Financial Conduct Authority

Consultation Paper CP13/17**

Consultation on the use of dealing commission rules

November 2013

Contents

We are asking for comments on this Consultation Paper by 25 February 2014.

You can send them to us using the form on our website at:
www.fca.org.uk/your-fca/documents/consultation-papers/cp13-17-response-form.

Alternatively, please send comments in writing to:

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Abbreviations used in this paper

COBS	Conduct of Business Sourcebook
CP	Consultation Paper
EU	The European Union
FCA	Financial Conduct Authority
FSA	Financial Services Authority
IMA	The Investment Management Association
MDS	Market Data Services
MiFID	The Markets in Financial Instruments Directive (Directive 2004/39/EC)

1. Overview

1.1 This Consultation Paper (CP) forms part of our wider asset management strategy, which focuses on ensuring investment managers, acting as agents on behalf of their clients, put the customer's best interests at the heart of their businesses.

1.2 In particular, as part of investment managers' agency responsibilities, we have highlighted our desire to ensure that they seek to control costs to clients with as much rigour as they pursue investment returns. This builds on our wholesale conduct strategy, which is committed to ensuring wholesale market structures operate in a way that helps to enhance the integrity of markets and promote effective competition in the interests of consumers.

1.3 We propose changes to our 'use of dealing commission' requirements in our Conduct of Business Sourcebook (COBS 11.6), which apply to investment managers.[1] Our proposals are intended to clarify the criteria for research under our rules to help firms make better judgements about what can be paid for with dealing commission charged to the fund (the customer). The proposals are consistent with the original intention of the regime, and are designed to provide clarity and improve judgements made in relation to these rules.

1.4 Since the rules on use of dealing commission only apply to investment managers, this CP does not directly affect brokers or other sell-side providers of execution, research or other goods and services. However, we expect brokers executing orders for investment managers, particularly as part of the provision of bundled brokerage services, to continue to meet their duties under other relevant parts of our Handbook. This will include the duty to manage conflicts of interest, and other parts of COBS, such as the best execution rules.

Wider reforms to the use of dealing commission regime

1.5 At the FCA Asset Management Conference 2013, we announced the launch of an open discussion on the potential need for wider, more forward-looking reforms to improve the use of dealing commission regime, alongside the clarifications to the existing regime proposed in this CP.[2]

1.6 We believe the industry can become more transparent and efficient, benefitting the UK's competitive position in light of the increasing global focus on transparency. Our discussions with stakeholders are intended to consider whether alternative regulatory approaches in the longer-term could better align incentives between investment managers and their customers, and between investment managers on the buy-side and brokers on the sell-side, to promote better market integrity and competition in the interest of consumers.

1 This includes application to alternative investment fund managers (AIFMs) and UCITS management companies to whom COBS 11.6 also applies, as set out in COBS 18.5.2R.

2 Martin Wheatley, Chief Executive of the FCA, speech 'Shaping the Future in Asset Management,' FCA Asset Management Conference, 30 October 2013, source: http://www.fca.org.uk/news/shaping-the-future-in-asset-management

1.7 We have initiated this wider discussion now in light of several factors:

- Our findings from thematic work on Conflicts of interest between asset managers and their customers and ongoing firm supervision, which have indicated shortcomings in investment managers' controls over the use of dealing commission. The nature of the issues we have found suggests that there are some wider, more inherent flaws in the regime, which may require more than just incremental improvements to the current rules to drive better outcomes for consumers in the longer-term.[3]

- EU negotiations on legislative changes to the Markets in Financial Instruments Directive (MiFID), which offers a key vehicle for European-wide reform to rules linked to investment managers' ability to receive goods and services in return for dealing commissions. These negotiations further emphasise the need to have an open debate on all potential options to improve the transparency and efficiency of investment management, including the potential for unbundling across Europe, before the likely implementation of MiFID II by late 2016.

- Discussion that is already occurring in the industry, and in particular the ongoing work by the Investment Management Association (IMA) in their review into the market for research, which notes that the current use of dealing commission regime for funding research is not working as effectively as it could and needs to change. We welcome the IMA's work, which aims to develop ideas and agreement around industry solutions to improve current practices, and is a valuable input to the wider debate and work we have launched.

1.8 As well as this debate, we have also begun thematic work looking in more detail at conflicts of interest and the use of dealing commissions, both by asset managers (the 'buy-side') and by investment banks or brokers (the 'sell-side'), and firms' practices in this area, to inform the debate on need for wider reform. As the main suppliers of bundled brokerage services, the sell-side are integral stakeholders in the use of dealing commission regime. Therefore, they form a key part in achieving a collective response that improves transparency and market integrity in this area.

1.9 If longer-term reforms are proposed as a result of EU negotiations, we will work closely with the industry to ensure they are prepared for these changes as we proceed to implement them into our domestic rules. We will consider any other improvements, consistent with the outcome of European discussions, following the domestic debate and the findings of our thematic supervisory work.

1.10 While this CP focuses on the immediate changes proposed to the Handbook and seeks responses on these specific proposals, we also welcome general comments from investment managers and other stakeholders on the potential for wider reforms to the regime. This could include whether other rules or guidance would help to improve the use of dealing commission and supply of bundled brokerage arrangements in the longer-term.

Context

1.11 The use of dealing commission regime is based on the investment manager's duty to act in the best interests of their customers. It is designed to ensure that firms make efficient decisions, in the interests of their clients, about trade execution and the purchase of ancillary

3 FSA Report, *Conflicts of interest between asset managers and their customers: identifying and mitigating the risks*, November 2012. Source: http://www.fsa.gov.uk/static/pubs/other/conflicts-of-interest.pdf

services such as research, and are accountable and transparent in the costs charged to their customers' funds.

1.12 Our current rules on use of dealing commission[4] were introduced to address issues created by 'soft' and 'bundled' commission arrangements. The essence of 'bundled' or 'soft' commissions is that payment for a transactional event – the execution of trades by the investment manager with a broker on behalf of the manager's customers – could also be used to pay for other goods and services that would not need to have a direct connection to that event. Before 2006, these arrangements could fund a wide range of goods and services.

1.13 The FSA had significant concerns that these practices lacked transparency and created conflicts of interest for fund managers in their relationships with both clients and brokers. The FSA proposed an unbundling solution in 2003, but after further debate it decided to work with the grain of an industry-led solution.

