

Policy Statement

PS25/4

Investment research payment
optionality for fund managers

May 2025

This relates to

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Chapter 1

Summary

- 1.1** In 2024, we proposed allowing fund managers to pay for investment research using a joint payment option for research and execution services, subject to a set of guardrails (CP24/21). This joint payment option for fund managers is based on the rules introduced for MiFID investment firms (PS24/9).
- 1.2** Investment research is crucial in providing analysis and forecasts to potential and existing investors. Historically, research costs were typically bundled with execution commissions arising from trading on behalf of investors. MiFID II introduced requirements to separate charges for research from trade execution thereby unbundling these services. Following implementation of the MiFID II requirements, fund managers were required to either pay for research from their own resources or through separate research payment accounts (RPA).
- 1.3** In 2023, the UK Investment Research Review concluded that the MiFID II unbundling requirements adversely affected the provision of investment research in the UK. The review set out recommendations to improve the investment research market. This included creating a payment option allowing combined payments for research and trade execution. To take forward the recommendation, we consulted on (CP24/7) and implemented rules (PS24/9) to introduce a joint payment option for MiFID firms including those managing segregated investments.
- 1.4** CP24/21 proposed changes to the existing rules that set restrictions on how fund managers can pay for research, allowing a joint payment option alongside existing payment options out of firm's own resources or through an RPA. Having considered consultation responses, we have made most of the rules in line with our consultation with adjustments to the guardrail requirements. To address feedback, we have allowed more flexibility by adjusting the guardrail of research budgets so that they can be applied either at the fund level or aggregated across a fund range that is appropriate to firms' investment processes for managing the investments of the fund or funds. We have also clarified that firms can have one set of standard written policies for joint payments across fund ranges that can be modified for a particular fund structure, opposed to requiring every fund to have a separate written policy on joint payments. We have retained the value measures and disclosure requirements for authorised funds at the level of the fund in line with the existing fund rules. We have clarified that while the final rules require firms to be responsible for the administration of the accounts for purchasing research with joint payments, including commission sharing agreements (CSA), this does not mean that each fund will be required to have a separate CSA to adopt the payment option.

Who this affects

1.5 Our final rules will affect:

- UK UCITS management companies
- Full-scope UK AIFMs
- Small authorised UK AIFMs and residual collective investment scheme operators

1.6 The final rules might also be of interest to:

- Depositaries of authorised funds or alternative investment funds
- Investment platforms
- Financial advisers
- Investment consultants
- Investors in authorised funds or alternative investment funds

The wider context of this policy statement

Our consultation

- 1.7** The Investment Research Review recommended allowing additional payment optionality to reduce barriers and frictions for purchasing research in jurisdictions where bundled payments are standard practice.
- 1.8** To take forward the recommendation, CP24/21 proposed allowing fund managers that are subject to the UK alternative investment fund managers regime and UCITS regime to purchase research using a joint payment option, subject to a set of guardrails, in alignment with rules already introduced for MiFID investment firms.
- 1.9** CP24/21 stipulated that existing fund rules on best execution will continue to apply, and that the provision of investment research must not be considered a factor for achieving best execution for funds. Fund managers are required to continue complying with existing rules on best execution.
- 1.10** For authorised retail funds, CP24/21 proposed that the adoption of the joint payment option should be regarded a significant change. This would require fund managers to notify unitholders before the changes taking effect. Any significant change to an authorised fund would require notification to the FCA through the usual process for approving changes.
- 1.11** In line with other amendments introduced for MiFID investment firms, CP24/21 proposed amendments to acceptable minor non-monetary benefits allowing the inclusion of short-term trading commentary with non-substantive analysis. The consultation proposed the deletion of the existing rule on investment research for smaller companies (market capitalisation below £200m) being an acceptable minor non-monetary benefit.

How it links to our objectives

Competition

- 1.12** The changes being implemented should advance our competition objective by promoting effective competition in the interests of investors or potential investors in the market for regulated fund management services. CP24/21 noted that smaller fund managers are more likely to use RPA for the payment of research. However, operating an RPA can be resource intensive and operationally complex with a proportionately larger impact on smaller fund managers. We expect our changes to particularly enhance the competitiveness of small and fast-growing firms and new entrants to the market.

Consumer protection

- 1.13** The rules we are implementing should align with our consumer protection objective by requiring fund managers to meet a set of guardrails if they take up the joint payment option. The guardrails, in conjunction with existing fund rules, will provide controls on the use of joint payments ensuring appropriate protections for consumers.

Market integrity

- 1.14** The rules we are finalising should be neutral or marginally positive for our market integrity objective. The joint payment option should increase the amount and breadth of investment research with improved availability of information benefitting the functioning of the wider UK equity market. 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

- 1.15** We believe a joint payment option that has similar features to research payment options in other jurisdictions will reduce barriers and frictions for purchasing research where bundled payments are standard practice. This will enhance UK fund managers' competitiveness internationally.

What we are changing

- 1.16** The rules we are finalising will allow fund managers to purchase research with a joint payment option, subject to complying with a set of guardrails. CP24/21 proposed adopting the overall approach on guardrails introduced for MiFID investment firms and adapting them for funds. In light of feedback received, we have made changes to our proposal allowing fund managers to put in place controls across their fund ranges rather than for each individual fund, except for value assessment and disclosure requirements for authorised funds. To take up the payment option, fund managers will be required to:
- Establish written policies on their approach to joint payments.

- Stipulate the methodology for how the research cost will be calculated and identified separately within total charges for joint payments.
- Establish a research provider payment allocation structure.
- Set budgets for the purchase of research with joint payments.
- Allocate the cost of research fairly to any funds they manage where the budget applies.
- Provide disclosure on joint payments.
- Assess the price and value of research periodically. Value will have to be assessed on a fund-by-fund basis.
- Be responsible for the administration of the accounts for purchasing research with joint payments.

1.17 For authorised funds, the final rules set out that the adoption of the joint payment option is a significant change, requiring fund managers to notify unitholders before the changes take effect. Significant changes to an authorised fund also require notification to the FCA through the usual process for approving changes. CP24/21 proposed amendments to acceptable minor non-monetary benefits in line with rules introduced for MiFID investment firms. We have made these rules that were consulted on.

Outcome we are seeking

1.18 The final rules will:

- Promote effective competition in the interests of investors.
- Secure an appropriate degree of consumer protection.
- Enhance the competitiveness of UK fund managers.

1.19 The final rules should have the causal effect of reducing research procurement costs and enhancing competitiveness for small and fast-growing firms and new market entrants. Fund managers could gain enhanced understanding of new sectors, business models and product innovations from the increase in the amount or breadth of research consumed for the benefits of their funds and investors in those funds.

