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24th February 2014

Dear Adam,

The CFA Society of the United Kingdom (CFA UK) is pleased to respond to the Financial Conduct Authority's (FCA) consultation on the use of dealing commission rules (CP13/17). This response has been informed by the development of a position paper on the market for research. The paper comments on the quality of the market for research and on the benefits and costs of changes to the market, whether driven by regulation or consumer behaviour. In preparing the paper, CFA UK took feedback from contacts across the sellside, buy-side and corporate communities and – in each case – across firms of different sizes. The society also sought feedback on some of the paper's proposals from members via a survey. The position paper (which includes three appendices: on corporate access, the academic literature relating to the impact of research on market quality and the survey results) is attached with this response.

Introductory comments

Research is valuable to markets and to investment professionals. Research enhances market quality by improving liquidity and reducing companies' costs of capital¹. Investment professionals need to undertake diligent, independent and thorough analysis before making investment recommendations or taking investment actions. 'Research' summarises the information set and processes that an investment professional uses in that analysis.

Research may be paid for in a number of ways: the investment management firm may employ an in-house analyst team; the firm may pay directly for external research from its own resources; the firm may use part of dealing commission to pay for external research; or the firm may use combinations of all three.

The first two payment methods represent costs to the firm which can be recouped through revenues from the annual charge for the management of client assets. The third approach is a direct cost to clients as dealing commissions are charged to the client fund or account in addition to the annual management charge. (Dealing commission is the fee paid to a broker for arranging a securities transaction. Part of the commission represents the cost of executing the transaction. The remaining amount can be used to pay for research goods and services either from the broker arranging the transaction or from a third party via a commission-sharing arrangement [CSA]). Currently in the UK, most equity research is paid for via dealing commission (whereas the cost of research in the fixed income market is priced into the bid-offer spread).

It is in clients' interests for research to be bought and used by investment managers on clients' behalf. Investment firms' and clients' interests are aligned on this point as they both seek and benefit from improved performance from the use of research in what is a highly competitive market.

¹ See Appendix B for references to academic research.



However, the current dealing commission arrangement within the investment process is unusual in that it creates a pool of client money (in the form of the dealing commission not used to pay for execution) whose use lies outside of the client's control, but which could potentially be used by investment firms to their own benefit as well as in clients' interests. In these circumstances, it is important for investment professionals to use that pool of money (a client asset) only on clients' behalf and to report on how they have done so in order to be able to demonstrate this to clients. Investment professionals do so through commonly agreed disclosure standards (such as the Investment Management Association's Pension Fund Disclosure Code²).

While the markets for investment services and research are competitive and disclosures have improved practices, key issues remain unaddressed. First, dealing commission is generated on each occasion that a trade takes place. As a consequence, the pot of money available to pay for research goods and services may be larger than necessary (at a cost to clients). Second, research goods and services paid for through dealing commissions may not be used exclusively on clients' behalf. Third, it is difficult for investment managers to demonstrate that they are taking sufficient care to ensure that value is generated for clients from the expense that is charged to them.

It is estimated that total dealing commission amounted to £3bn in 2012³, with half of that figure used to pay for research. That is not a significant sum in relation to the £5.2 trillion of assets under management in the UK⁴ or relative to other fees and costs borne by the client, but any opportunity to improve client outcomes (through lower costs and improved value) should be pursued. However, addressing the use of dealing commission to pay for research is complex because of the interplay of ethical issues that need to be taken into account and because of the difficulty of determining the value of research.

Irrespective of the complexity of the challenge, it is important for the investment profession – a community that plays an important role in the efficient allocation of capital – to consider ways to improve resource allocation in the world of research and to ensure that any conflicts between the interests of investment professionals and their clients are avoided where possible and minimised and mitigated through disclosure where they are not.

Recommendations

As stated above, the current approach – in which dealing commission can be allocated in part to pay for research – suffers from two flaws. First, there is a linear link between trading activity and the dealing commission available to spend on research. While these activities are related, there is no logic to a linear link. Secondly, payment for research through dealing commission creates the opportunity for conflicts of interest to arise and obscures consumers' ability to distinguish between managers based on their ability to generate value from research.

