”; or	
		(b)	(where the <i>fund</i> is not a <i>collective investment scheme</i>), “ <u>investors in the <i>fund</i></u> ”;	

		(2)	<u>in COBS 2.3B.30R(1), after “the <i>firm</i>’s use of joint payments for research” insert “in relation to the <i>fund</i>”;</u>	
		(3)	<u>in COBS 2.3B.30R(2):</u>	
		(a)	<u>for “the <i>firm</i>’s policy on joint payments”, substitute “the <i>firm</i>’s policy on joint payments in relation to the <i>fund</i>”; and</u>	
		(b)	<u>the reference to “the information needs of its <i>clients</i>” is to be read as a reference to (as applicable):</u>	
			(i)	<u>(where the <i>fund</i> is a <i>collective investment scheme</i>), “the information needs of <i>unitholders</i> in the <i>fund</i>”; or</u>
			(ii)	<u>(where the <i>fund</i> is not a <i>collective investment scheme</i>), “the information needs of investors in the <i>fund</i>”;</u>
		(4)	<u>for COBS 2.3B.30R(4), substitute:</u>	
		“(4)	<u>“the most significant of:</u>	
			(a)	<u>the benefits and services received from <i>research providers</i> (measured by total amounts paid); and</u>
			(b)	<u>the types of <i>research providers</i> from which such services are purchased,</u>
				<u>at a level of aggregation appropriate to the <i>firm</i>’s execution of orders relating to <i>financial instruments</i>, or placing of such orders with other entities for execution, where those orders are executed or placed for, or on behalf of, the <i>fund</i>.”; and</u>
		(5)	<u>in COBS 2.3B.30R(5), omit “, and provided as part of the ex post reporting on costs and charges”.</u>	
<u>Prior disclosures relating to joint payments for research</u>				
<u>4.22</u>	<u>G</u>	<u>In accordance with COBS 18 Annex 1 4.7R(7) (Disapplication of disclosure provisions), COBS 2.3B.31R does not apply to a <i>firm</i> that is subject to COBS 18 Annex 1. The specific prior and periodic disclosure provisions that apply where such a <i>firm</i> uses, or intends to use, joint payments for third-party <i>research</i> and execution services are set out in COBS 18 Annex 1 4.23R to COBS 18 Annex 1 4.26G.</u>		
<u>4.23</u>	<u>R</u>	(1)	<u>For the purposes of the disclosures in COBS 2.3B.25R(8), a <i>firm</i> must provide the information in (2) before a <i>person</i> becomes a <i>unitholder</i> or investor in the <i>fund</i>.</u>	
		(2)	<u>The information referred to in (1) is:</u>	

			(a)	<u>the information specified in COBS 2.3B.30R(1) to (3); and</u>
			(b)	<u>where the fund is an authorised fund, the information specified in COBS 2.3B.30R(6) if applicable (see COBS 18 Annex 1 4.17R(4)(a)).</u>
4.24	G	(1)	(a)	<u>The rules in COLL require the authorised fund manager of an authorised fund to publish the information referred to in COBS 18 Annex 1 4.23R in the fund's prospectus.</u>
			(b)	<u>Where the research budget of an authorised fund is increased, COBS 18 Annex 1 4.23R(2) requires the revised budget to be disclosed in the fund's prospectus. The firm will need to consider such an increase in accordance with the requirements of the Act, the OEIC Regulations and the rules on changes to schemes in COLL 4.3 (Approvals and notifications), COLL 8.3 (Investor relations) and COLL 15.5 (Annual report and investor relations).</u>
		(2)		<u>A full-scope UK AIFM of an unauthorised AIF, may wish to publish the information in COBS 18 Annex 1 4.23R with the information to be made available in accordance with FUND 3.2.2R (Prior disclosure of information to investors).</u>
		(3)		<u>A small authorised UK AIFM of an unauthorised AIF or a residual CIS operator may wish to publish the information in COBS 18 Annex 1 4.23R along with the information to be made available about AIFs or CISs in accordance with COBS 18.5.5R (Scheme documents for an unauthorised fund).</u>
<u>Periodic disclosures relating to joint payments for research</u>				
4.25	R	(1)		<u>For the purposes of the disclosures in COBS 2.3B.25R(8), a firm must provide:</u>
			(a)	<u>the disclosures in COBS 2.3B.30R(4) and (5); and</u>
			(b)	<u>in addition to (a), where the fund is an authorised fund and if relevant, the information in (6) (see COBS 18 Annex 1 4.17R(4)(b)).</u>
		(2)		<u>The information in (1) must be provided:</u>
			(a)	<u>on request; and</u>
			(b)	<u>on a periodic basis.</u>
4.26	G	(1)		<u>The rules in COLL require the authorised fund manager of an authorised fund to provide the disclosures in COBS 18 Annex 1 4.18R in the annual long report of the authorised fund.</u>

		(2)	<u>A full-scope UK AIFM of an unauthorised AIF may wish to publish the information in COBS 18 Annex 1 4.18R with the information to be made available about AIFs in accordance with FUND 3.3 (Annual report of an AIF).</u>
		(3)	<u>A small authorised UK AIFM or a residual CIS operator may wish to publish the information in COBS 18 Annex 1 4.18R in the periodic statement to unitholders or investors in the fund pursuant to COBS 18.5.11R (if applicable).</u>

Annex B

Amendments to the Collective Investment Schemes sourcebook (COLL)

In this Annex, underlining indicates new text and striking through indicates deleted text.