Measuring success

1.20 Our approach on success measures remains unchanged from CP24/21 including:

- The take-up level of the joint payment option.
- Positive changes in the trends of research production and consumption.
- Verification that adopting the joint payment option has not resulted in undue costs or harms to consumers.

1.21 We could measure success by conducting a survey after a reasonable amount of time. This would build on the data and information provided to us in surveys that informed our consultation for MiFID investment firms.

- 1.22** We will use a variety of metrics to monitor and assess whether our work and actions more generally are strengthening the UK's position in global wholesale markets, in line with our 2025-26 work programme and strategy 2025-2030. Regulation is not necessarily the key driver for markets of investment research and asset management. Other macro-economic and capital market factors can significantly affect trends in these markets. Over time, we will consider the impact of our rule changes on enhancing the UK asset management market by monitoring assets under management relative to other jurisdictions.
- 1.23** Other measures of success include the perceived effectiveness of our intervention within the wholesale markets regulation metrics described in our annual report.
- 1.24** 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.

Summary of feedback and our response

- 1.25** We received 11 consultation responses from firms, trade associations and consultancies. Most respondents agreed with the overall proposal. However, they recommended more flexibility around the guardrails on written policies, research budgets, disclosure requirements on increasing or exceeding research budgets and value assessment. One respondent did not support the proposal. The respondent argued it was reverting to bundled payments of research and trade execution prior to the implementation of MiFID II, which could result in increased costs for research.
- 1.26** Respondents agreed that take-up of the joint payment option should be a significant change for authorised retail funds requiring fund managers to notify unitholders and notify the FCA through the usual process for approval of changes before adopting the payment option. The respondent that did not agree with the overall proposal argued that joint payments are a new type of payment out of scheme property and should be treated as a fundamental change for authorised retail funds.
- 1.27** Most respondents agreed with the proposed amendments to acceptable minor non-monetary benefits in CP24/21.
- 1.28** Several respondents argued that corporate access is integral to investment decisions. They recommended that we allow payments for corporate access to be made using the joint payment option.
- 1.29** Having considered the responses, we have made most rules in line with the consultation. However, we have amended:
- The guardrail for written policies by allowing firms to establish one set of standard written policies on joint payments across fund ranges so that it can be modified and applied for a particular fund.
 - The guardrail for research budgets by allowing more flexibility on setting research budgets at a level of aggregation which is appropriate to firms' processes for managing the investments of the fund or funds. Where firms both manage

funds and provide MiFID investment services, and the research contributes to the investment decisions that are relevant to both, the intent of the rules is to allow firms to set research budgets and allocate costs at an appropriate level of aggregation across funds and investment services.

- The guardrail for cost allocation reflecting the adjustments we have made to the level at which research budgets can be set. Firms will be required to allocate the cost of research fairly to the relevant fund or funds and other investment mandates, where the research budget applies to more than one fund and MiFID investment services.
- The guardrail for disclosure where research budgets have been exceeded or increased. Fund managers of authorised funds will be required to disclose the proportion of increase instead of the amount of increase in the funds' annual reports. The guardrail will not require the increased research budgets to be disclosed in the funds' prospectus.

- 1.30** The guardrails will sit alongside existing fund rules on assessment of value and not allowing undue costs to be charged to a fund. These rules will provide an appropriate degree of protection to investors in the fund. With regards to the value assessment guardrail, we maintain the view that fund managers must assess the value and quality of research for each fund they manage. We have therefore not taken forward the feedback that some respondents thought that the guardrail of value assessment should apply at the level of investment strategies.
- 1.31** To address feedback on operational requirements, we are clarifying that the final rules require firms to be responsible for the administration of the accounts for purchasing research with joint payments taking into consideration their existing operational arrangements including CSA. This does not mean that each fund will be required to have a separate CSA to adopt the joint payment option.
- 1.32** The final rules will require the take-up of the joint payment option to be treated as a significant change for authorised funds. Fund managers will be required to notify unitholders before the changes take effect. Significant changes to an authorised fund also require notification to the FCA through the usual process for approving changes.
- 1.33** We have made the rule on the inclusion of short-term trading commentary without substantive analysis being an acceptable minor non-monetary benefit, and have deleted the existing rule on research for smaller companies being an acceptable minor non-monetary benefit.

Equality and diversity considerations

- 1.34** In CP24/21 we said that we do not consider that the proposal materially impacts any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted however other antidiscrimination legislation applies). We said we would continue to consider the equality and diversity implications of the proposal during the consultation and would revisit them when making the final rules. We also asked consultees for input.

- 1.35** Although we did not receive any comments in the consultation responses, we have considered the equality and diversity issues that may arise from the revised proposal.
- 1.36** Overall, we do not consider that the proposal materially impacts any of the groups with protected characteristics under the Equality Act 2010.

Environmental, social & governance considerations

- 1.37** In developing this Policy Statement, we have considered the environmental, social and governance (ESG) implications of our proposal 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 proposal is relevant to contributing to those targets.

What we will do next

- 1.38** We have made rules on the joint payment option for fund managers and other rule amendments specified in this policy statement. Firms should determine whether and when they might adopt the joint payment option for research.

What you need to do next

- 1.39** Firms that decide to take up the joint payment option should familiarise themselves with our final rules on joint payments for fund managers in COBS 18 Annex1 and relevant rules in COLL for authorised funds.

Chapter 2

The wider context

Investment Research Review

- 2.1** In 2023, the UK Investment Research Review indicated that although fund managers largely get the research they need, the existing research payment options could be operationally complex with proportionately larger impact on smaller fund managers and could impede UK fund managers' ability to purchase research in other jurisdictions. The review recommended several measures to improve the investment research market. This included allowing additional payment optionality to reduce barriers and frictions for purchasing research in jurisdictions where bundled payments are standard practice.

Regulatory development

- 2.2** The UK Markets in Financial Instruments regime implemented the EU legislation that regulates the buying and selling of financial instruments. MiFID II introduced requirements to unbundle research from trade execution that were intended to improve the transparency of research pricing, and these requirements were applied to fund managers with modifications.
- 2.3** Following the introduction of these requirements, most fund managers made relevant adjustments to purchase research with their firms' own resources. The option of purchasing investment research through RPA was taken up by some smaller fund managers.
- 2.4** In 2024, PS24/9 introduced a joint payment option for MiFID investment firms subject to a set of requirements. The joint payment option will exist alongside existing payment options of firms' own resources and RPA, thereby allowing flexibility on the payment of research.