The linear link between trading and spending on research should be broken and conflicts of interest should be avoided or mitigated through disclosure. However, radical action seeking to improve the efficiency and transparency of the market for research – such as banning outright the use of dealing commission to pay for research – would pose risks to competition in the sector and may diminish the breadth, depth and liquidity of the UK equity market.

² www.investmentfunds.org.uk/assets/files/industry.../20070901pfdc3.pdf

³ FSA CP 13/17 Consultation on the use of dealing commission rules, para 1.16

⁴ IMA Annual Management Survey 2012-13 (August 2013)
<http://www.investmentfunds.org.uk/research/ima-annual-industry-survey/industry-figures/>



Our recommendations are that:

- Only research that contributes directly to specific investment decision-making should be chargeable against dealing commission.
- Investment firms should compete with one another on whether or not to use dealing commission to pay for research, the quality of their dealing commission management (where dealing commission is used) and on the value that they generate through the use of research.
- Investment firms should publicise their policies and processes for managing dealing commission and should be encouraged to provide specific fund or client-level disclosure of commissions generated and their use.
- Clients should pay as much attention to research costs (and their impact on net risk-adjusted returns) as they do to execution and other costs.
- Investment firms' senior management should be required to attest that they manage dealing commission as if it was their firm's own money and the use of dealing commission and the valuation of research should be carefully supervised.
- Investment firms should be encouraged to use budgets for spending on research to help establish a price for external research and to break the ad valorem link between trading and research.
- Sellside research firms should be encouraged to move towards explicit pricing for different service levels.

Market behaviour has already evolved significantly in clients' interests. It is important to maintain and accelerate that trend. It is best to do so by supporting clients' rights in the use of dealing commission through improving the pricing of research, improving research commission management practices and improving disclosures.

Responses

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

CFA UK supports the introduction of new guidance that should help investment managers to act consistently in clients' best interests by treating the use of dealing commission as if it were the firm's own money and only charging to clients for research used in the investment decision-making process (and not elsewhere in the firm). We also support the tightening of the COBS rules so that non-compliance is easier to identify and so that the regulatory purpose of the rules can be better achieved.

However, as has been stated elsewhere in this paper, we do not support a content-based approach to the definition of research. We favour a use-based definition requiring investment managers to make reasonable, evidence-based assessments of the extent to which different research products and services have contributed to investment decision-making across specific investment vehicles. We believe that this would reduce the volume of dealing commission spent on research, but would do so without preventing investment managers from sourcing research that they believed would contribute to value generation.

We share the FCA's intention to promote market integrity and competition in clients' best interests, but are unsure that all of the proposed changes will contribute to those aims.

If the proposed changes are introduced, a number of superficial changes may occur as well as some deeper ones.

There is a danger that if the regulations change to require research to meet certain criteria to be regarded as 'substantive', the research will either be amended slightly to meet the criteria or, more likely, the nature of the research will not change, but every piece of research will be accompanied by an



extensive note⁵ – carefully drafted by in-house and external legal advisers – that affirms that the research meets the criteria to be regarded as substantive. The costs of this legal work will probably be clawed back through charges ultimately borne by clients.

Secondly, the proposed changes may lead sellside research providers to specify that meetings with company management – no longer termed corporate access, but essentially the same thing – are not included in any set of chargeable services, but are provided free to clients. Unless a company is responsible for selecting the lists of institutions to be invited to attend by its broker (who is arranging the meetings as part of the paid for service as the corporate broker), selection to enjoy these ‘free services’ may be influenced by the amount of execution generated and research consumed. Corporate access will persist in all but name, but will be managed as a ‘free’ service’ only to be enjoyed by large investment management firms. This outcome would support neither competition, nor optimal capital allocation. CFA UK’s views on corporate access are contained in Annex A. On balance, CFA UK feel that it is appropriate that payment for corporate access from dealing commission is disallowed. It is welcome that FCA CP 13/17 reminds investment firms that this is so. However, CFA UK would also be disappointed if corporate access was reduced as a consequence of any changes and would encourage close monitoring of this important area.