4 Investor relations

...

4.2 Pre-sale notifications

...

Table: contents of prospectus

4.2.5 R This table belongs to *COLL* 4.2.2R (Publishing the prospectus).

...	
Payments out of scheme property	
13	...
<u>Payments for research out of scheme property</u>	
<u>13A</u>	<u>In relation to payments from the <i>scheme property</i> relating to a <i>research</i> payment account (see <i>COBS</i> 18 Annex 1 (Research and inducements for collective portfolio managers)) or joint payments for third-party <i>research</i> and execution services (see <i>COBS</i> 18 Annex 1), the following:</u>
	(a) <u>where a <i>research</i> payment account is used, the relevant details required by <i>COBS</i> 18 Annex 1 4.8R (Prior disclosure of the research account to investors); and</u>
	(b) <u>where joint payments for third-party <i>research</i> and execution services are made out of <i>scheme property</i>, the relevant details required by <i>COBS</i> 18 Annex 1 4.23R (Prior disclosures relating to joint payments for research).</u>
...	

...

4.3 Approvals and notifications

...

Significant change requiring pre-event notification

4.3.6 R ...

(2) A significant change is a change or event which is not fundamental in accordance with *COLL* 4.3.4R but which:

...

(d) materially increases other types of payment out of *scheme property*; or

(e) results in the authorised fund manager introducing joint payments for third-party research and execution services (see *COBS* 18 Annex 1 (Research and inducements for collective portfolio managers)).

...

...

4.5 Reports and accounts

...

Contents of the annual long report

4.5.7 R ...

(9) ...

(10) Where applicable, an annual long report of an authorised fund must also contain:

(a) where a research payment account is used in accordance with *COBS* 18 Annex 1, the information required by *COBS* 18 Annex 1 4.12R (Periodic disclosure of the research payment account to investors); and

(b) where joint payments for third-party research and execution services are made out of *scheme property*, the information required by *COBS* 18 Annex 1 4.25R (Periodic disclosures relating to joint payments for research).

...

6 Operating duties and responsibilities

...

6.7 Payments

...

Payments out of scheme property

- 6.7.4 R (1) The only payments which may be recovered from the *scheme property* of an *authorised fund* are those in respect of:
- ...
- (c) the investment or safekeeping of the *scheme property*; ~~or~~
 - (d) subject to (1A), donations to one or more *registered charities* for Sharia compliance purposes (in this *rule*, ‘purification’), as set out in and authorised by the *prospectus* of the *scheme*; and
 - (e) research purchased in compliance with COBS 2.3B (Inducements and research) as modified by COBS 18 Annex 1 (Research and inducements for collective portfolio managers), and as set out in and authorised by the prospectus of the scheme.

...

8 Qualified investor schemes

...

8.3 Investor relations

...

Table: contents of qualified investor scheme prospectus

- 8.3.4 R This table belongs to *COLL* 8.3.2R.

...	
12	Payments out of the scheme property
	...
<u>12A</u>	<u>Payments for research out of scheme property</u>
	<u>In relation to payments from the <i>scheme property</i> relating to a <i>research</i> payment account (see <i>COBS</i> 18 Annex 1 (Research and inducements for collective portfolio managers)) or joint payments for <i>third-party research</i> and execution services (see <i>COBS</i> 18 Annex 1), the following:</u>

	(a)	<u>where a <i>research</i> payment account is used, the relevant details required by COBS 18 Annex 1 4.8R (Prior disclosure of the research account to investors); and</u>
	(b)	<u>where joint payments for third-party <i>research</i> and execution services are made out of <i>scheme property</i>, the relevant details required by COBS 18 Annex 1 4.23R (Prior disclosures relating to joint payments for research).</u>
...		

...

Contents of the annual report

8.3.5A R ...

(6) ...

(7) Where applicable, an annual long report of a *qualified investor scheme* must also contain:(a) where the *authorised fund manager* uses a *research* payment account in accordance with COBS 18 Annex 1 (Research and inducements for collective portfolio managers), the information required by COBS 18 Annex 1 4.12R (Periodic disclosure of the research payment account to investors); and(b) where the *authorised fund manager* makes joint payments for third-party *research* and execution services, the information required by COBS 18 Annex 1 4.25R (Periodic disclosures relating to joint payments for research).

...

Alterations to the scheme and notices to unitholders: guidance

8.3.7 G (1) Although account should be taken of the *guidance* on fundamental changes (COLL 4.3.5G (Guidance on fundamental changes)) and significant changes (COLL 4.3.7G (Guidance on significant changes)) the impact of any change to the *scheme* should be assessed individually based on the nature of the *scheme* and its investor profile.(2) The FCA considers that the introduction of joint payments for third-party *research* and execution services under COBS 18 Annex 1 (Research and inducements for collective portfolio managers) should be treated as a significant change for the purposes of COLL 8.3.6R.

