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If you have any questions regarding the matters discussed in this memorandum, please contact the attorneys listed on the last page or call your regular Skadden contact.

One Manhattan West
New York, NY 10001
212.735.3000

22 Bishopsgate
London EC2N 4BQ
44.20.7519.7000

FCA Finalises Rules Providing Fund Managers a Joint Payment Option for Research and Execution Services

On 9 May 2025, the Financial Conduct Authority (FCA) issued policy statement PS 25/4, setting out, and bringing into force, final rules on investment research payment options for fund managers.

The new rules follow the publication of consultation paper CP 24/21 in November 2024, which proposed changing investment research rules to permit fund managers to pay for investment research and execution services jointly, subject to certain "guardrails". The proposals mirrored a similar reform introduced for MiFID investment firms in July 2024, and form part of the government's broader project to improve the UK investment research market.

The final regime remains broadly as proposed in the consultation paper, with certain amendments introduced to add flexibility to the level at which guardrails apply.

Background

Prior to the current suite of reforms, the UK's regulatory framework for investment research reflected onshored EU legislation, MiFID II. That introduced an effective prohibition on bundling of investment research execution and dealing commissions, targeting a very common practice in the industry that was perceived as unfair to clients, at least in part due to a lack of transparency as to the amounts paid for investment research and other ancillary services. Although the MiFID II regime allowed payment for research through a Research Payment Account agreed with clients, the practicalities meant that many UK asset managers sought to absorb research costs themselves. This ultimately led to a significant reduction in research spending.

The 2023 Investment Research Review (IRR) commissioned by HM Treasury assessed the impact of these unbundling rules on the UK's capital markets. The IRR found that the complexity of research payment options disproportionately affected smaller managers and may hinder UK firms' access to global research, particularly in jurisdictions where bundled payments are standard.

In response to the IRR, and as part of the broader Edinburgh Reforms which are aimed at enhancing the competitiveness of the UK financial sector, the FCA has amended its investment research rules to create additional payment options. The changes for fund managers introduced in PS 25/4 are based on the rules introduced in 2024 for MiFID investment firms, which established a similar joint payment option. See our 25 April 2024 alert, "FCA Proposes Introducing Bundled Payments Option for Investment Research Services".

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The Joint Payment Option

The FCA's amendments allow fund managers to choose a joint payment option for third party research and execution services, subject to a set of operational guardrails. The guardrails provide that fund managers will:

- Have a written policy on their approach to joint payments.
- Specify research cost calculation methodology and ensure identifiable separation from trade transaction costs.
- Establish a research provider payment allocation structure.
- Be responsible for the administration of the joint payment account.
- Set budgets for the purchase of research with joint payments.
- Assess the quality and value of investment research.
- Ensure fair allocation of research cost among different funds.
- Disclose the approach on joint payments to investors.

The joint payment option is available to UK Undertakings for Collective Investment in Transferable Securities (UCITS) management companies, full-scope UK Alternative Investment Fund Managers (AIFMs), small authorised UK AIFMs and residual collective investment scheme operators.

Adjustments to the Guardrails in the Final Policy Statement

While the final rules largely mirror those consulted on, the FCA has adjusted certain of the guardrails in response to industry feedback on the appropriate fund level to which the rules should apply.

- **Written policies.** In response to concerns about requiring written policies for each fund, the FCA clarified that firms can have one set of standard written policies for joint payments across a range of funds that may be tailored as required, rather than every fund needing a separate written policy. Additionally, the FCA clarified that each fund is not required to have a separate commission sharing agreement to adopt the joint payment option.
- **Research budgets.** Instead of requiring fund managers to set the budget for each fund they manage, the FCA will allow firms to set research budgets at a level of aggregation appropriate to their investment management processes.
- **Cost allocation.** The FCA clarified that firms should determine a cost allocation level that is appropriate to their business model, ensuring that budgets covering multiple funds and MiFID investment services are subject to a reasonable allocation method that results in costs being proportionate to benefits.
- **Disclosure.** The FCA's final rules will not require disclosure of the actual amounts by which authorised firms' research budgets increase or research costs overrun. Instead, the proportion of increase will be disclosed in the funds' annual reports.

Despite consultation responses suggesting that the assessment of the value and quality of research should be allowed at an aggregate level, the FCA have maintained that such assessments apply at the level of investment strategies. This is to ensure each fund is charged appropriately and is not subsidising others with different investment strategies

Authorised Funds and Notification Requirements

The adoption of the new joint payment option by an authorised fund will be treated as a significant change by the FCA, requiring fund managers to notify unitholders or investors and obtain FCA approval.

Minor Non-Monetary Benefits

FCA rules provide that firms, in relation to funds, may only accept non-monetary benefits capable of improving the quality of their service. PS 25/4 includes short-term trading commentary (without substantive analysis) and bespoke trade advisory services as acceptable non-monetary benefits, in line with changes made for MiFID investment firms. Additionally, the prior rule treating research on companies with a market capitalisation below £200 million as a permitted minor non-monetary benefit has been removed; the research payment rules will no longer distinguish companies based on their market capitalisation.

Comments

Fund managers and authorised firms are encouraged to carefully review the final rules when considering whether to take up the joint payment option.

These changes are a step towards a more efficient and accessible research market, supporting the broader objectives of the UK's financial sector reforms. By responding to industry feedback and introducing greater flexibility in the application of operational guardrails, the FCA has sought to balance the need for transparency and investor protection with the practical realities faced by fund managers, aligning the UK with global practices. However, it remains to be seen whether these changes are sufficient to reverse the chilling effect that the unbundling regime had on the investment research sector.

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Contacts

Greg Norman
Partner / London
44.20.7519.7192
greg.norman@skadden.com

Sebastian J. Barling
Partner / London
44.20.7519.7195
sebastian.barling@skadden.com

Abigail B. Reeves
Associate / London
44.20.7519.7282
abigail.reeves@skadden.com

William K. Hardaway
Associate / London
44.20.7519.7136
william.hardaway@skadden.com

Sahej Grewal
Trainee Solicitor / London
44.20.7519.7000
sahej.grewal@skadden.com