There would be positive immediate outcomes from the FCA proposals – particularly in that more investment managers might adopt good practices in managing dealing commission – but the proposals would not be effective in addressing the root issues that impede market efficiency and may simply cause current practices to be recategorised, with the costs still borne by clients but via a more circuitous route.

The FCA’s proposed regulatory reforms might also generate more profound change.

Applying tighter criteria to the research that can be paid for through dealing commission may reduce the total amount spent on external research and place greater emphasis on internal research. That would be a benefit to consumers, except to the extent that it reduced competition in the market for investment goods and services. Relatively large investment management firms (by assets under management) rely less on external research and have greater pricing power in negotiations with research providers. Large firms would be able to realise the benefits of an increased investment in buy-side research across a broader range of assets.

In short, an increase in fixed cost would be more easily borne by large investment firms than by small investment firms. The UK’s market for investment goods and services is currently competitive. (The IMA estimates a Herfindahl–Hirschman Index [HHI] figure of 415 for the UK investment sector⁶ in 2012-13. The HHI is a leading measure of industrial concentration and is often cited in competition law. HHI figures range from zero to 10,000 with a 415 figure indicating a lack of concentration and a good level of competition). The proposed changes may increase concentration and reduce competition by disadvantaging small investment firms⁷.

⁵ Such as the three pages of ‘important disclosures’ and ‘other important disclosures’ that are appended to the foot of every piece of research and that are, as one observer puts it ‘never read, but always paid for’.

⁶ <http://www.investmentfunds.org.uk/assets/files/research/2013/20130806-IMA2012-2013AMS-chapter6.pdf>

⁷ While consumers would lose out from reduced competition, they might gain from activity being transferred to larger firms enjoying economies of scale. However, the potential benefit for consumers would be limited to the extent to which larger firms shared cost savings with them.



Similarly, while reduced revenue from spending on research would impact all research providers, the impact would be more easily borne by those large research providers that could maintain some cross-subsidy for research through their execution activity and which benefit from the cross-subsidy provided by corporate finance revenues. Specialist and independent research providers would be more significantly exposed to reduced spending – either via CSAs or directly – and while they might prosper in time, may find it difficult to survive a transitional period.

Introducing regulations that drive lower spending on external research might reduce the number of providers of investment goods and services and of research. The investment management market may become less competitive. In research, there may be less independent research and the trend towards reduced coverage of stocks may accelerate, inhibiting liquidity and increasing the cost of capital. In addition, with the market more dependent on research from corporate brokers, the overall quality of research may diminish.

It may be that these effects would be transitional. In time, small investment managers might start to be set up again if, either, larger firms failed to compete effectively with one and other, or if small firms were able to demonstrate additional value at the same cost. Similarly, if there was apparent demand for additional research that larger providers chose not to issue at a cost that the market might bear, then new, independent research providers might crop up. However, the potential benefit to consumers of a reduction in costs and a shake-up in the market for research provision, needs to be carefully balanced against the risk of a lasting blow to competition. Even if small investment firms and independent research houses were to recover, both would be exposed to the danger that larger providers could respond by using their pricing power and other resources to protect their new market position.

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

We do not disagree with the analysis in Annex 1, but believe that estimating the costs and benefits of changes to the market for research is complex. Annex 1 may not take account of all of the costs and benefits that may result from changes to the regulatory framework. We discuss some of the potential impacts in our position paper.

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

See our response to Q2.

About CFA UK and CFA Institute

CFA UK serves society's best interests through the provision of education and training, the promotion of high professional and ethical standards and by informing policy-makers and the public about the investment profession.

Founded in 1955, CFA UK represents the interests of approximately 10,000 investment professionals. CFA UK is part of the worldwide network of member societies of CFA Institute and is the largest society outside North America.