Our consultation

- 2.5** The rules in COBS 18 Annex 1 apply to fund managers when they execute orders or place orders in relation to a particular fund. CP24/21 consulted on proposed amendments to the rules in COBS 18 Annex 1 and other related rules in COLL allowing fund managers to purchase research with a joint payment option, subject to a set of guardrails, in alignment with the rules already introduced for MiFID investment firms.
- 2.6** CP24/21 proposed applying the guardrails for MiFID investment firms with relevant adjustments for fund managers. The adjustments reflected that fund managers are already subject to existing fund rules and operate differently from MiFID investment firms.

- 2.7** The consultation also proposed that the take-up of the joint payment option for authorised retail funds be a significant change requiring fund managers to notify unitholders before adopting the payment option. Significant changes to an authorised fund require notification to the FCA through the usual process for approving changes to a fund.
- 2.8** In line with other amendments introduced to MiFID investment firms, CP24/21 proposed changes to the rules on acceptable minor non-monetary benefits. The consultation proposed the inclusion of short-term trading commentary, which does not contain substantive analysis, being an acceptable minor non-monetary benefit. CP24/21 proposed to delete the existing rule on research for smaller companies being an acceptable minor non-monetary benefit.

Chapter 3

Summary of responses

- 3.1** We received 11 responses to our consultation from across the fund and asset management sector. This included firms, trade associations, and consultancies. This chapter summarises feedback received and our responses, including any changes we are making to our final rules.
- 3.2** Most respondents agreed with the overall proposal allowing fund managers to purchase research with a joint payment option. However, they recommended more flexibility on implementing guardrails at the level of investment strategies instead of at an individual fund level.
- 3.3** Having considered consultation responses, we have made most of the rules proposed in CP24/21. However, the guardrails of written policies and research budgets have been amended so that fund managers will be able to apply them to more than one fund, allowing more flexibility on implementation. The final rules have adjusted the guardrail of cost allocation to reflect amendments made to research budgets. Firms will be required to allocate the cost of research fairly to the relevant fund or funds where the research budget applies to more than one fund. The disclosure guardrail has been adjusted requiring fund managers of authorised funds to disclose the proportion of increase above the previous budget instead of the amount of increase in the funds' annual reports. The guardrail will not require the disclosure of the increased research budgets in the funds' prospectus.

Payment options for investment research

- 3.4** In line with the rules introduced for MiFID investment firms, CP24/21 consulted on allowing the joint payment option for fund managers subject to a set of requirements. We asked:

Question 1: Do you agree with our proposal allowing fund managers to purchase investment research with joint payments?

- 3.5** Most respondents supported the proposal on introducing flexibility to research payment options. Respondents indicated that the alignment of the rules on joint payments between MiFID investment firms and fund managers would considerably increase the take-up of the payment option. One respondent did not agree with the proposal and argued that it was going back to how firms operated before MiFID II with bundled payments for research and trade execution.
- 3.6** Respondents argued that high quality research that supports fund managers' investment decisions will benefit funds and investors. They agreed with the importance of guardrails preserving the benefits from MiFID II reforms. However, they provided feedback that not all the proposed guardrails should be implemented on a fund-by-fund basis, for example setting research budgets at a fund level.

- 3.7** Following the extension of the MiFID II requirements to fund managers, most fund managers started paying for research from their firms' own resources. Respondents argued that this has not enhanced the transparency of research pricing that the MiFID II regime intended to achieve. One respondent estimated that there has been an over 70% reduction of research spending compared to the level before the MiFID II requirements, and this has considerably reduced the amount of specialist research being produced. Respondents agreed that introducing a joint payment option that has similar features to research payment options in other jurisdictions would enhance the competitiveness of UK fund managers.

Our response

Having considered consultation responses, we have finalised most of the rules consulted in CP24/21. However, we have amended requirements for some guardrails to allow more flexibility. This included the guardrails of written policies, research budgets, cost allocation and disclosure requirements.

Our survey for CP24/7 in Q1 2024 indicated that the effects of the MiFID II requirements on the availability of investment research had been neutral. However, the existing payment option of RPA can be operationally complex with a proportionately larger impact on smaller fund managers. We expect these fund managers will particularly benefit from taking up the joint payment option.

- 3.8** CP24/21 set out our proposal allowing fund managers more options around payment for research. We asked:

Question 2: Are you likely to take advantage of the proposed new payment option for investment research?

- 3.9** Respondents indicated fund managers will be more inclined to adopt the joint payment option where operational efficiencies could be gained. The joint payment option will introduce flexibility to the payment for investment research. Fund managers will be able to assess the costs and benefits of taking up joint payments to determine whether it will be most appropriate for their funds and investors.
- 3.10** One respondent indicated that the costs of switching from paying for research from the firms' own resources to the joint payment option will be relatively low. This is because related costs have been absorbed to some extent from the implementation of MiFID II derived requirements and the alignment with MiFID investment firms that have already made relevant adjustments to adopt joint payments.
- 3.11** Respondents recommended more flexibility on the implementation of guardrails. This is because different types of equity research contribute to investment decisions differently. Some research is directly applicable to a particular fund while other research feeds into wider investment strategies. Respondents provided feedback that requiring guardrails at a fund level would potentially reduce the likelihood of adoption.

- 3.12** Respondents agreed that the joint payment option is more operationally efficient than the existing payment option of RPA. Fund managers that currently purchase research with an RPA will benefit from switching to the joint payment option. This is subject to allowing research budgets to be set at the level of investment strategies aligning with the existing approach for setting research budgets when paying through an RPA.
- 3.13** Respondents agreed that the take-up of the joint payment option should be considered a significant change for authorised retail funds. They provided feedback that if the adoption of joint payments required unitholder approval this would likely prevent fund managers from taking up the payment option.

Our response

Consultation responses and our engagements indicated immediate support for adopting joint payments subject to more flexibility on guardrails. Having considered views on the likelihood of adoption we are introducing the joint payment option for fund managers. We believe that the joint payment option has similar features with research payment options in other jurisdictions, will reduce barriers and frictions for purchasing research to improve operational efficiencies. Where the adoption level increases, more fund managers will be inclined to take up the joint payment option, enhancing their competitiveness among peers.

In the final rules we have amended the guardrail requirements to address feedback on how research contributes to investment decisions. Firms will be enabled to establish one set of standard written policies on joint payments which could be modified and adopted for a particular fund range. Fund managers will have the ability to set research budgets at either a fund level or for more than one fund at a level of aggregation which is appropriate to firms' investment processes for managing the investments of the fund or funds. We have adjusted the guardrail of cost allocation reflecting the amendments that have been made to research budgets. Firms will be required to allocate the cost of research fairly to the relevant fund or funds where the research budget applies to more than one fund. Having considered responses, we have adjusted the disclosure requirements for authorised funds so that fund managers will be required to disclose the proportion of increase above the previous research budgets instead of the amount of increase in the funds' annual reports. The guardrail will not require the disclosure of increased research budgets in the funds' prospectus. We set out how we addressed the consultation feedback on guardrails in the response to Q4.

