

## FCA's Consultation Paper

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Since 3 January 2018, firms that provide portfolio management or investment advice on an independent basis must pay for the research they obtain, either by absorbing the cost of the research themselves or by passing on that charge to their clients by way of a “research payment account”. Prior to 2018, the cost of research could be bundled together with the cost of other services provided to investment firms; however, the introduction of the Markets in Financial Instruments Directive, as revised (“MiFID II”), introduced a prohibition of bundled payments, with the intention of reducing the potential conflicts of interest of firms offering both execution and research services.

On 10 April, in response to the Investment Research Review of the UK market published by HM Treasury, the UK’s Financial Conduct Authority (the “FCA”) published a consultation paper proposing the re-introduction of bundled payments as an additional method to pay for investment research in order to afford greater flexibility to UK buy-side firms on how they can purchase investment research (“CP24/7”).

In CP24/7, the FCA proposes for the new regime to sit along the other payments currently available that would enable firms (including asset managers) who wish to buy investment research to use bundled payments for third-party research and execution services.

Firms may avail of this method of payment: provided, that they meet certain requirements, including establishing the following:

- a formal policy on use of the approach;
- a budget for the amount of third-party research to be purchased, as well as ongoing assessments of research value and price;
- an approach to the allocation of costs across their clients and a structure for the allocation of payments across research providers;
- operational procedures for the administration of accounts to purchase research; and
- disclosures to clients on the firm’s approach to bundled payments, their most significant research providers and costs incurred.

If the FCA chooses to proceed with its proposals, it will publish any rules or guidance in a policy statement in the first half of 2024. However, it notes that the timetable will be determined by the amount, strength and breadth of the information gathered in the consultation.

The FCA is aware that the proposed changes should also apply to fund managers (including undertaking for collective investment in transferable securities (“UCITS”) managers and alternative investment fund managers) under the FCA Conduct of Business Sourcebook (“COBS 18”). It intends to consult on these rule changes in the course of 2024.

Comments can be made until 5 June 2024.