1.14 Having stopped short of unbundling, the FSA introduced the current regime in 2006. The current rules prevent investment managers from acquiring any goods and services from brokers in return for client dealing commissions, except for execution-related and research goods and services, which are exempt from the ban and so can be paid for in this way.

1.15 The FSA set out cumulative criteria for the characteristics of research that, if met, gives reasonable grounds to consider it exempt, and gives rise to a presumption of compliance with our rules. These are cumulative, and emphasise in particular that research paid for with commission should inform the manager's investment decisions and must have intellectual rigour, involve analysis, and reach meaningful conclusions. The FSA stated at the time that it would keep the regime under review to ensure it addressed the original market failures identified.

Background

1.16 We estimate that dealing commissions totalled approximately £3bn in the UK last year, around half of which was used to purchase research. Through our ongoing supervisory work, we have identified failures by some firms to make appropriate judgements and apply adequate controls in their use of dealing commission, especially in relation to research goods and services.

1.17 In November 2012, the FSA published findings from thematic supervisory work on *Conflicts of interest between asset managers and their customers*, and sent an accompanying Dear CEO letter to investment management firms ('the conflicts of interest report').

1.18 The conflicts of interest report found evidence that some investment managers appeared to be failing to put adequate controls in place to ensure their use of dealing commission complied with the rules, and that some firms were paying for certain goods and services as 'research' that did not seem to meet the criteria for exempt research.

1.19 Payments from dealing commission for non-research services have included investment managers paying brokers to arrange meetings with the corporate management of firms they have or are considering investing in (which has become more widely referred to as 'corporate access'). Some firms were also paying for market data services (MDS) out of dealing commissions when only limited parts of these services appeared to meet our criteria for exempt research. Investment managers often did not disaggregate and value research elements of

4 COBS 11.6

MDS separately from non-research aspects, to ensure that they only paid for the former with dealing commission in line with our rules.

Corporate access and investor stewardship

1.20 Corporate access is closely linked to the wider debate around investor stewardship and promoting greater shareholder engagement in companies, especially by institutional investors. While we are making it clear that this arranging service should not be paid for with dealing commission, we are not banning the arranging of corporate access and investment managers paying for it, as long as it is carried out within the boundaries of our wider market conduct regime.[5]

1.21 We are also not mandating how the cost of corporate access is otherwise allocated between the investment manager and their customers, as long as the firm complies with their other duties in our Handbook, including their duty to manage conflicts of interest, act in the best interests of their clients, and be clear, fair and not misleading in their communications.

1.22 By ensuring investment managers do not pay for access with dealing commissions, we believe this will provide greater transparency and accountability in the consumption of, and the market for, corporate access. It may lead investment managers to apply more scrutiny to the services they are offered, for example by establishing who the third-party firm facilitating a meeting is acting for and being paid by when they intermediate access.

1.23 We believe the changes proposed here are consistent with other initiatives to promote greater engagement and stewardship by institutional investors.

Proposed changes to our rules

1.24 Since the FSA conflicts of interest report, we have seen some positive action by investment managers to improve their focus on managing conflicts of interest, including controls and oversight on the use of dealing commissions. However, there remains some doubt about aspects of COBS 11.6, which in part has allowed investment managers to make judgements on what can be purchased with dealing commission that have gone beyond the intended perimeter of the rules. Individual market participants and the IMA have asked us to clarify our rules, especially on the criteria for research.[6]

1.25 We believe the proposals in this CP will clarify the rules and therefore improve our ability to supervise and, if necessary, take enforcement action on them. The changes should also ensure firms make better judgements in future, especially relating to the exemption for research, which will reduce future instances of poor conduct and potential harm to consumers.

1.26 The proposed changes to COBS 11.6 include:

i. clarifying the provisions in COBS 11.6.5E that set out the criteria determining the characteristics of exempt research and creating a presumption that a good or service is not exempt research where the criteria are not met

5 Including ensuring corporate access remains compliant with our Market Abuse Rules (MAR).

6 For example, the IMA issued guidance in March 2013: 'Use of Dealing Commission: Corporate Access / Research Services' (see: http://www.investmentfunds.org.uk/policy-and-publications/industry-guidance)

ii. defining corporate access in the FCA Handbook Glossary and adding specific guidance on the treatment of corporate access for the use of dealing commission

iii. providing guidance on our expectations where firms purchase eligible research in a bundled package with other non-eligible goods and services that cannot be paid for with dealing commissions

Who does this consultation paper affect?

1.27 This CP will be of direct interest to:

- Investment managers, including alternative investment fund managers (AIFMs) and UCITS management companies when carrying out scheme management activity or AIFM investment management respectively.
- Customers of investment managers, including:
  - institutional investors, for example retail fund and pension fund trustees
  - retail investors who have investments in retail funds (which may be through a wrapper such as an Individual Savings Account (ISA)), or who have a direct relationship with an investment manager, for example individuals with discretionary-managed investment portfolios

1.28 It will also interest relevant trade associations, brokers (including investment banks), and providers of services such as market data services and independent research.

Is this of interest to consumers?

1.29 It will be of direct interest to institutional investors, such as the trustees of pension funds. It will also be relevant to retail fund trustees and depositaries, investors in retail products and the providers of these products – such as unit trust managers, authorised corporate directors, other investment companies (including investment trusts) and life assurance companies.

1.30 Although the proposals clarify existing expectations under our rules, rather than create new requirements, they may drive behavioural change by encouraging investment managers to improve controls over their use of commissions. This may result in a reduction in costs passed to the customer's funds and improved transparency, so investors are more aware of how much they are paying and what they are paying for.

Equality and diversity considerations

1.31 We have assessed the likely equality and diversity impacts of the immediate proposals on clarifying our rules in relation to eligible research, and do not think they give rise to any concerns. But we would welcome your comments.

Next steps

1.32 Please send us your comments by 25 February 2014 by using the online response form on our website or by writing to us at the address on page 2.

1.33 We will consider your feedback and publish a Policy Statement in spring 2014 that will confirm the final clarifications to our rules or any alternative approach, and provide a brief summary of responses.