We have made the rules on treating the take-up of the joint payment option being a significant change for authorised funds. Fund managers will be required to notify unitholders and obtain approval from the FCA through the usual process before the adoption of the payment option.

- 3.14** CP24/21 sought feedback on any other considerations regarding the overall proposal of the joint payment option for fund managers, we asked:

Question 3: Do you have any additional comments on the proposal of allowing fund managers to adopt joint payments for investment research?

- 3.15** Some respondents expressed concerns about how the rules would work in situations where portfolio management is delegated, either to a UK portfolio manager, or to a non-UK firm.
- 3.16** Several consultation responses emphasised that corporate access is integral to fund managers' investment decision-making. They reiterated that corporate access currently does not have the same payment optionality compared to investment research. In their view, this creates barriers for fund managers gaining better understanding of potential investment opportunities and affecting funding available to small companies.

Our response

CP24/21 explained the rules in COBS 18 Annex1 apply to fund managers when they execute orders or place orders with a third party in relation to a particular fund. Where a fund manager delegates portfolio management to a UK firm, that firm is subject to the rules in COBS 2.3B. Where a fund manager delegates portfolio management to an unauthorised person outside the UK, that firm is not subject to FCA rules. Where a fund manager of an authorised fund delegates portfolio management to another UK firm that uses the joint payment option, or an equivalent in another jurisdiction, the fund manager must comply with existing requirements around acting honestly, fairly and professionally and in the best interests of the fund, carrying out an assessment of value and not charging undue costs. Some of these requirements also apply to fund managers of unauthorised funds.

Regarding consultation responses on corporate access, this was not in the scope of our consultation.

Guardrail requirements

- 3.17** The rules preventing bundled payments were introduced for good reason. There was a concern that bundled payments led to a less disciplined approach to research spending, opaque pricing structures and less transparent practice on trade allocation decisions. In CP24/21, we proposed a set of guardrails that fund managers will be required to comply with for the adoption of the joint payment option to improve transparency and prevent similar practices re-emerging.

- 3.18** We consulted on adopting guardrails based on the rules for MiFID investment firms, with relevant adjustments for fund managers for an appropriate degree of protection for investors in the funds. The guardrails will provide controls on the use of joint payments and mitigate the risk of investors in funds cross-subsiding other categories of investors. We asked:

Question 4: Are there any features of the proposed payment option and associated guardrails that would positively or negatively impact the take up of joint payments?

- 3.19** Respondents agreed that flexibility on research payment options will enhance fund managers' competitiveness. This would be subject to allowing more flexibility on guardrail requirements for implementation.
- 3.20** Respondents agreed the guardrails are important in distinguishing the joint payment option from bundled payments to improve transparency on research pricing. On the joint payment option, they indicated that requiring the guardrails on a fund-by-fund basis would not reflect how research contributes to investment decisions for all fund managers. Respondents agreed that existing fund rules, including the assessment of value and not allowing undue costs to be charged to a fund, would mean that the guardrails would apply differently to fund managers compared to MiFID investment firms. However, they argued that the guardrail requirements should be aligned more closely so that the joint payment option can be implemented across investment strategies and investment vehicles.
- 3.21** Respondents provided feedback on each of the individual guardrails set out below.
- 3.22** **Written policy on joint payments:** Some respondents provided feedback that dedicated written policies on governance, decision-making and controls for the joint payment option should not be required for each fund. Instead, they proposed that written policies should be applied at an appropriate level of aggregation and be allowed to cover a range of funds.
- 3.23** **Research budgets:** Most respondents recommended that research budgets be set on an aggregate basis at the level of investment strategies. Respondents considered that setting research budgets at an individual fund level would require the fund manager to purchase the same research separately for each fund, even for funds with similar investment strategies. They argued that fund managers would not be able to benefit from research across wider investment strategies without potentially increasing or exceeding research budgets.
- 3.24** Respondents indicated that fund managers that currently purchase research with their firms' own resources will be more inclined to take up the joint payment option if they are allowed similar flexibility, which means not requiring research budgets to be set on a fund-by-fund basis. One respondent argued that some fund managers have already adopted the approach of budgeting and attributing research cost at a fund level. For firms that currently purchase research with RPA, respondents indicated that they would benefit from shifting to the joint payment option, subject to allowing research budgets to be set at the level of investment strategies.

- 3.25 Cost allocation:** Respondents did not materially disagree with our proposal, however thought that the requirements on cost allocation should apply at the investment strategy level and not on a fund-by-fund basis.
- 3.26 Value assessment:** Several respondents recommended that the guardrail of value assessment should apply at the firm level or in aggregation at the level of investment strategies.
- 3.27 Disclosure:** On the guardrail requiring fund managers to disclose the joint payment option, one respondent thought that the disclosure requirements on increasing or exceeding research budgets should be adjusted for authorised retail funds.
- 3.28 Operational requirements:** respondents recommended that there should be one pooled aggregate account for all joint payments across different fund ranges and fund managers should have oversight and visibility on research spend for the funds they manage. Some respondents considered that our proposal would require each fund to have its own CSA for the adoption of the joint payment option.

Our response

We have made final rules largely in line with those consulted on. However, we have made adjustments to the guardrails around written policy, research budgets, cost allocation and disclosure requirements where the budgeted amount has been exceeded or increased.

The final rules will require firms to establish written policies for each fund that purchases research using the joint payment option. The written policies must specify governance, decision-making and controls, including how research will be maintained separately from trade execution. This could be one set of standard written policies that the firm will establish on the joint payment option across fund ranges and could be appropriately modified and adopted for a particular fund range or fund structure.

Having considered feedback on research budgets, we are allowing greater flexibility on setting research budgets either at the fund level or for more than one fund at a level of aggregation which is appropriate to firms' investment processes for managing the investments of the fund or funds. The guardrail on research budgets, alongside existing requirements on not allowing undue costs to be charged to a fund and assessment of value, should provide appropriate controls to prevent cross-subsidisation between funds so that research budgets can be set at an appropriate level of aggregation.

Where a fund manager budgets across funds and other investment mandates, it will be subject to the COBS 2.3B rules for MiFID investment services, and relevant rule modifications in COBS 18 Annex 1 for fund management. Where there are differences in the guardrail requirements, these reflect the different way in which the rules on investment research

for fund managers apply compared to MiFID investment services, rather than intending to require different standards.