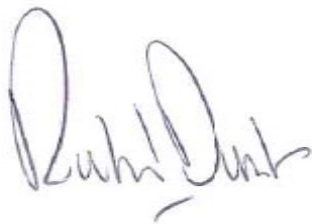
CFA Institute is the global association of investment professionals that sets the standard for professional excellence and credentials. The organization is a champion for ethical behaviour in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. CFA Institute has more than 117,000 members in 140 countries and territories, including 100,000 Chartered Financial Analyst® charterholders, and 136 member societies.



The aim of CFA UK's advocacy initiative is to work with policy-makers, regulators and standard-setters to promote fair and efficient-functioning markets, high standards in financial reporting and ethical standards across the investment profession. The society is committed to providing members with information regarding proposed regulatory and accounting standards changes and bases its responses on feedback direct from members or relevant committees.

Members of CFA UK abide by the CFA Institute Code of Ethics and Standards of Professional Conduct. Since their creation in the 1960s, the Code and Standards have served as a model for measuring the ethics of investment professionals globally, regardless of job function, cultural differences, or local laws and regulations. The Code and Standards are fundamental to the values of CFA Institute and its societies.

Yours,



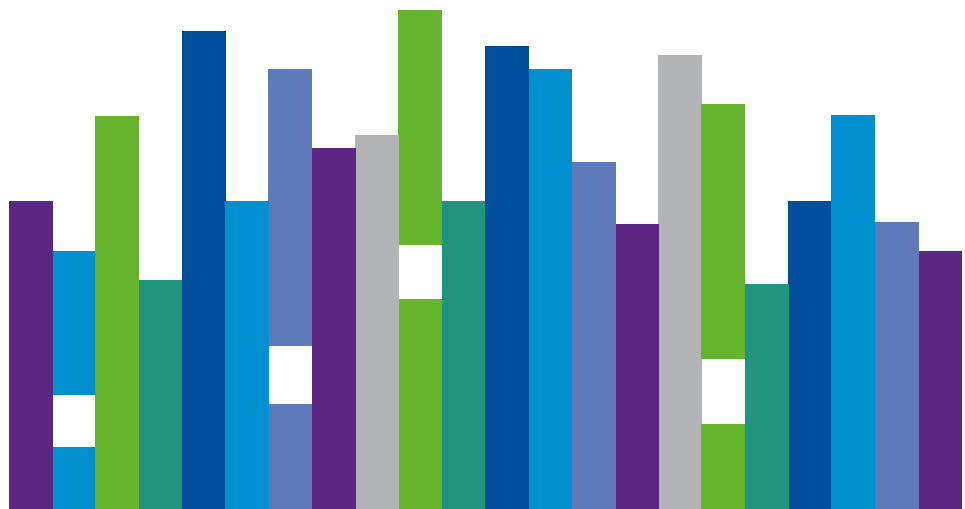
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THE MARKET FOR RESEARCH

Position paper
February 2014



THE MARKET FOR RESEARCH

EXECUTIVE SUMMARY

Investment management plays an important societal role in helping savers to meet their financial needs over time and, in doing so, the investment process contributes to growth through the efficient allocation of capital.

In active management (in contrast to passive management), the investment process depends on research to identify opportunities to generate appropriate risk-adjusted net returns over clients' chosen time horizons.

Research used in the investment process can take many different forms and can be sourced from multiple locations. Research is not a report; it is a service that supports the investment process. A use-based definition of research – not a content-based one – is in clients' best interests.

The dealing commission generated in trading (and available to spend on research) is a client asset and must be managed in clients' best interests.

The current approach – in which dealing commission can be allocated in part to pay for research – suffers from two flaws. First, there is a linear link between trading activity and the dealing commission available to spend on research. While these activities are related, there is no logic to a linear link. Secondly, payment for research through dealing commission creates the opportunity for conflicts of interest to arise and obscures consumers' ability to distinguish between managers based on their ability to generate value from research.