2. Proposed changes to the use of dealing commission rules

Introduction

2.1 Our rules on the use of dealing commission were introduced on 1 January 2006. They were designed to address conflicts of interests and misaligned incentives between investment managers and their customers. The rules were introduced following a review by the FSA between 2003 and 2005 of bundled brokerage and soft commission arrangements, which identified a number of market failures.[7]

The context of bundled and soft commission arrangements

2.2 Before 2006, soft commission and bundled brokerage arrangements involved goods and services – such as investment research, seminars, external publications and data price feeds – being supplied to investment managers in return for business put through a broker. The brokerage charges were higher to offset the costs of services they supplied. In April 2003, the FSA published a consultation paper (CP176) together with a research study commissioned from Oxera, which identified significant concerns over bundling and soft commission arrangements.[8] These included:

- a lack of transparency and accountability over the costs of arrangements to customers, which could be leading to higher charges to consumers
- the potential for relatively opaque bundled arrangements to mask conflicts of interest whereby the investment manager may have an incentive to direct trades to certain brokers to maximise the goods and services they could obtain, which may not always be in the best interests of their customers
- a lack of effective competition for services bundled with execution, such as third-party research

2.3 The FSA indicated reforms were needed to provide stronger incentives for investment managers to make efficient decisions about trade execution and the purchase of ancillary services such as investment research, and to improve accountability to their customers. While the FSA initially proposed more radical reform that sought to unbundle services and costs (using a rebate method) for any non-execution related services, the responses to the consultation argued that alternative approaches could deliver similar improvements at less cost and impact to the industry.

7 The FSA review was in part driven by the findings of the HM Treasury-commissioned review by Paul Myners in 2001: Institutional Investment in the United Kingdom: A Review

8 FSA Consultation Paper 176 and Oxera study (see: http://www.fsa.gov.uk/pages/library/policy/cp/2003/176.shtml)

2.4 The FSA was therefore persuaded to work with the grain of an industry-led solution and evolving market practices. This resulted in three changes, which involved:

- new handbook rules from 1 January 2006 limiting the range of goods and services that investment managers can buy with dealing commission passed to their customers' funds to only 'execution' and 'research' goods and services (now COBS 11.6)[9]
- enhanced disclosures by investment managers to their customers on the costs of execution and research paid for on their behalf through dealing commissions, based on industry-led codes of practice[10]
- encouraging investment managers to seek, and brokers to provide, clear payment and pricing mechanisms that enable execution and research services to be purchased and valued separately – such as commission sharing arrangements (CSAs)

2.5 The FSA expected enhanced disclosure by investment managers to improve accountability and encourage greater scrutiny of costs by their customers, acting as a critical check and balance. So overall, the FSA adopted a principles-based approach, allowing investment managers to make reasonable judgements about what could constitute execution-related and research goods and services, which can then be purchased using dealing commissions.

COBS 11.6 and research goods and services

2.6 Our use of dealing commission rules are designed to limit the ability of fund managers to pass certain management costs through to their customers' funds through commission payments.

2.7 The rules set out a general ban on investment managers using dealing commissions to pay for any goods or services that are in addition to the actual cost of executing its customer orders.[11] By way of a limited exemption from this ban, our rules provide an exception to allow investment managers to pay higher commissions on behalf of a client to acquire execution-related and research goods and services.[12]

2.8 In all cases, the goods and services purchased must also reasonably assist the investment manager in the provision of its services to customers and not impair their duty to act in the best interests of customers.[13] So for example, if an investment manager received goods or services that they did not use at all, even if they were execution-related or research goods or services, these charges would not meet the exemption allowing them to be passed on to the customer.

2.9 The investment manager must also make adequate disclosures about their use of dealing commission arrangements to their customers.[14] These rules are therefore inextricably linked to the investment manager's duties when acting as an agent on behalf of clients, to ensure that the use of dealing commission does not create incentives to act other than in the best interests of their customers.

9 As confirmed in Policy Statement 05/09 (see: http://www.fsa.gov.uk/pubs/policy/ps05_09.pdf)
10 This later resulted in the IMA and National Association of Pension Funds' pension fund disclosure code, see: http://www.investmentfunds.org.uk/policy-and-publications/industry-guidance (Third edition, September 2007)
11 COBS 11.6.3R(1)
12 COBS 11.6.3R(2)(a)
13 COBS 11.6.3R(2)(b)
14 See COBS 11.6.3R(2)(b), and COBS 11.6.12R, COBS 11.6.15R and COBS 11.6.16R.

2.10 This CP specifically addresses the exemption allowing the use of dealing commission to purchase research. COBS 11.6.5E sets out the criteria for 'research' goods and services for the purposes of the exemption. It states that where goods or services relate to the provision of research, an investment manager will have reasonable grounds to be satisfied that they meet the requirements if the research:

a. is capable of adding value to the investment or trading decisions by providing new insights that inform the investment manager when making such decisions about its customers' portfolios

b. whatever form its output takes, represents original thought, in the critical and careful consideration and assessment of new and existing facts, and does not merely repeat or repackage what has been presented before

c. has intellectual rigour and does not merely state what is commonplace or self-evident

d. involves analysis or manipulation of data to reach meaningful conclusions

2.11 These *cumulative* criteria set the parameters against which investment managers can make judgements about whether the goods and services they purchase can be paid for with commissions charged to their customers.

2.12 In addition, COBS 11.6.7G sets out that historical price feeds and data are specifically not research that can be paid for with dealing commissions. COBS 11.6.8G provides a further, non-exhaustive list of goods and services that we regard as being outside the perimeter of our use of dealing commission regime. For example 'seminar fees' and 'publically available information' are excluded items in COBS 11.6.8G, along with items such as price feeds and historical price data that have not been analysed or manipulated to reach meaningful conclusions. These items are consistent with the intention and nature of the criteria in COBS 11.6.5E.

2.13 So an integral feature of research that an investment manager may purchase with dealing commission is that it must, in itself, contain critical analysis and evaluation of the information provided. This must be present in the research as provided to the investment manager, i.e. it is intended to cover third-party research that informs the investment manager's investment and trading decisions.

2.14 The guidance in COBS 11.6 also indicates that the exemption allowing the use of dealing commission for research does not extend to services that may be used by the investment manager in developing or preparing *their own* research and analysis. Instead, these are core costs to the investment manager's business, which they should not pay for with dealing commission. The use of dealing commission does not apply to research generated internally by an investment manager itself.[15]

2.15 In summary, the purpose behind the ban on goods and services being paid for with dealing commission is that the investment manager should not use commissions paid from the customers funds to subsidise their core costs of business.

2.16 The limited exemption for execution-related and research goods and services was therefore designed to be narrow, allowing investment managers to pass on only strictly defined transaction-based costs linked to the execution of trades on behalf of their customers, and

15 COBS 11.6.10G

third-party research that in itself provides analysis and conclusions that inform the investment manager's trading decisions.