Fund managers will need to assess the value of research purchased for each fund they manage so that each fund can benefit from research that is relevant to the fund. We do not expect every fund to purchase the same research independently. We acknowledge that research is the collective set of analysis informing fund managers' investment decisions and the consumption of research is not necessarily attributable to each fund.

Where research budgets are set at an individual fund level, the fund can also contribute towards a wider pool of research with other funds that have similar investments. The costs of research should then be allocated fairly between funds that contributed to the wider pool of research. Our industry engagements indicated that firms who currently purchase research through RPA have already adopted this approach for setting research budgets.

Having considered consultation responses, we have adjusted the guardrail of cost allocation explaining how fund managers can allocate research costs fairly for the funds they manage. We have clarified that firms should determine a cost allocation level that is appropriate to its business model. Where a budget applies to more than one fund and the firm's MiFID investment services, the approach should be reasonable and its outcome fair so that relative costs incurred are commensurate with the relative benefits received by the fund, funds or other investment mandates.

Regarding authorised funds, fund managers will be required to disclose increases in the research budgets or where the cost of research exceeds the budgeted amount. To address feedback, instead of requiring disclosure on the actual amount over the previous budgets, the final rules will require fund managers to disclose the proportion of increase in the funds' annual reports. The final rules will not require fund managers to disclose the increased research budgets in the fund prospectus. Existing fund rules also require fund managers to disclose ongoing costs and charges.

We considered responses to the guardrail requirement of assessing the value and quality of research at an aggregate level not on a fund-by-fund basis. This feedback, however, would not be consistent with existing rules on the assessment of value for funds. The value of research might differ between funds taking into consideration that not all research contributes to investment decisions to the same extent. Under existing fund rules, fund managers are required to evaluate the charges to each fund in relation to the fund performance and benefits received, and benchmark with comparable services provided to unitholders. Existing rules on the assessment of value are an essential safeguard ensuring that authorised funds are not paying too much for investment research. They should prevent one fund from materially subsidising another fund. This is

important because the take-up of the joint payment option is regarded being a significant change for authorised funds and therefore will not require unitholder approval. Fund managers of authorised funds must determine whether the costs of research that are paid for out of scheme property using joint payments are justified in the overall value delivered to unitholders within the assessment of value rules in COLL. We have not made changes to the guardrail requirement, in response to consultation feedback, that the guardrail of value assessment should apply at the level of investment strategies. Fund managers will be required to assess the value and quality of research purchased for each fund they manage.

On the operational requirements, we are clarifying that firms will be responsible for the administration of the accounts for joint payments taking into consideration their existing operational arrangements on research payments. We do not expect each fund to have its own CSA for the adoption of joint payments. We are not prescribing the level of detail to allow flexibility on how firms want to structure and manage their CSA.

Authorised funds

- 3.29** CP24/21 proposed that the take-up of the joint payment option by authorised retail funds should be a significant change, meaning that fund managers are required to notify unitholders and the FCA before the adoption of the payment option. We asked:

Question 5: Do you agree with our proposal for authorised retail funds?

- 3.30** Most respondents agreed with treating the take-up of the joint payment option being a significant change for authorised retail funds. They agreed it would be appropriate for fund managers to inform unitholders rather than being required to obtain their approval.
- 3.31** Respondents reiterated that if the take-up of the joint payment option were regarded a fundamental change for authorised retail funds, this would prevent its adoption.
- 3.32** The respondent who disagreed with the proposal argued that going back to bundled payments would mean reduced transparency on research pricing. The respondent argued that the joint payment option would be a new type of payment out of scheme property and should be regarded being a fundamental change for authorised retail funds.

Our response

Existing fund rules on fundamental changes provide important provisions to protect the interests of unitholders. They do so by requiring fund managers to gain unitholder approval on making specific types of changes for authorised funds.

However, taking into consideration the importance of investment research to investor outcomes, we consider that the guardrails, alongside existing fund rules on not allowing fund managers to charge undue costs to a fund and the assessment of value, will adequately protect unitholders.

In line with our consultation and feedback received, we have made the rules treating the take-up of the joint payment option being a significant change for authorised funds under the COLL rules. Fund managers will be required to notify unitholders before adopting the joint payment option. Any significant change to an authorised fund would require notification to the FCA through the usual process for approving changes.

Other amendments

- 3.33** PS24/9 implemented amendments to the acceptable minor non-monetary benefits for MiFID investment firms. In CP24/21, we consulted on aligning the modifications for fund managers. We asked:

Question 6: Do you agree with other amendments that we are making in COBS 18 Annex1?

- 3.34** Respondents agreed with proposed amendments to acceptable minor non-monetary benefits that were consulted on.

Our response

In line with rules introduced for MiFID investment firms, we have made final rules on including short-term trading commentary that does not consist of substantive analysis, being an acceptable minor non-monetary benefit. We have deleted the existing rule on research for smaller companies being an acceptable minor non-monetary benefit. This is because the research payment rules will no longer distinguish research for companies based on market capitalisation.

Annex 1

Cost benefit analysis

- 1.** The Financial Services and Markets Act (2000) requires us to publish a cost benefit analysis (CBA) of our final rules. Specifically, section 138I defined CBA being 'an analysis of the costs, together with an analysis of the benefits that will arise if proposed rules are made'. In CP24/21, we published a CBA alongside our proposed rules. We did not receive specific feedback on the cost benefit analysis section of the consultation.
- 2.** Respondents did provide specific feedback on the design of the joint payment option. They reiterated that the costs of shifting to the joint payment option from firms' own resources will be relatively low. This is because related costs have been absorbed to some extent from the implementation of the MiFID II derived requirements and the alignment with the rules for MiFID investment firms that have already made relevant adjustments for the adoption of joint payments.
- 3.** We have made most rules that CP24/21 consulted on with technical modifications. The final rules should slightly reduce the initial implementation costs and the ongoing maintenance of guardrails without materially affecting the overall costs and benefits set out in our CBA. Consequently, the CBA remains unchanged from that consulted upon.

Annex 2

List of respondents

We are obliged to include a list of the names of respondents to our consultation who have consented to the publication of their name. They are:

abrdn

The Alternative Investment Management Association

The Investment Association

Association for Financial Markets in Europe

Lane Clark & Peacock LLP

Lansdowne Partners (UK) LLP

The UK Depositary Association

Annex 3

Abbreviations used in this paper

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
AIFM	Alternative Investment Fund Managers
CSA	Commission sharing agreement
RPA	Research payment account
CP	Consultation paper
PS	Policy statement
CBA	Cost benefit analysis

Appendix 1

Made rules (legal instrument)

**PAYMENT OPTIONALITY FOR FUND MANAGERS (INVESTMENT RESEARCH)
INSTRUMENT 2025**

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 9 May 2025.