The linear link between trading and spending on research should be broken and conflicts of interest should be avoided or mitigated through disclosure. However, radical action seeking to improve the efficiency and transparency of the market for research – such as banning outright the use of dealing commission to pay for research – would pose risks to competition in the sector and may diminish the breadth, depth and liquidity of the UK equity market.

OUR RECOMMENDATIONS ARE THAT:

Only research that contributes directly to specific investment decision-making should be chargeable against dealing commission.

Investment firms should compete with one another on whether or not to use dealing commission to pay for research, the quality of their dealing commission management (where dealing commission is used) and on the value that they generate through the use of research.

Investment firms should publicise their policies and processes for managing dealing commission and should be encouraged to provide specific fund or client-level disclosure of commissions generated and their use.

Clients should pay as much attention to research costs (and their impact on net risk-adjusted returns) as they do to execution and other costs.

Investment firms' senior management should be required to attest that they manage dealing commission as if it was their firm's own money and the use of dealing commission and the valuation of research should be carefully supervised.

Investment firms should be encouraged to use budgets for spending on research to help establish a price for external research and to break the ad valorem link between trading and research.

Sellside research firms should be encouraged to move towards explicit pricing for different service levels.

Market behaviour has already evolved significantly in clients' interests. It is important to maintain and accelerate that trend. It is best to do so by supporting clients' rights in the use of dealing commission through improving the pricing of research, improving research commission management practices and improving disclosures.

INTRODUCTION

This paper is produced to inform CFA UK's response to the Financial Conduct Authority's consultation paper (CP 13/17) on the use of dealing commission rules and to assist the FCA in its wider thematic work relating to investment research.

The paper comments on the quality of the market for research and on the benefits and costs of changes to the market, whether driven by regulation or consumer behaviour. The paper has been informed by feedback from contacts across the sellside, buy-side and corporate communities and – in each case – across firms of different sizes. The society also sought feedback on some of the paper's proposals from members via a survey. The survey's results are included in the paper as appropriate and a full set of the survey results is attached as Annex C.

Research is valuable to markets and to investment professionals. Research enhances market quality by improving liquidity and reducing companies' costs of capital¹. Investment professionals need to undertake diligent, independent and thorough analysis before making investment recommendations or taking investment actions. 'Research' summarises the information set and processes that an investment professional uses in that analysis.

Research may be paid for in a number of ways: the investment management firm may employ an in-house analyst team; the firm may pay directly for external research from its own resources; the firm may use part of dealing commission to pay for external research; or the firm may use combinations of all three.

The first two payment methods represent costs to the firm which can be recouped through revenues from the annual charge for the management of client assets. The third approach is a direct cost to clients as dealing commissions are charged to the client fund or account in addition to the annual management charge. (Dealing commission is the fee paid to a broker for arranging a securities transaction. Part of the commission represents the cost of executing the transaction. The remaining amount can be used to pay for research goods and services either from the broker

arranging the transaction or from a third party via a commission-sharing arrangement [CSA]). Currently in the UK, most equity research is paid for via dealing commission (whereas the cost of research in the fixed income market is priced into the bid-offer spread).

It is in clients' interests for research to be bought and used by investment managers on clients' behalf. Investment firms' and clients' interests are aligned on this point as they both seek and benefit from improved performance from the use of research in what is a highly competitive market.

However, the current dealing commission arrangement within the investment process is unusual in that it creates a pool of client money (in the form of the dealing commission not used to pay for execution) whose use lies outside of the client's control, but which could potentially be used by investment firms to their own benefit as well as in clients' interests. In these circumstances, it is important for investment professionals to use that pool of money (a client asset) only on clients' behalf and to report on how they have done so in order to be able to demonstrate this to clients. Investment professionals do so through commonly agreed disclosure standards (such as the Investment Management Association's Pension Fund Disclosure Code²).

However, while the markets for investment services and research are competitive and disclosures have improved practices, key issues remain unaddressed. First, dealing commission is generated on each occasion that a trade takes place. As a consequence, the pot of money available to pay for research goods and services may be larger than necessary (at a cost to clients). Secondly, the regulator is concerned that the research goods and services paid for through dealing commissions may not be used exclusively on clients' behalf. Third, it is difficult for investment managers to demonstrate that they are taking sufficient care to ensure that value is generated for clients from the expense that is charged to them.