FSA and FCA supervisory findings

2.17 In November 2012 the FSA published findings from thematic supervisory work on *Conflicts of interest between asset managers and their customers*, and sent an accompanying 'Dear CEO letter' to investment management firms. The conflicts of interest report found evidence that some investment managers were either failing to put in place adequate controls to ensure their use of dealing commission met the provisions in COBS 11.6, and/or were deeming certain goods and services to be 'research' that clearly went beyond intended perimeter indicated by the criteria and guidance in the rules.

2.18 Firms were using commissions to pay for market data services (MDS) and were unable to demonstrate how many components of these services could meet our criteria and be considered exempt research. Firms were also unable to demonstrate how brokers arranging for access to company management or providing preferential access to initial public offerings (IPOs), constituted research or execution services. This causes potential conflicts of interest for investment managers, a risk of harm to their customers, and undermines market integrity.

2.19 Firms may be competing unfairly if they pay for services such as MDS and corporate access using client commissions, when they should be treated as a core cost of business funded from the managers own resources or separately charged to clients.

2.20 With regard to purchasing MDS, the FSA identified a number of cases where there was inadequate disaggregation of valid research elements of MDS from non-eligible aspects by investment managers when undertaking mixed-use assessments.

2.21 We recognise that some narrow individual components of MDS may meet our definition of research. Where this is the case, these research elements can be paid for out of customer dealing commissions. In these circumstances, we expect investment managers to ascribe a value to the research elements of the service (most likely derived from the overall cost if known), which they should be prepared to justify. Investment managers should then ensure that only the cost of the proportion of the service that meets the definition of research is paid for with dealing commission.

2.22 In practice, we saw evidence that suggested several firms were allocating a much greater proportion, or all of the cost, of MDS to customer dealing commissions than appeared to be justified by a proper assessment of the cost of any research content involved. That some elements of MDS may be used by the investment manager to then manipulate data and undertake their own analysis does not allow it to be charged to dealing commission as a research good or service.

Corporate access

2.23 The reference in the FSA's conflicts of interest report to 'access to company management' (corporate access) as an area of concern and a service that is not eligible to be paid for with dealing commission has since sparked wider debate.[16]

2.24 The FSA defined corporate access as the practice of third parties (often investment banks) arranging for investment managers to meet with the senior management of corporations in which the investment manager invests or may subsequently invest in, on behalf of their customers.

2.25 We are aware that this service has become increasingly important to investment managers, with 38% of buy-side equity research respondents surveyed by Extel Thomson Reuters deeming it 'very important' when deciding who to turn to for sell-side research and advisory services.[17] However, we found that no firm could satisfy us that corporate access could be justified as research in accordance with the criteria in COBS 11.6.5E.

2.26 We maintain that arranging access to corporate management does not amount to research and so must not be paid for with dealing commission. The arranging service in itself does not provide any analysis or insight, or reach meaningful conclusions. It is difficult to see how, when a bank or broker arranges for an investment manager to meet its corporate clients – by whatever means – they would fulfil the 'research' criteria. In most instances it is unlikely to involve original thought, have critical analysis and evaluation of information, and reach meaningful conclusions that are provided to the investment manager.[18]

2.27 The fact that the investment manager may develop their own conclusions or internal research following corporate access does not make corporate access itself research for the purpose of COBS 11.6. The arranging aspect is much more similar to the non-eligible items listed in COBS 11.6.8G, which help the investment manager's own research and should not be paid for with dealing commission charged to the customer.

2.28 If a broker does offer research in addition to this arranging service (such as a briefing note or a research analyst's input before a meeting), this element may be capable of being reasonably judged by the investment manager as chargeable to dealing commission under the exemption. If so, only that limited research element (which should be ascribed a reasonable, fair value by the manager) should be paid for out of dealing commissions, and not the entirety of the arranging service.

2.29 Based on available evidence and our own data and analysis, we estimate that UK investment managers may have made aggregate annual payments for corporate access of up to £500m from client dealing commissions in 2012. Our supervisory work also identified significant payments for corporate access by individual firms. The size of payments made by one asset management firm, for example, equated to each individual investment manager allocating on average over £100,000 to corporate access in one year.

2.30 This suggests that the scale of money involved has little relationship to any potential research content. It is not the case that having one small segment of a bundled package of goods or

16 For example, press interest over the last year has included various articles by the Financial Times (FT): FT Fund Management (FTfm), 'Fears rise over cash for access', March 3, 2013; FTfm, 'Corporate access payments continue', June 9, 2013; and FT online 'Asset managers face pressure over research fees', September 1, 2013.

17 Thomson Reuters Extel Survey, 2012.

18 For example, a report by the Centre for the Study of Financial Innovation (CSFI), 'Has Independent Research Come of Age?' (June 2011) reflected the view that, "Other than arranging the meetings, the banks and brokers do not generally contribute other services" (p.17).

services that can meet the criteria for research, will then enable the whole package to be deemed as research and funded entirely through dealing commission. Instead, a firm should make an honest and fair mixed-use assessment to distinguish the cost of any research element in line with the best interests of their customers. We discuss this in more detail below as part of proposed new guidance on this expectation.

2.31 Using dealing commissions to pay for these services reintroduces issues that the rules were designed to remove by narrowing the acceptable services for which dealing commission could be used. While we do not have an issue with the provision and payment for corporate access services, which investment managers may value as part of their activities, we consider that such services should not be paid for out of dealing commission.

2.32 Using dealing commission to purchase corporate access lacks transparency in the transfer of this cost to the customer, and can create an incentive for the investment manager to direct business to brokers who provide access to companies rather than the best terms of execution for their clients. Paying in other ways removes these issues.

Proposed changes to COBS 11.6

2.33 The 'Dear CEO letter' on conflicts of interest has led to some positive behavioural change since November 2012 with regard to issues such as corporate access. However, we have received ongoing requests from individual firms to clarify the rules and criteria in COBS 11.6 for research goods and services that can be paid for using dealing commission.

2.34 We are keen to ensure firms are acting consistently with the original intention of these rules. So the proposals in this CP clarify the research criteria, as well as providing guidance on applying our existing rules to the defined service of corporate access, and how firms should deal with bundled services containing both research and non-research elements.