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 2025.

By order of the Board
1 May 2025

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 <i>rule</i> or <i>guidance</i> 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</i> ’s 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)	<i>research</i> 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

			<i>month</i> to 31 October for the preceding 24 <i>months</i>. 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</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</i> or <i>COBS 2.3A</i> <i>COBS 2.3A.22G</i> ” is to be construed as a reference to “ <i>COBS 18 Annex 1 3.1R</i> or <i>COBS 18 Annex 1 3.2G</i> ”; and
		(b)	the reference to “ <i>COBS 2.3A.15R</i> or <i>COBS 2.3A</i> <i>COBS 2.3A.16R</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</u> <i>residual CIS operators</i> ; and <i>full-scope UK AIFMs</i> ; <u>and</u>
		(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> ; <u>and</u>
		(6)	<i>COBS 2.3B.20R</i> ; <u>and</u>
		(7)	<i>COBS 2.3B.31R</i> (but see <i>COBS 18 Annex 1 4.24G</i> to <i>COBS 18 Annex 1 4.28G</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)	COBS 2.3B.23G(12);
		(3)	COBS 2.3B.25R;
		(4)	COBS 2.3B.26R;
		(5)	COBS 2.3B.27G;
		(6)	COBS 2.3B.28R;
		(7)	COBS 2.3B.29R;
		(8)	COBS 2.3B.30R;
		(9)	COBS 2.3B.31R;
		(10)	COBS 2.3B.32G; and
		(11)	COBS 2.3B.33G. [deleted]
4.7B	R	Where COBS 2.3B applies to a <i>firm</i> , the following modifications apply:	
		(1)	in COBS 2.3B.21R, the words ‘and must use the separately identifiable research charge of joint payments for research and execution services under COBS 2.3B.3R(3) only to pay for research’ are omitted; and
		(2)	in COBS 2.3B.23G, the words ‘or joint payments for research and execution services’ are omitted. [deleted]
Prior disclosure of the research account to investors			
...			
4.9	R	An authorised fund manager of an authorised fund must publish the information in paragraph 4.8 in the fund’s prospectus. [deleted]	
4.10	G	...	
		(2)	...
		(3)	<u>The authorised fund manager of an authorised fund is required to publish the information in paragraph 4.8 in the fund’s prospectus under the relevant rules in COLL.</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)	<u>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.</u>
4.14	R	...	
		<u>Additional modifications relating to joint payments for third-party research and execution services</u>	
4.15	R	(1)	<u>The following modifications to the rules and guidance in COBS 2.3B apply where a firm falls within (2):</u>
		(a)	<u>COBS 18 Annex 1 4.3R(1)(c);</u>
		(b)	<u>COBS 18 Annex 1 4.7R(7); and</u>
		(c)	<u>COBS 18 Annex 1 4.17R to COBS 18 Annex 1 4.28G.</u>
		(2)	<u>A firm falls within this paragraph where it:</u>
		(a)	<u>executes orders relating to financial instruments, or places orders relating to financial instruments with other entities for execution, where those orders are executed or placed for, or on behalf of, a fund; and</u>
		(b)	<u>uses, or intends to use, joint payments for third-party research and execution services.</u>
4.16	G	(1)	<u>This Annex applies where a firm carries on scheme management activity or AIFM management functions in respect of a fund. A firm to which this Annex applies may also carry on MiFID, equivalent third country or optional exemption business for other clients and be subject to the provisions of COBS 2.3B in respect of such business.</u>
		(2)	<u>The intention of the rules in COBS 2.3B as amended by this Annex is to allow firms to set research budgets at an appropriate level of aggregation across relevant funds and the clients of their MiFID, equivalent third country or optional exemption business.</u>
4.17	R	<u>COBS 2.3B.25R is modified as follows:</u>	
		(1)	<u>for COBS 2.3B.25R(1), substitute:</u>

			<u>“(1)</u>	<u>the <i>firm</i> must have a written policy on joint payments for each <i>fund</i> (irrespective of whether the policy also applies with or without modifications to other <i>funds</i>) which:</u>
			<u>(a)</u>	<u>describes the <i>firm</i>’s approach to joint payments, and how the <i>firm</i> will ensure compliance with the requirements in:</u>
			<u>(i)</u>	<u>COBS 2.3B.25R(2) to COBS 2.3B.33G, excluding COBS 2.3B.31R; and</u>
			<u>(ii)</u>	<u>COBS 18 Annex 1 4.24G to COBS 18 Annex 1 4.28G; and</u>
			<u>(b)</u>	<u>specifies the operation of the <i>firm</i>’s governance, decision-making and controls in respect of third-party <i>research</i> purchased using joint payments, including how these are maintained separately from those for trade execution;”;</u>
		<u>(2)</u>	<u>in COBS 2.3B.25R(4)(b), omit “under this chapter”;</u>	
		<u>(3)</u>	<u>for COBS 2.3B.25R(5), substitute:</u>	
		<u>“(5)</u>	<u>(a)</u>	<u>at least annually, the <i>firm</i> must set a budget for the purchase of <i>research</i> using joint payments based on the expected amount of third-party <i>research</i> needed to manage:</u>
			<u>(i)</u>	<u>the <i>investments</i> of the <i>fund</i>; or</u>
			<u>(ii)</u>	<u>the <i>investments</i> of more than one <i>fund</i>; and</u>
			<u>(b)</u>	<u>the budget must:</u>
			<u>(i)</u>	<u>be set at a level of aggregation that is appropriate to the <i>firm</i>’s processes for managing the <i>investments</i> of the <i>fund</i> or <i>funds</i>;</u>
			<u>(ii)</u>	<u>not be linked to the expected volumes or values of transactions executed on behalf of the <i>fund</i> or <i>funds</i>; and</u>
			<u>(iii)</u>	<u>not compromise the <i>firm</i>’s ability to meet the requirements of COBS 2.3B.25R(6) and (8);”;</u>
		<u>(4)</u>	<u>for COBS 2.3B.25R(6), substitute:</u>	
		<u>“(6)</u>	<u>the <i>firm</i> must allocate fairly the costs of <i>research</i> purchased using joint payments to the relevant <i>fund</i> or <i>funds</i>;”;</u>	
		<u>(5)</u>	<u>for COBS 2.3B.25R(7), substitute:</u>	