The FCA estimates that total dealing commission amounted to £3bn in 2012³, with half of that figure used to pay for research. That is not a significant sum in relation to the £5.2 trillion of assets under management in the UK⁴ or relative to other fees and costs borne

¹ See Appendix B for references to academic research.

² www.investmentfunds.org.uk/assets/files/industry.../20070901pfdc3.pdf

³ FSA CP 13/17 Consultation on the use of dealing commission rules, para 1.16

⁴ IMA Annual Management Survey 2012-13 (August 2013) <http://www.investmentfunds.org.uk/research/ima-annual-industry-survey/industry-figures/>

by the client, but any opportunity to improve client outcomes (through lower costs and improved value) should be pursued. However, addressing the use of dealing commission to pay for research is complex because of the interplay of ethical issues that need to be taken into account and because of the difficulty of determining the value of research.

Irrespective of the complexity of the challenge, it is important for the investment profession – a community that plays an important role in the efficient allocation of capital – to consider ways to improve resource allocation in the world of research and to ensure that any conflicts between the interests of investment professionals and their clients are avoided where possible and minimised and mitigated through disclosure where they are not.

The FCA's current consultation (CPI13/17)⁵ focuses on the use of research and proposes clarifications to the Conduct of Business Sourcebook (COBS) rules to make sure that dealing commission is only used in clients' interests. CFA UK responds to the specific proposals later in the paper.

The FCA may address in a parallel thematic review the broader questions about the generation of dealing commission for use in purchasing research and investment firms' management of that cost to clients. Before commenting on these topics, it is worth revisiting briefly the origins of the current structure of the research market.

Currently, most research used by investment management firms originates either from investment bank research teams (sellside research) or from internal research teams (buyside research), though non-bank sources of research are increasingly widely used (independent research).

Sellside research developed as a part of investment banking businesses because of the value of trade execution activity and corporate finance activity to investment banks. Research was a mechanism to attract business to what were historically high-margin businesses to banks. Though the value of trade execution was diminished by the deregulation of commission rates in the 1970s and 1980s, the value of research in attracting corporate finance activity remained in place. This, though, in turn, was the subject

of greater regulatory scrutiny and tighter standards relating to the independence of the research function following the scandals of the early 2000s.

Nevertheless, until recent times, the provision of research by investment banks has been seen, at least in part, as a means to attract profitable execution or corporate finance activity rather than as a valuable product that should deliver margin in its own right. As a consequence, there has been little incentive for sellside research producers to set a price for research as it was thought likely that doing so might have an adverse impact on execution and/or corporate finance business that would not be recouped from additional research revenues.

Meanwhile, buyside demand for sellside research (or for third party research acquired through CSAs) may have been somewhat subsidized by the opportunity for investment firms to charge research costs directly to clients against previously incurred dealing commission. This arrangement is thought likely to have reduced investment firms' incentive to manage the costs of external research aggressively and to have contributed to the relative opacity of a 'price' for research by limiting the buyside's incentive to demand clear pricing from the sellside.

Opaque valuation of research by both its producers and consumers has meant that it is difficult to identify the true levels of supply and demand for research goods and services and, thereby for pricing to develop. It is also the case that, to date, the ultimate consumer (the end client) has shown little interest in the different firms' commission management practices and has not discriminated between investment managers based on these practices, though investment firms' practices will have an impact on the ultimate net cost to the client and, therefore, on the net return on which the firm will be judged.

CFA Institute and its member societies – such as the CFA Society of the UK – are committed to professional excellence and financial market integrity. Issues relating to the provision, use and compensation of research challenge both tenets and have motivated regular comment and guidance from CFA Institute and CFA UK in the past.

