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Payment optionality for investment research

Of particular interest to: Investment firms, market operators in the UK, asset managers, institutional investors such as pension schemes, insurance firms, banks providing investment services and persons providing research that the FCA do not authorise.

In Brief

The FCA has published revised rules for the payment of investment research and the list of acceptable minor non-monetary benefits ("MNMBs") (the "New Rules") which came into force on **1 August 2024**.

Summary

In 2018, MiFID II introduced requirements to separate charges for execution and charges for research to 'unbundle' these two services. The New Rules modify these requirements to provide greater freedom in how firms can pay for investment research by allowing the 'bundling' of payments for research and trade execution — provided firms meet certain requirements in relation to the operation of these.

The New Rules introduce a third option for the payment of investment research which, from 1 August, will exist alongside the options already available i.e. payment for investment research from a firm's own resources and payment from a research payment account ("RPA").

This new option facilitates joint payments for third-party research and execution services, provided that firms meet the requirements in relation to the operation of these, which are summarised below:

- A written policy describing the firm's approach to joint payments, including with respect to governance, decision-making and controls.
- An arrangement that stipulates the methodology for calculating and separately identifying the cost of research.
- A structure for the allocation of payments between research providers, including Independent Research Providers.
- An approach for the allocation across clients of the costs of research purchased through joint payments, appropriate to the investment process, product, services and clients of such firm, but ensuring its outcome is fair, such that the relative costs incurred by clients are commensurate with relative benefits received.
- Periodic assessment of the value, quality, use and contribution to investment decision-making of the research purchased, and how the firm ensures that research charges to clients are reasonable against relevant comparators, to be undertaken at least annually.
- Disclosure to clients on the firm's approach to joint payments, including for instance if and how joint payments are combined with any other payment option, the most significant research services purchased, and costs incurred.
- Operational procedures for the administration of accounts used to purchase research, and for the delegation of such responsibilities to others.
- A budget to establish the amount needed for third-party research, reviewed and renewed at least annually, and based on expected amounts needed to purchase such research as opposed to volumes or values of transactions.
- It is confirmed that research services are not a factor in assessing best execution, and the best execution rules of COBS 11.2 continue to apply unchanged.

Although the consultation focused on introducing a new payment option for research, the FCA also announced changes to the list of MNMBs as follows:

- Non-substantive short term trading commentary and trade advisory services linked to trade execution has been added to the list of acceptable MNMBs for all payment options, and reflected in COBS 2.3A.19R(5).
- The FCA has deleted the rule relating to investment research on small and medium enterprises (“SMEs”) with a market capitalisation below £200m set out in COBS 2.3A.19R(5)(g). This option for combined payments to purchase research on companies with a market capitalisation below £200 million (introduced through the November 2021 Policy Statement PS21/20) has had little take-up. Furthermore, the new option for joint payments under the New Rules can apply to research on companies of any size, including the companies captured by these provisions the FCA is now deleting. However, the FCA has retained COBS 2.3A.19R(5)(h) to (k), which include treating corporate access in relation to companies with a market capitalisation below £200 million as an acceptable MNMB.

The changes that are being introduced to the list of acceptable MNMBs in COBS 2.3A and the addition of payment optionality in COBS 2.3B are not at this stage mirrored in changes to COBS 18 Annex 1 relevant to:

- UCITS management companies
- Full-scope UK Alternative Investment Fund Managers (AIFMs)
- Small authorised UK AIFMs and residual Collective Investment Scheme operators

The FCA plans to address necessary rule changes for these type of firms in a future consultation in the autumn of 2024.

From 1 August 2024 onwards, if firms wish to take up the new payment option for investment research, they will need to ensure that they comply with the FCA requirements and that they have updated their internal procedures. Firms should therefore ensure that sufficient measures are taken to facilitate familiarisation with the New Rules.

Useful links

FCA Policy Statement (26 July 2024)

[PS24/9: Payment optionality for investment research](#)

FCA Consultation Paper (April 2024)

CP24/7: [Payment optionality for investment research](#)

FCA website

<https://www.fca.org.uk/news/press-releases/fca-sets-out-rules-and-proposals-build-uk-wholesale-markets>

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