

The UK Relaxes Its Requirements Around Payment for Investment Research

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In **Policy Statement PS24/9** on Payment Optionality for Investment Research, the UK's Financial Conduct Authority ("FCA") has set out its final rules on allowing payments for research to once again be 'bundled' (i.e. made jointly) with payments for execution and brokerage services.

As we **reported previously**, the FCA consulted in its Consultation Paper CP24/7 in April of this year on its proposals for unbundling, and the 'guardrails' it was suggesting should be in place to protect consumers. The final rules set out in PS24/9, while not essentially different from CP24/7's proposals, do make some changes in response to concerns about the practical implementation of those guardrails.

These include changes to how firms required to put in place the following guardrails when bundling:

- Budgeting: the new rules now allow flexibility to aggregate when budgeting at the level of an investment strategy or group of clients, and give more latitude on the disclosures that are required when budgets are exceeded;
- Research provider disclosures: the new rules no longer require the disclosure of the most significant research providers and give more latitude on the aggregation of disclosures;
- Price benchmarking: CP24/7's requirement to benchmark the price paid for research has been amended to require firms to ensure that these charges are reasonable, with benchmarking being one means of doing this;
- Cost allocation and disclosure: again, these requirements have been given more latitude and flexibility, including on how firms estimate expected annual costs;
- Separately identifiable research charges: the prescriptive requirement for written agreements with research providers has been broadened to require arrangements to be in place that allow research costs to be identified.

The rules apply from 1 August 2024. As they represent an option that has been added to existing requirements (which allow managers to pay for research from either their own resources or from a dedicated research payment account set up for individual clients), the FCA says that *"if you want to take up the new payment option, you must make sure that you comply with our requirements and that you have updated your internal procedures."*