2.35 Appendix 1 contains a draft of the proposed rule and guidance changes. In summary, we are proposing to:

- Define corporate access and add it to the list of examples of goods and services that relate to the execution of trades or the provision of research that are not exempt, and so cannot be paid for from dealing commission (COBS 11.6.8G).

- Amend the drafting and effect of the provisions under COBS 11.6.4E and COBS 11.6.5E so that charging goods and services to dealing commission that do not meet the criteria would tend to establish non-compliance with the rules. This would clarify the perimeter of the regime by introducing a presumption of a breach of the rules if the cumulative criteria are not met and address other practices that we are concerned about (e.g. purchase of raw data feeds, translation services, and preferential access to IPOs) and others that might emerge in the future. We also clarify the research criteria to reflect the original intention of the rules, for example by referring to 'substantive' research and indicating that meaningful conclusions must be presented to the investment manager and it is not intended to mean any good or service that leads to the manager then drawing their own inferences.

- Clarify in a new guidance provision (COBS 11.6.8A G) how investment managers might approach judgements around their duty to act in the customer's best interests and passing charges to the customer through dealing commission for goods and services that meet the exemption in COBS 11.6.3R(2). It also clarifies our expectations around making mixed-

use assessments where substantive research is provided alongside another good or service that is not permitted to be paid for through the use of dealing commission (see further discussion in the box below).

Discussion on the proposed new guidance on the customer's best interests and dealing commission charges (COBS 11.6.8A G)

This CP proposes new guidance for investment managers at COBS 11.6.8A G, which is designed to help firms in their approach to the duty to act in the customer's best interests as part of the use of dealing commission rules.

Under COBS 11.6.3R(2)(b), when accepting a good or service paid for out of client commission, it must not impair, or be likely to impair, compliance with the duty of the investment manager to act in the best interests of its customers.

This requirement should be applied to the judgements an investment manager makes when considering whether to pass on charges to customers under the exemptions in COBS 11.6.3R(2). Similarly, the duty to act in the customer's best interests is also relevant for the level of charges for each good or service that is passed on.

COBS 11.8.6A G is designed to clarify how the client's best interests rule should be interpreted in this context, including when making some of the more challenging and subjective judgements in relation to substantive research.

The intention of the proposed new guidance at COBS 11.6.8A G

In general, we think it would be beneficial for investment managers to have a mind-set that leads them to apply the same or a greater degree of care when exercising judgment as to the spending of dealing commission as they would when spending their own money. The below points describe some of the particular behavioural characteristics we hope the proposed guidance will help to encourage:

- COBS 11.6.8A G(1) generally reminds investment managers who intend to pass on charges to their customers within the exemption in COBS 11.6.3R(2) of their duties to act in the best interests of their customers.

- COBS 11.6.8A G(1)(a) explains that where a good or service that can be paid for with dealing commission is provided to an investment manager at a known or easily identifiable cost, the dealing commission charge should not be greater than this amount.

- COBS 11.6.8A G(1)(b) explains that where an investment manager can actually negotiate or dictate a price themselves to determine what is paid for from dealing commission, the customer's best interests should influence the firm's behaviour (for example, in looking to achieve good value from dealing commission spending).

- COBS 11.6.8A G(2) explains that where a substantive research good or service is provided to an investment manager within a bundle of goods and services, an investment manager should take steps to disaggregate the substantive research from the other services to ensure they use dealing commission in compliance with our rules. For example, if substantive research is provided with corporate access, or an MDS licence contains various elements, some of which are research and others not, the investment manager should identify and disaggregate the research elements from the other items (making a mixed-use assessment). The price or cost of the disaggregated research element, and so the amount of charges passed on to the customer through dealing commission, should then be assessed in a similar way as indicated in the previous points.

We would welcome views as part of responses to the CP on whether investment managers will find COBS 11.6.8A G helpful when making judgements on using dealing commission.

The impact of these changes

2.36 We believe that these changes will clarify and reinforce the existing rules and the intention behind the original regime, and formalise some of the expectations the FSA set out in the conflicts of interest report in 2012. As such, they do not impose new requirements on firms, but provide guidance and clearer drafting, to enable them to ensure they are acting compliantly and not persisting in the poor practices we have detected. By using 'substantive' research in the new drafting, we are intending to emphasise the existing, cumulative nature of the criteria and that a good or service should have self-evident, stand-alone content that can help inform an investment manager's decisions.

2.37 If this additional clarity does reduce non-compliance, more investment managers will ensure they only pay for goods and services out of dealing commission within the scope of the permitted exceptions, while paying for other services, such as corporate access, by other means. Rigorous mixed-use assessments, which identify and ascribe a fair cost or value to any research element where it is bundled with other goods or services, should reduce the occurrence of excessive payments for bundled services with only notional research content.

2.38 Ensuring investment managers do not fund corporate access out of dealing commission should also encourage investment managers to:

- be more thorough when negotiating the cost of meetings (as they either need to absorb this cost themselves or charge it more explicitly to customers), which may reduce the overall levels of payments made for this service
- clarify the capacity in which a broker is acting, helping identify potential conflicts of interest the broker may have and improve market integrity
- gain access to corporates even if they have lower portfolio turnover and make more 'buy and hold' investments – as it should reduce the potential bias by brokers towards offering access to firms that generate the highest research commission balances (which can favour managers with higher portfolio turnover) – and also level the playing field for investment managers who arrange their own access directly with corporates, or use independent third parties

2.39 We recognise that effective engagement between investment managers and corporates can be important. Good stewardship by institutional investors over the companies they invest in can create mutually beneficial relationships, helping to shape long-term, sustainable businesses and returns for the end investors. Our position that corporate access should not, however, be paid for with dealing commissions does not conflict with this goal and may indeed improve the ability of investment managers to access companies.

2.40 Any reduction in non-compliant behaviour, that reduces payments for non-eligible services out of dealing commissions, may lead to investment managers paying less commission to brokers and lowering costs for customers. However, even where investment managers choose to continue to pay for services by other means, and still pass on these costs to customers, it will at least be through a more direct and transparent charge than the use of dealing commission.

Interaction with EU legislation

2.41 The FSA's use of dealing commission regime came into effect on 1 January 2006. When the UK implemented the Markets in Financial Instruments Directive (MiFID) in November 2007, the FSA chose to retain these rules as an enhancement that built on the inducements requirements under Article 26 of the MiFID Implementing Directive (2006/73/EC). The FSA notified the European Commission of our intention to retain these rules, in line with Article 4 of the MiFID Implementing Directive.