			<u>“(7)</u>	<u>(a)</u>	<u>(in relation to an <i>unauthorised AIF</i> or an <i>unregulated collective investment scheme</i>) the <i>firm</i> must periodically, and at least annually:</u>	
					<u>(i)</u>	<u>assess the value, quality and use of <i>research</i> purchased using joint payments and its contribution to the investment decision-making process; and</u>
					<u>(ii)</u>	<u>ensure that the amount of <i>research</i> charges to <i>clients</i> is reasonable compared with those for comparable services; and</u>
				<u>(b)</u>	<u>(in relation to an <i>authorised fund</i>) the <i>firm</i> must assess, as part of an assessment of value under <i>COLL</i> 6.6.20R (Assessment of value), <i>COLL</i> 8.5.17R (Assessment of value), or <i>COLL</i> 15.7.17R (Assessment of value) the value, quality and use of <i>research</i> purchased using joint payments and its contribution to the investment decision-making process; and”; and</u>	
		<u>(6)</u>	<u>in <i>COBS</i> 2.3B.25R(8) the reference to “disclose to its <i>clients</i>” is to be read as a reference to:</u>			
			<u>(a)</u>	<u>(if the <i>fund</i> is a <i>collective investment scheme</i>) “disclose to <i>unitholders</i> in the <i>fund</i>”; and</u>		
			<u>(b)</u>	<u>(if the <i>fund</i> is not a <i>collective investment scheme</i>) “disclose to <i>investors</i> in the <i>fund</i>”.</u>		
<u>4.18</u>	<u>R</u>	<u><i>COBS</i> 2.3B.26R is modified as follows:</u>				
		<u>(1)</u>	<u>in the opening words, for “If the amount of <i>research</i> charges to <i>clients</i> exceeds the budget” substitute “If the amount of <i>research</i> charges incurred exceeds a budget”;</u>			
		<u>(2)</u>	<u>in <i>COBS</i> 2.3B.26R(1), the “relevant actions” to be included in the <i>firm</i>’s policy must include at least:</u>			
			<u>(a)</u>	<u>in relation to the any <i>fund</i> to which the budget applies, a requirement to inform the <i>governing body</i> of such <i>fund</i> if the body is independent of the <i>firm</i> (see <i>COBS</i> 18 Annex 1 4.5G);</u>		
			<u>(b)</u>	<u>a requirement for the <i>firm</i> to consider whether the increase in <i>research</i> charges is in the best interests of any <i>fund</i> to which the budget applies and the <i>fund</i>’s <i>unitholders</i> or investors;</u>		
			<u>(c)</u>	<u>a requirement that the additional charges for <i>research</i> are fairly and appropriately allocated between any <i>funds</i> to which the budget applies; and</u>		

			(d)	a requirement to ensure that (where applicable) the increase in <i>research</i> charges is assessed as part of:
			(i)	the assessment of value under <i>COLL</i> 6.6.20R (Assessment of value), <i>COLL</i> 8.5.17R (Assessment of value), or <i>COLL</i> 15.7.17R (Assessment of value); or
			(ii)	the value assessment under <i>PRIN</i> 2A.4 (Consumer Duty: retail customer outcome on price and value);
		(3)		in <i>COBS</i> 2.3B.26R(2), the reference to “disclosed to <i>clients</i> ” is to be read as a reference to (as applicable):
			(a)	where a <i>fund</i> to which the budget applies is a <i>collective investment scheme</i> , “disclosed to <i>unitholders</i> in the annual report for the <i>fund</i> (if there is one), a <i>periodic statement</i> or similar notification to <i>unitholders</i> ”; or
			(b)	where a <i>fund</i> to which the budget applies is not a <i>collective investment scheme</i> , “disclosed to investors in the <i>fund</i> in the annual report for the <i>fund</i> (if there is one), a <i>periodic statement</i> or similar notification to investors”; and
		(4)		where a <i>fund</i> to which the budget applies is an <i>authorised fund</i> , the information to be disclosed to <i>unitholders</i> under <i>COBS</i> 2.3B.26R(2) includes the following in the annual report for the <i>fund</i> :
			(a)	if the amount of <i>research</i> charges exceeds the budget set under <i>COBS</i> 2.3B.25R(5), at least:
			(i)	the fact that the amount of <i>research</i> charges has exceeded the budget;
			(ii)	the proportion of the increase over the budgeted amount; and
			(iii)	the reason for the excess; and
			(b)	if the budget for <i>research</i> is increased, at least:
			(i)	the fact that the budget has been increased;
			(ii)	the proportion of the increase over the previous budget; and
			(iii)	the reasons for the increase.
4.19	G			For <i>COBS</i> 2.3B.27G substitute:

		<u>“(1)</u>	For the purposes of <i>COBS 2.3B.25R(6)</i> , the <i>firm</i> should determine a cost allocation level appropriate to its business model. The specific cost of individual investment <i>research</i> items need not be discretely attributable.
		<u>(2)</u>	Where a budget applies to:
		<u>(a)</u>	more than one <i>fund</i> ; or
		<u>(b)</u>	one or more <i>funds</i> and other <i>clients</i> for which the <i>firm</i> carries on <i>MiFID, equivalent third country or optional exemption business</i> ,
			the approach should be reasonable and its outcome fair such that relative costs incurred are commensurate with the relative benefits received by the <i>fund, funds or clients</i> .
		<u>(3)</u>	The approach to allocation levels in (2) includes across:
		<u>(a)</u>	<i>funds</i> with which the <i>firm</i> has different payment arrangements for the purchase of <i>research</i> ;
		<u>(b)</u>	<i>funds</i> that have similar investment strategies;
		<u>(c)</u>	different <i>funds</i> or groups of <i>funds</i> that benefit from the same <i>research</i> ; and
		<u>(d)</u>	other allocation levels that are appropriate to the <i>firm’s</i> investment processes for the <i>fund or funds</i> and other <i>clients</i> for which the <i>firm</i> carries on <i>MiFID, equivalent third country or optional exemption business</i> .”.
4.20	R		In <i>COBS 2.3B.28R</i> , omit “under this chapter”.
4.21	R		In <i>COBS 2.3B.29R</i> , the reference to “ <i>COBS 11.2A.2R</i> ” is to be read as a reference to:
		<u>(1)</u>	(for a <i>small authorised UK AIFM</i> and a <i>residual CIS operator</i>) “ <i>COBS 11.2.1R</i> (Obligation to execute orders on terms most favourable to the client)”;
		<u>(2)</u>	(for a <i>UCITS management company</i>) “ <i>COBS 11.2B.5R</i> (Obligation to execute orders on terms most favourable to the scheme)”;
		<u>(3)</u>	(for a <i>full-scope UK AIFM</i>) “article 27(2) of the <i>AIFMD level 2 regulation</i> (Execution of decisions to deal on behalf of the managed AIF)”.
4.22	R		<i>COBS 2.3B.30R</i> is modified as follows:
		<u>(1)</u>	in the opening words, the reference to “relevant <i>clients</i> ” is to be read as a reference to (as applicable):

