Payment Optionality for Investment Research (FCA PS 24/9): Corporate Access Services (November 2024)

Key Message

We welcome optionality in research payment and we note the stated desire in the Investment Research Review recommendations that the UK continue to remain aligned with the EU and the US, and not to be put at a competitive disadvantage.

Optionality should be available as a means for paying for corporate access in the same way as for investment research. Creating greater opportunities for investors to directly access SMEs/corporates as part of the normal course of business is an integral part of the investment decision making process.

Our recommendation will help achieve a balanced and flexible framework for all research payment arrangements, including the new "CSA-like" arrangement introduced by the FCA in August 2024.

We believe that this change will further incentivise the take up of the new payment option, and help reinvigorate UK capital markets and bolster UK economic growth.

Joint Associations' recommendation on Corporate Access

A corporate access service is defined as "a service of arranging or bringing about contact between an *investment manager* and an *issuer* or potential *issuer*"[1].

Corporate access is a critical part of the information gathering process of the investment manager, which is beneficial to not only the investment manager but also ultimately to the investment managers' end clients. This point seems to be acknowledged by regulators in other jurisdictions who allow the arrangements of such meetings to be paid through the use of client commissions recognising the importance of the dialogue to the end consumer and overall capital market information ecosystem.

Overall, the UK regime acts as a limiting factor, particularly for smaller companies and funds, which have fewer resources. Importantly, encouraging providers to create corporate access events which include SMEs, who may not generate as much investor interest, allows a greater opportunity for investors to directly access SMEs/corporate management, which can form an integral part of the investment process. As corporate access, like research, forms an integral part of the investment process and the information ecosystem, it follows that it should have the same options for payment as research.

[1] FCA Glossary

This is as important as finding structures to improve availability and quality of information, which is crucial for:

i) supporting the investment making process,
ii) creating structures which are consistent with existing global structures and removing friction in the market, and
iii) improving and promoting the UK capital markets, which ultimately improves the overall outcome for end investors.

UK Corporate Access rules are also more onerous than other regions such as the US and APAC and require either separate payment or justification as a minor non-monetary benefit by the attendee. In the US and APAC, these payments can be part of a bundled service.

In the UK, corporate access is regulated in the FCA Conduct of Business Sourcebook ("COBS"). Under COBS 2.3A.19(k).R, corporate access services, which relate to listed or unlisted companies with a market capitalisation below £200m, are minor non-monetary benefit (MNMB), if they meet certain requirements, ie if they are: i) clearly disclosed; ii) quality enhancing for the client and, iii) reasonable, proportionate and of a scale that is unlikely to influence the firm's behaviour in any way that is detrimental to the interests of the relevant client. The two primary sell side obligations are to: i) price corporate access separately from research and execution, with pricing set on a commercial basis) and, ii) mitigate inducement risks. Based on our previous engagement with the FCA on this issue, the FCA considers that it would be acceptable to issue one omnibus invoice for services such as research and corporate access, but it expects that it would separately itemise and price the various services unless they can be justified as MNMB.

Even though the EU has similar requirements to the UK with respect to corporate access, the perception of the market has been that the UK is far more prescriptive on what constitutes research, corporate access and/or a minor non-monetary benefit.

This difference in approach can have consequences for the nature of the engagement between the buy-side, research analysts and companies in the UK, in view of the additional friction and administrative burdens vis-à-vis other jurisdictions. This has a negative impact on the overall investment process and, therefore, on the competitiveness and growth objectives which are being pursued.

Recommendation: **As corporate access, like research, forms an integral part of the investment process and the information ecosystem, it follows that it should have the same options for payment as research**.

This should apply to capture both COBS 2.3A.19(k)R (access to issuer or potential issuer) and COBS 2.3A.21.G (allocating valuable resources, which could be where outside/industry experts are captured and could be treated as corporate access).

Similarly, COBS 2.3B.3R should be amended to expressly permit the receipt of corporate access services without it constituting an inducement, and COBS 2.3B.23G should be

amended to remove corporate access services from the list of goods or services that the FCA does not regard as research, so that it can be paid for from research payment accounts.

For level playing field reasons, optionality for corporate access services payment should also be made available to fund managers.

Contacts:

Giulia Pecce, AFME
Director, Head of Secondary Capital Markets and Wholesale Investor Protection
giulia.pecce@afme.eu

Aniqah Rao, AIMA
Associate Director, Markets Regulation
arao@aima.org

Hugo Gordon, The IA
Senior Policy Adviser
hugo.gordon@theia.org

Notes:

AFME (Association for Financial Markets in Europe) promotes fair, orderly, and efficient European wholesale capital markets and provides leadership in advancing the interests of all market participants. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. AFME participates in a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) through the GFMA (Global Financial Markets Association). For more information please visit the AFME website: www.afme.eu

Follow us on X, formerly Twitter @AFME_EU

AIMA is the world's largest membership association for alternative investment managers. Its membership has more firms, managing more assets than any other industry body, and through our 10 offices located around the world, we serve over 2,000 members in 60 different countries.

AIMA's mission, which includes that of its private credit affiliate, the Alternative Credit Council (ACC), is to ensure that our industry of hedge funds, private market funds and digital asset funds is always best positioned for success. Success in our industry is defined by its contribution to capital formation, economic growth, and positive outcomes for investors while being able to operate efficiently within appropriate and proportionate regulatory frameworks.

AIMA's many peer groups, events, educational sessions, and publications, available exclusively to members, enable firms to actively refine their business practices, policies, and processes to secure their place in that success.

About the Investment Association (IA):

The IA champions UK investment management, supporting British savers, investors and businesses. Our 250 members manage £9.1 trillion of assets and the investment management industry supports 126,400 jobs across the UK.

Our mission is to make investment better. Better for clients, so they achieve their financial goals. Better for companies, so they get the capital they need to grow. And better for the economy, so everyone prospers.

Our purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity
- Help people achieve their financial aspirations
- Enable people to maintain a decent standard of living as they grow older
- Contribute to economic growth through the efficient allocation of capital.

The money our members manage is in a wide variety of investment vehicles including authorised investment funds, pension funds and stocks and shares ISAs.

The UK is the second largest investment management centre in the world, after the US and manages 37% of all assets managed in Europe.