



FCA CP on amendments to funds research payment rules

The FCA published a Consultation Paper on extending to UK fund managers the new "joint payments" rules relating to research.

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The FCA published in November 2024 a Consultation Paper ([CP24/21: Investment research payment optionality for fund managers](#)) on extending to UK fund managers the new "joint payments" rules relating to research.

This comes in the wake of similar rule changes for UK MiFID investment firms, which came into force in August year - see our article on those changes [here](#). The consultation is open for comments until **16 December 2024**. A Policy Statement can be expected in **H1 2025**.

Background

- When the FCA implemented the MiFID2 inducements rules in 2018, it decided to "gold plate" those rules to the fund management activities of UK AIFMs and UK UCITS fund managers. This imposed the same unbundled research payment rules on UK fund managers as for UK MiFID firms, under which fund managers can only receive substantive research either (1) if the firm pays for research from its own resources, or (2) if the firm operates a formal Research Payment Account (RPA), funded by its clients.
- Following the UK Investment Research Review (IRR) recommendations, the Financial Conduct Authority (FCA) introduced rules allowing joint payments for research and execution services for MiFID investment firms under certain conditions, aiming to simplify payment options and maintain the benefits of MiFID II reforms.
- In an August 2024 rule change, the FCA allowed UK MiFID firms (but not AIFMs or UCITS Mancos) to pay for research using "joint payments". Joint payments means a payment for execution services which covers both execution commission for the broker, and also an additional soft commission element, which is allocated to a commission pool for research payments. This is subject to various guardrails, as client protection measures.

Proposed changes

- The FCA now proposes to extend the option of joint payments for third-party research and execution services to fund managers, including those managing pooled vehicles under the AIFMD and UCITS regimes. This move is intended to address operational complexities and barriers faced by UK asset managers, especially in purchasing overseas research.
- The CP outlines specific guardrails that fund managers must adhere to if they opt for joint payments, ensuring discipline, transparency, and fairness in research procurement and cost allocation.
- In terms of substance, the changes broadly mirror those brought into place for MiFID firms and are largely the same in terms of substance. However, there are some modifications to the guardrails to reflect different the operational structure of funds. For example, research budgets have to be set at a fund level to avoid one fund subsidising another.
- In determining whether to adopt joint payments, the FCA expects fund managers to consider both the price and value, and customer understanding outcome under the Consumer Duty, where applicable.

Authorised funds

The CP outlines that a move to the new payment option of joint payments for investment research should be treated as a 'significant change' for authorised retail funds, requiring fund managers to notify unitholders 60 days prior to adoption and seek FCA approval. The paper highlights the necessity for fund managers to continue disclosing ongoing costs and charges, especially if joint payments materially increase a fund's transaction costs.

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 - rather than carrying out a separate assessment of value.

For Qualified Investor Schemes (QIS) and Long-term Asset Funds (LTAFs), the rules are less prescriptive, with LTAFs needing to continue to meet existing notification requirements. Unauthorised funds are not subject to specific notification requirements for making changes, but fairness is expected in the interest of investors.

The CP proposes clearer rules on prospectus and annual report disclosures by incorporating them into the COLL sourcebook, aiming for simplicity and clarity. It also sets expectations for authorised funds to disclose exceeded or increased research budgets in annual reports and adjust the prospectus accordingly.

The CP includes amending rules to explicitly permit payments for research from scheme property and seeks feedback on the effectiveness of joint payments for investment research.

Other changes

As set out in the rules for MiFID firms:

- The FCA is proposing to add to the list of acceptable minor non-monetary benefits (AMNMBs) a new express exemption, which confirms that short-term trading commentary is an AMNMB. As such, short-term trading commentary may be received by a UK firm for free, without breaching the inducements rules.
- Separately, the FCA is also proposing to delete the existing AMNMB relating to research on companies with a market capitalisation of less than GBP 200 million, on the basis that the new option for joint payments can apply to research on companies of any size and to avoid any additional complexity in the rules. (The equivalent AMNMB exemption relating to corporate access for such issuers remains in place).