			(a)	<u>(where the <i>fund</i> is a <i>collective investment scheme</i>), “unitholders in the <i>fund</i>”; or</u>
			(b)	<u>(where the <i>fund</i> is not a <i>collective investment scheme</i>), “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 <i>research</i>” insert “in relation to the <i>fund</i>”;</u>
		(3)		<u>in COBS 2.3B.30R(2):</u>
			(a)	<u>after “the <i>firm</i>’s policy on joint payments”, insert “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>in COBS 2.3B.30R(3), in accordance with COBS 18.5.3R, COBS 18.5A.3R and COBS 18.5B.4R, the reference to “<i>client</i>” is a reference to the relevant <i>fund</i>;</u>
		(5)		<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</i> providers (measured by total amounts paid); and</u>
			(b)	<u>the types of <i>research</i> providers from which such services are purchased,</u>
				<u>at an appropriate level of aggregation;”;</u> and
		(6)		<u>in COBS 2.3B.30R(5):</u>
			(a)	<u>in accordance with COBS 18.5.3R, COBS 18.5A.3R and COBS 18.5B.4R, the reference to “<i>client</i>” is a reference to the relevant <i>fund</i>; and</u>
			(b)	<u>omit “, and provided as part of the ex post reporting on costs and charges”.</u>
4.23	R	<u>In COBS 2.3B.33G, the reference to COBS 2.3B.25R(7)(b) is to be construed as a reference to COBS 2.3B.25R(7)(a)(ii).</u>		

	<u>Prior disclosures relating to joint payments for research</u>			
4.24	G	<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 disclosure and periodic disclosure provisions that apply where such a <i>firm</i> uses, or intends to use, joint payments for third-party research and execution services are set out in COBS 18 Annex 1 4.25R to COBS 18 Annex 1 4.28G.</u>		
4.25	R	<u>For the purpose of making the disclosures required by COBS 2.3B.25R(8), a <i>firm</i> must provide the information specified in COBS 2.3B.30R(1) to (3) before a <i>person</i> becomes a <i>unitholder</i> or investor in the <i>fund</i>.</u>		
4.26	G	(1)	(a)	<u>The rules in COLL require the <i>authorised fund manager</i> of an <i>authorised fund</i> to publish the information referred to in COBS 18 Annex 1 4.25R in the <i>fund's prospectus</i>.</u>
			(b)	<u>Where the <i>research</i> budget of an <i>authorised fund</i> is increased, the <i>firm</i> will need to consider such an increase in accordance with the requirements of the <i>Act</i>, the <i>OEIC Regulations</i> and the <i>rules on changes to schemes</i> 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 <i>full-scope UK AIFM</i> of an <i>unauthorised AIF</i> may wish to publish the information in COBS 18 Annex 1 4.25R with the information to be made available in accordance with FUND 3.2.2R (Prior disclosure of information to investors).</u>	
		(3)	<u>A <i>small authorised UK AIFM</i> of an <i>unauthorised AIF</i> or a <i>residual CIS operator</i> may wish to publish the information in COBS 18 Annex 1 4.25R along with the information to be made available about <i>AIFs</i> or <i>CISs</i> in accordance with COBS 18.5.5R (Scheme documents for an unauthorised fund).</u>	
	<u>Periodic disclosures relating to joint payments for research</u>			
4.27	R	(1)	<u>For the purpose of making the disclosures required by COBS 2.3B.25R(8), a <i>firm</i> 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 <i>fund</i> is an <i>authorised fund</i> and if relevant, the information in COBS 2.3B.30R(6) (see COBS 18 Annex 1 4.18R(4)(b)).</u>
		(2)	<u>The information in (1) must be provided:</u>	
			(a)	<u>on request; and</u>

			(b)	on a periodic basis.
4.28	G	(1)	The <i>rules</i> in <i>COLL</i> require the <i>authorised fund manager</i> of an <i>authorised fund</i> to provide the disclosures in <i>COBS</i> 18 Annex 1 4.27R in the annual long report of the <i>authorised fund</i> .	
		(2)	A <i>full-scope UK AIFM</i> of an <i>unauthorised AIF</i> may wish to publish the information in <i>COBS</i> 18 Annex 1 4.27R with the information to be made available about <i>AIFs</i> in accordance with <i>FUND</i> 3.3 (Annual report of an <i>AIF</i>).	
		(3)	A <i>small authorised UK AIFM</i> or a <i>residual CIS operator</i> may wish to publish the information in <i>COBS</i> 18 Annex 1 4.27R in the <i>periodic statement</i> to <i>unitholders</i> or investors in the <i>fund</i> pursuant to <i>COBS</i> 18.5.11R (if applicable).	

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>		
13A	<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 4.25R (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 4.27R (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 payment account</i> (see <i>COBS</i> 18 Annex 1 (Research and inducements for collective portfolio managers)) or joint payments for</u>

	<u>third-party research and execution services (see COBS 18 Annex 1), the following:</u>	
	(a)	<u>where a research 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 research and execution services are made out of scheme property, the relevant details required by COBS 18 Annex 1 4.25R (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 4.27R (Periodic disclosures relating to joint payments for research).

...

Alterations to the scheme and notices to ~~Unitholders~~ 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)	<u>where a <i>research</i> payment account is used (see COBS 18 Annex 1 (Research and inducements for collective portfolio managers)), the relevant details required by COBS 18 Annex 1 4.8R (Prior disclosure of the research account to investors);</u>
		(ab)	<u>where joint payments for third-party <i>research</i> and execution services are made out of <i>scheme property</i> (see COBS 18 Annex 1 (Research and inducements for collective portfolio managers)), the relevant details required by COBS 18 Annex 1 4.25R (Prior disclosures relating to joint payments for research);</u>
		...	
	...		
	<p>...</p> <p>[Note 2: Annex VI of the onshored Commission Delegated Regulation (EU) 2017/653 laying down regulatory technical standards with regard to the presentation, content, review and revision of <i>key information documents</i>, sets out detailed requirements in relation to the costs to be disclosed in a <i>key information document</i>.]</p>		
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 COBS 18 Annex 1 (Research and inducements for collective portfolio managers)) or joint payments for third-party <i>research</i> and execution services (see COBS 18 Annex 1), the following:		
	(1)	<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>	
	(2)	<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 4.25R (Prior disclosures relating to joint payments for research).</u>	
	...		

...

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 4.27R* (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.-10B R ...

(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

- 15.5.11 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

- 15.8.15C R (1) The only payments which may be recovered from the *scheme 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.

...

...

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