2.42 We believe that our proposals do not alter the substance of the rules for which we made the Article 4 notification to the Commission, but clarify the existing intention of these rules. So we consider our proposals to be consistent with the current MiFID regime.

2.43 While negotiations to revise MiFID are currently underway, with the main Directive (or 'Level 1') expected to be concluded by early 2014, the rules to give effect to MiFID II are unlikely to come into force until late 2016 at the earliest. So we believe it is appropriate to make these proposed clarifications now to provide industry and other stakeholders with clarity, and give us a better basis on which to supervise, ahead of any potential EU reforms that remain several years away.

2.44 We also apply the use of dealing commission rules to UCITS investment management activities via COBS 18.5.2R. More recently, we adopted the same approach in implementing the Alternative Investment Fund Managers Directive (AIFMD)[19] and implementing measures, as the inducements rule under MiFID is broadly replicated in Article 24 of the AIFMD level 2 regulation. The use of dealing commission rules in COBS 11.6 therefore also apply to alternative investment fund managers' (AIFMs) investment management activities.[20]

2.45 Consistent with this approach, the proposed changes to COBS 11.6 set out in this CP will apply to MiFID investment managers, as well as UCITS and AIFM investment managers.

Q1: Do you agree with detail of the rule and guidance changes we have proposed?

Q2: Do you agree with the cost benefit analysis for these changes as summarised above and set out in more detail in Annex 1?

19 Directive 2011/61/EU

20 See Consultation Paper 13/9 and Policy Statement 13/5 (http://www.fca.org.uk/your-fca/documents/ps13-5-implementation-of-the-aifmd)

Timing

2.46 This consultation will close on **25 February 2014**. We intend to consider feedback and publish a Policy Statement confirming the final handbook changes later in spring 2014.

3.
Further FCA work

An open debate on further reform

3.1 Our Asset Management Conference set out our desire to have an open discussion with industry and other stakeholders on the overall use of dealing commission regime, and to collectively address the need for improvements to the regime. Our view is that, even with the proposals in this CP, there remain some inherent flaws in the use of dealing commission to fund research and in the industry structures that have evolved from our rules. These issues may require more forward looking reforms to ensure the investment management sector is fit for the future and maintains a competitive edge as the global focus on transparency increases.

3.2 These concerns have also been acknowledged by the industry, with a number of investment managers, trade bodies and other interested parties accepting that the current system is not working as well as it should. We have welcomed the IMA's initiative in this area, with their review into the market for research and forthcoming interim report. We believe the IMA's proposals will provide valuable input to the debate on the need for wider reform, and will help develop practical industry solutions to drive improvements in existing market practices.

3.3 We believe the investment management industry can be more transparent and cost efficient in their consumption of both execution and research goods and services. Based on the supervisory work and findings since 2012, we have indicated a desire for a collective solution driven both by European reform, but also a domestic debate. By considering all options, including the potential for unbundling to be implemented across the EU through forthcoming reforms under MiFID II, we are confident of developing a solution that will tackle the misaligned incentives, potential for conflicts of interest, and the lack of transparency and controls of costs created by the existing use of dealing commission regime.

3.4 Our desire to explore these wider issues reflects our focus on wholesale conduct as part of promoting market integrity and effective competition in the interests of consumers. The UK investment management industry manages over £5 trillion on behalf of others and we are keen to ensure that our regulatory approach, combined with collaborative input from industry and wider stakeholders, is effective in supporting our objectives and delivering cost efficient, high quality financial services for all.

3.5 While this CP focuses on the immediate changes proposed to the Handbook, we welcome general comments from investment managers, alongside formal responses, on the potential for wider reforms to the regime. This could include whether other rules or guidance would be helpful to improve the use of dealing commission and the existing provision of bundled brokerage arrangements in the longer-term.

Thematic supervisory work

3.6 As set out in our 2013/14 Business Plan and announced at the recent FCA Asset Management Conference, we are also carrying out further thematic supervisory work over the next few months to further examine how firms are managing their conflicts of interest and costs, especially in their use of dealing commission. The focus of this work will include not only investment managers, but also sell-side firms (i.e. the large investment banks), to explore the supply of bundled brokerage services and how they manage conflicts between their different customers. The findings will inform the discussions on the potential for wider reforms to the regime.

3.7 Investment managers and investment banks have been asked to provide information on their investment processes and their application of our use of dealing commission rules. Once we have received and analysed these responses from firms, we will follow up with selected firm visits in late 2013 and early 2014.

Annex 1
Cost benefit analysis

1. Section 138I and 138L of the Financial Services and Markets Act (FSMA) requires us to perform a cost-benefit analysis (CBA) of our proposed requirements and to publish the results, unless we consider that the proposals will not give rise to any costs or to an increase in costs of minimal significance.[21] In this chapter we:

- summarise the proposals assessed in this CBA
- briefly describe the baseline against which the costs and benefits of the proposals should be measured
- explain why we expect the incremental costs of the proposals to be of minimal significance

Summary of the proposals

2. As described in Chapter 2 of this CP, we are consulting on draft changes to our rules in COBS 11.6 on the use of dealing commission. The proposed changes will make explicitly clear our approach to the rules, the evidential provisions, and the application of our guidance.

3. The proposals will also confirm our position that the provision of corporate access does not meet the criteria under our use of dealing commission rules as an eligible good or service that can be paid for through client dealing commission.

4. In particular, the main changes we are consulting on are to:

- define corporate access as a service of arranging or bringing about contact between an investment manager and an issuer or potential issuer
- amend our rules under COBS 11.6.3R(2) to focus the exemption to the prohibition on the use of dealing commission on the purchase of goods or services directly related to the execution of trades on behalf of the investment manager's customers, or on the provision of substantive research
- amend the evidential provisions under COBS 11.6.4E(1) and COBS 11.6.5E(1) to clarify the text and make it clear that failure to meet the evidential provisions would tend to establish a contravention of our use of dealing commission rule
- include corporate access on the list (COBS 11.6.8G) of goods and services that relate to the execution of trades or the provision of research that we do not regard as meeting the requirements of either COBS 11.6.4E(1) or COBS 11.6.5 E(1)
- provide new guidance (COBS 11.6.8A G) on how we would expect firms to approach

21 FSMA 2000, as amended by the Financial Services Act 2012.

assessing goods or services that comprise the provision of substantive research provided alongside goods or services that do not in themselves amount to substantive research, and ensuring they act in the best interests of their clients when passing on charges for goods and services that are permitted under the exemption in COBS 11.6.3R(2).