...

8.5 Powers and responsibilities

...

Payments

8.5.13 R ...

(3) ...

(4) Payments for research may be recovered from the scheme property provided the research is purchased in compliance with the rules in COBS 2.3B (Inducements and research) (as modified by COBS 18 Annex 1 (Research and inducements for collective portfolio managers)) and as set out in and authorised by the prospectus of the scheme.

...

15 Long-term asset funds

...

15.4 Prospectus and other pre-sale notifications

...

Table: contents of long-term asset fund prospectus

15.4.5 R This table belongs to COLL 15.4.2R.

...	
14	Fees, charges and expenses
	A description of all fees, charges and expenses, including:
	...
	(2) the payments that may be made out of the <i>scheme property</i> to any <i>person</i> whether by way of <i>remuneration</i> for services, reimbursement of expense, or charge or other payment and for each category of <i>remuneration</i> , expense, charge or payment the following should be specified:
	(a) ...

		(aa)	where a <i>research</i> payment account is used (see <i>COBS 18 Annex 1 (Research and inducements for collective portfolio managers)</i>), the relevant details required by <i>COBS 18 Annex 1 4.8R (Prior disclosure of the research account to investors)</i> ;
		(ab)	where joint payments for third-party <i>research</i> and execution services are made out of <i>scheme property</i> (see <i>COBS 18 Annex 1 (Research and inducements for collective portfolio managers)</i>), the relevant details required by <i>COBS 18 Annex 1 4.23R (Prior disclosures relating to joint payments for research)</i> ;
		(b)	...
		...	
...			
14A	<u>Payments for research out of scheme property</u>		
	In relation to payments from the <i>scheme property</i> relating to a <i>research</i> payment account (see <i>COBS 18 Annex 1 (Research and inducements for collective portfolio managers)</i>) or joint payments for <i>third-party research</i> and execution services (see <i>COBS 18 Annex 1</i>), the following:		
	(1)	where a <i>research</i> payment account is used, the relevant details required by <i>COBS 18 Annex 1 4.8R (Prior disclosure of the research account to investors)</i> ; and	
	(2)	where joint payments for third-party <i>research</i> and execution services are made out of <i>scheme property</i> , the relevant details required by <i>COBS 18 Annex 1 4.23R (Prior disclosures relating to joint payments for research)</i> .	
...			

...

15.5 Annual report and investor relations

...

Contents of the annual report

15.5.3 R ...

(6) ...

- (7) Where applicable, an annual long report of a *long-term asset fund* must also contain:
- (a) where the *authorised fund manager* uses a *research payment account* in accordance with *COBS 18 Annex 1*, the information required by *COBS 18 Annex 1 4.12R* (Periodic disclosure of the research payment account to investors); and
 - (b) where the *authorised fund manager* makes joint payments for third-party *research* and execution services, the information required by *COBS 18 Annex 1 4.25R* (Periodic disclosures relating to joint payments for research).

...

Alterations to the scheme and notices to unitholders: rules for schemes or classes made available to retail clients who are not limited protection LTAF investors

15.5.- R ...
10B

(2) ...

- (b) A significant change is a change or event which is not fundamental in accordance with (1) but which:

...

- (iii) results in any increased payments out of the *scheme property* to an *authorised fund manager* or any other *director* of an *ICVC* or an *associate* of either; ~~or~~
- (iv) materially increases other types of payment out of *scheme property*; or
- (v) results in the *authorised fund manager* introducing joint payments for third-party *research* and execution services under *COBS 18 Annex 1* (Research and inducements for collective portfolio managers).

...

Alterations to the scheme and notices to unitholders: guidance for schemes or classes intended only for limited protection LTAF investors

- 15.5.1 G (1) Although account should be taken of the *guidance* on fundamental changes (*COLL 4.3.5G* (Guidance on fundamental changes)) and significant changes (*COLL 4.3.7G* (Guidance on significant changes)) the impact of any change to the *scheme* should be assessed individually based on the nature of the *scheme* and its investor profile.

- (2) The FCA considers that the introduction of joint payments for third-party *research* and execution services under COBS 18 Annex 1 (Research and inducements for collective portfolio managers) should be treated as a significant change for the purposes of COLL 15.5.10R.

...

15.8 Valuation, pricing, dealing and income

...

Payments out of scheme property

- 15.8.1 R (1) The only payments which may be recovered from the *scheme*
5C *property* of a *long-term asset fund* are those in respect of:

...

...

- (c) the investment or safekeeping of the scheme property; ~~and~~
- (d) subject to (1A), donations to one or more *registered charities* for Sharia compliance purposes (in this *rule*, ‘purification’), as set out in and authorised by the *prospectus* of the *scheme*; and
- (e) *research* purchased in compliance with the rules in COBS 2.3B (Inducements and research) (as modified by COBS 18 Annex 1 (Research and inducements for collective portfolio managers)) and as set out in and authorised by the *prospectus* of the *scheme*.

...

...