Baseline

5. The CBA is a statement of the differences between the baseline (which we usually consider to be the current position) and the position that will arise if we implement the proposals.

6. The baseline for this CP is where firms comply with COBS 11.6, such that only goods and services permitted by COBS 11.6.3R(2) are paid for through client dealing commissions.

7. As we have expressed in previous guidance, corporate access, as defined in this CP, does not meet this requirement, and this forms part of the baseline from which we attempt to measure the incremental costs and benefits of the proposed policy.

Costs

8. These changes clarify our rules, but do not prohibit additional activities that are currently permitted.

9. While clarifying our rules may alter behaviour, as it does not restrict activities any further than our current rules do, we do not expect firms to incur any material incremental costs as a result when compared to the baseline. This means the requirements in section 138I(2)(a) and 138I(5)(a) of FSMA do not apply.

Benefits

10. We believe these changes will provide greater clarity to firms on our expectations within the existing rules. There could be small but positive behavioural effects arising from these changes if firms apply greater scrutiny to their use of dealing commission when purchasing substantive research, and fewer instances of non-compliant use of commissions to purchase non-research services, such as corporate access.

11. If firms do find efficiencies in their use of dealing commission and reduce their spending through this mechanism, this could bring benefits to consumers through lower costs being charged to their funds. Alternatively, if firms instead pass these costs back to consumers through more direct charges, there will be a benefit of improved transparency over these costs and what the customer is paying for, making the investment manager more accountable.

Q3: Do you believe there are likely to be any material, incremental costs or benefits which we have not considered here?

Annex 2
Compatibility statement

Compatibility with the FCA's general duties

Introduction

1. This Annex sets out our view on how the consultation proposals and draft rules in this CP are compatible with our general duties under section 1B of the Financial Services and Markets Act 2000 (FSMA) and our regulatory objectives set out in this section, and sections 1C, 1D and 1E of FSMA.[22]

2. We have had regard to the regulatory principles set out in Section 3B of FSMA and consider these proposals to be the most appropriate way of meeting our statutory objectives. This meets the requirements on consultation by the FCA set out in section 138I(2)(d) of FSMA.

Compatibility with our statutory objectives

3. In discharging our general functions, our duty is, as far as is reasonably possible, to act in a way that is compatible with our strategic objective, to ensure that the relevant markets function well, and to advance one or more of our operational objectives.

4. Our proposed clarifications and amendments in this CP will help advance our strategic objective, and also relate to all three of our operational objectives of market integrity, consumer protection and effective competition. By clarifying our rules, our proposals promote the outcomes we expect firms to reach when deciding whether they can use dealing commissions, charged to their client's funds, to purchase goods and services - which should only be related to execution of trades or form substantive research.

5. We have highlighted wholesale conduct as a key focus as part of our objectives. We believe that our proposals will facilitate an improvement in market behaviour in respect of our use of dealing commission rules, encouraging investment managers to ensure that the good or service paid for from dealing commission reflects only the value of the eligible good or service provided and does not cross-subsidise non-research goods and services. We believe our clarifications will help improve market integrity and deliver better financial services for consumers.

Compatibility with the duty to promote effective competition in the interests of consumers

6. We have had regard to the requirement under Section 1B(4) of FMSA, to ensure that in so far as it is compatible with acting in a way that advances our operational objectives of consumer protection and enhancing market integrity, we also seek to promote effective competition in the interests of consumers.

7. By clarifying the rules and reducing non-compliance, we might expect increased certainty for firms and competition to improve through a levelling of the playing field (with fewer non-

22 As above, these references reflect FSMA 2000, as amended by the Financial Services Act 2012.

compliant firms competing unfairly). However, we do not expect this to be a large effect, and expect no other impact from our changes on competition

Compatibility with the regulatory principles

8. Section 1B(5) of FSMA requires that, in carrying out our general functions, we have regard to the principles of good regulation. In formulating these proposals we have had regard to the following relevant principles set out in Section 3B of FSMA.

The need to use our resources in the most efficient and economic way

9. We believe that the proposals in this CP will have minimal impact on our resources.

The principle that a burden or restriction which is imposed should be proportionate to the benefits

10. As explained in Annex 1, we expect the incremental costs imposed by the proposed CP to be minimal for firms who comply with our current rules. The benefits of clarifying these rules are regulatory certainty for firms, which should lead to reduced non-compliance with our rules, greater transparency and potentially lower costs for consumers. We expect these benefits to be at least proportionate to the minimal expected incremental costs.

The desirability of sustainable growth in the UK economy in the medium or long term

11. Since the costs of these changes should be minimal, and likewise the potential benefits are also likely to be small, although possibly creating positive changes in behaviour, we expect there will be no material effect on sustainable growth in the UK economy in the medium or long term.

The principle that we should exercise our functions as transparently as possible

12. These changes clarify our rules in line with previous statements made in the FSA conflicts of interest report in November 2012, and the policy intention set out at the time these rules were originally implemented. We also announced on 30 October 2013 at our Asset Management Conference our intention to issue this CP, and provided an indication of what it would include.

13. We will continue to engage with stakeholders and welcome comments on these proposals during the three-month consultation period, running until 25 February 2014. We will then publish a Policy Statement, including feedback on responses, and confirming final rules or any alternative approach if relevant.

Annex 3
List of questions

Q1: Do you agree with detail of the rule and guidance changes we have proposed?

Q2: Do you agree with the justification and cost benefit analysis for these changes?

Q3: Do you believe there are likely to be any material, incremental costs or benefits which we have not considered here?

Appendix
Draft Handbook text

Appendix 1

CONDUCT OF BUSINESS SOURCEBOOK (USE OF DEALING COMMISSION) INSTRUMENT 2013

Powers exercised by the Financial Conduct Authority

A. The Financial Conduct Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) the following sections of the Act:

(a) section 137A (The FCA's general rules);
(b) section 137H (General rules about remuneration);
(c) section 137T (General supplementary powers);
(d) section 138C (Evidential provisions);
(e) section 139A (Power of the FCA to give guidance);
(f) section 242 (Applications for authorisation of unit trust schemes);
(g) section 247 (Trust scheme rules);
(h) section 248 (Scheme particulars rules); and

(2) regulation 6(1) of the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228).

B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument shall come into force on [*date*].

Amendments to the Handbook

D. The Glossary of definitions is amended in accordance with Annex A to this instrument.

E. The Conduct of Business sourcebook (COBS) is amended in accordance with Annex B to this instrument.

Citation

F. This instrument may be cited as the Conduct of Business Sourcebook (Use of Dealing Commission) Instrument 2013.

By order of the Board of the Financial Conduct Authority
[*date*]

Appendix 1

Annex A

Amendments to the Glossary of definitions

Insert the following new definition in the appropriate alphabetical position. The text is not underlined.

corporate access service	a service of arranging or bringing about contact between an *investment manager* and an *issuer* or potential *issuer*.

Annex B

Amendments to the Conduct of Business sourcebook (COBS)

In this Annex, underlining indicates new text and striking through indicates deleted text.

11.6 Use of dealing commission

…

Use of dealing commission to purchase goods or services

11.6.3 R (1) An *investment manager* must not accept ~~goods or services~~ any good or service in addition to the *execution* of its *customer orders* if it:

…

(c) is offered ~~goods or services~~ that good or service in return for the *charges* referred to in (b).

(2) This prohibition does not apply if ~~the *investment manager* has reasonable grounds to be satisfied that goods or services~~ the relevant good or service received in return for the *charges*:

(a) (i) ~~are~~ is directly related to the *execution* of trades on behalf of the *investment manager's customers*; or

(ii) ~~comprise~~ amounts to the provision of substantive research; and

(b) will reasonably assist the *investment manager* in the provision of its services to its *customers* on whose behalf the orders are being *executed* and ~~do~~ does not, and ~~are~~ is not likely to, impair compliance with the duty of the *investment manager* to act in the best interests of its customers.

11.6.4 E (1) ~~Where the goods or services relate to the *execution* of trades, an *investment manager* should have reasonable grounds to be satisfied that the requirements of the *rule* on use of dealing commission (*COBS* 11.6.3R) are met if the goods or services are~~ Under *COBS* 11.6.3R(2)(a)(i), for a good or service to be directly related to the *execution* of trades on behalf of the *investment manager's customers* it must be:

…

…

(3) Contravention of (1) may be relied on as tending to establish contravention of the rule on use of dealing commission (*COBS*

1.6.3R).

11.6.5 E (1) ~~Where the goods or services relate to the provision of research, an *investment manager* will have reasonable grounds to be satisfied that the requirements of the rule on use of dealing commission (*COBS* 11.6.3R) are met if the research~~ Under *COBS* 11.6.3R(2)(a)(ii), for a good or service to amount to the provision of substantive research the relevant research must:

(a) ~~is~~ be capable of adding value to the investment or trading decisions by providing new insights that inform the *investment manager* when making such decisions about its *customers'* portfolios;

(b) whatever form its output takes, ~~represents~~ represent original thought, in the critical and careful consideration and assessment of new and existing facts, and ~~does~~ must not merely repeat or repackage what has been presented before;

(c) ~~has~~ have intellectual rigour and ~~does~~ must not merely state what is commonplace or self-evident; and

(d) ~~involves analysis or manipulation of data to reach~~ present the *investment manager* with meaningful conclusions based on analysis or manipulation of data.

…

(3) Contravention of (1) may be relied on as tending to establish contravention of the rule on use of dealing commission (*COBS* 1.6.3R).

11.6.6 G An example of ~~goods or services~~ a good or service relating to the *execution* of trades that the *FCA* does not regard as meeting the requirements of the *rule* on use of dealing commission (*COBS* 11.6.3R) is post-trade analytics, because it does not directly relate to the *execution* of trades.

11.6.7 G Examples of goods or services that relate to the provision of research that the *FCA* does not regard as meeting the requirements of the rule on use of dealing commission (*COBS* 11.6.3R) include price feeds or historical price data that have not been analysed or manipulated to reach meaningful conclusions, because they do not amount to substantive research.

11.6.8 G Examples of goods or services that relate to the *execution* of trades and/or the provision of research that the *FCA* does not regard as meeting the requirements of either evidential provisions *COBS* 11.6.4E(1) or *COBS* 11.6.5E(1) include:

…

(4) …

(4A) *corporate access services*;

…

11.6.8A G (1) An *investment manager* intending to pass on to its *customers* any *charges* under *COBS* 11.6.3R(2) should have regard to its duties under the *client's best interests rule*. For example, this means that:

(a) an *investment manager* should not pass on a charge to a *customer* under *COBS* 11.6.3R that is greater than the cost charged by the broker or relevant *person* specifically for the relevant good or service falling under *COBS* 11.6.3R(2); and

(b) where the *investment manager* is in a position to negotiate or itself dictate the price of a good or service it receives that is to be charged to a *customer* under in *COBS* 11.6.3R(2), it should act honestly, fairly and professionally in accordance with the best interests of its *client*.

(2) Where a good or service received by an *investment manager* comprises the provision of substantive research together with elements that are not substantive research (see *COBS* 11.6.7G and *COBS* 11.6.8G), *COBS* 11.6.3R(2) only applies for those elements that amount to the provision of substantive research. This means that the *investment manager* should disaggregate any such good or service received, to ensure that it only accepts the substantive research elements under *COBS* 11.6.3R(1). The considerations in (1) are equally relevant for any disaggregated good or service.

11.6.9 G The reference to substantive research in the *rule* on use of dealing commission (*COBS* 11.6.3R) is not confined to *investment research* as defined in the *Glossary*. ~~The *FCA's* view is that~~ Substantive research can potentially be or include~~, for example, the goods or services encompassed by *investment research*~~, but this is not part of the criteria under *COBS* 11.6.5E~~, provided that they are directly relevant to and are used to assist in the management of investments on behalf of *customers*~~. In addition, any goods or services that relate to the provision of research that the *FCA* regards as not acceptable under *COBS* ~~11.6.6G or *COBS* 11.7.6R~~ 11.6.7G or *COBS* 11.6.8G should be viewed as not meeting the requirements of *COBS* 11.6.3R(2), notwithstanding that their content might qualify as *investment research*.

11.6.10 G This section applies only to arrangements under which an *investment manager* receives from brokers or other persons ~~goods or services~~ a good or service that ~~relates~~ directly relates to the *execution* of trades or amounts to the provision of substantive research. It has no application in relation to *execution* and research generated internally by an *investment manager* itself.

…