CFA UK AND CFA INSTITUTE ON DEALING COMMISSION

CFA Institute⁶ is the global association of investment professionals that sets the standard for professional excellence and credentials. CFA Institute has more than 117,000 members in 140 countries. The CFA Society of the UK (CFA UK)⁷ is one of CFA Institute's largest member societies and represents the interests of roughly 11,000 investment professionals.

All CFA Institute and CFA UK members commit annually to adhere to and abide by CFA Institute's Code of Ethics and Standards of Professional Conduct⁸. Among other items, CFA Institute's Code of Ethics requires adherents to

- » Act with integrity, competence, diligence, respect, and in an ethical manner with the public, clients, prospective clients, employers, employees, colleagues in the investment profession, and other participants in the global capital markets
- » Place the integrity of the investment profession and the interests of clients above their own personal interests
- » Use reasonable care and exercise independent professional judgment when conducting investment analysis, making investment recommendations, taking investment actions, and engaging in other professional activities

The standards fall into seven sections: professionalism; the integrity of the capital markets; duties to clients; duties to employers; investment analysis, recommendations and actions; conflicts of interest and responsibilities as a CFA Institute member or candidate.

Among other items, the standards require members and candidates to:

- » Act with reasonable care and exercise prudent judgment for clients
- » Act for the benefit of their clients and place their clients interests before their own or their employer's
- » Avoid or disclose any conflicts of interest that might impair their independence or interfere with their duties to clients
- » Deal fairly with all clients

The code and standards are used to provide guidance on ethical and professional issues. However, the complexity of the issues relating to the use of client brokerage led to the development of specific soft dollar standards in 1998⁹. The standards put the focus on the client and provide investment professionals with guidance on how to use client brokerage ethically, based on the following principles:

- » Dealing commission belongs to the client
- » Investment managers may only purchase research with dealing commission if the primary use is in the investment decision making process, not the management of the investment firm
- » Investment managers must disclose all relevant benefits they receive through dealing commission

CFA Institute's Soft Dollar Standards are ethical principles intended to ensure:

- » full and fair disclosure of an investment manager's use of a client's dealing commission
- » consistent presentation of information so that the client, broker, and other applicable parties can clearly understand an investment manager's commission use practices
- » uniform disclosure and record keeping to enable an investment manager's client to have a clear understanding of how the investment manager is using the client's commission; and
- » high standards of ethical practices within the investment profession

The standards recognise the possible conflict of interest between the investment manager and their clients that arises from the opportunity for an investment manager to offset some of the firm's fixed costs through the use of services paid for via client commission. The standards seek to require members to manage that conflict appropriately through their own actions and by providing clients with the information that they might need to monitor their managers' behaviour.

The soft dollar standards were referenced in the society's response to Consultation Paper 176 (CP 176) issued by the Financial Services Authority (FSA) in April 2003¹⁰ and in the response to the FSA's CP 05/5¹¹ (that

⁶ www.cfainstitute.org

⁷ www.cfauk.org

⁸ <http://www.cfainstitute.org/ethics/codes/ethics/pages/index.aspx>

⁹ <http://www.cfainstitute.org/ethics/codes/softdollar/Pages/index.aspx>

¹⁰ <http://www.fsa.gov.uk/pubs/cp/cp176.pdf>

¹¹ http://www.fsa.gov.uk/pubs/cp/cp05_05.pdf

set out draft rules to give effect to the policy decisions published in Policy Statements 04/13 and 04/23 on bundled brokerage and soft commission arrangements that followed on from CP 176).

The society's initial response to CP 176¹² supported the move to promote more efficient pricing for research via improved transparency, but was concerned about the loss of research provision, the potential loss of stock coverage (and subsequent deterioration in price formation) and the impact on the UK's competitive position as a financial services centre.

The subsequent 2005 CFA Institute response to CP 05/5¹³ applauded the FSA for its proposed restrictions on the use of commission and for mandating transparency about the use of commission to clients. The response stated 'We believe that investors are best served by making available a wide variety of money management and research services in a fair and efficient market place. While we recognize the inherent conflicts in soft and bundled arrangements, we also believe that investors may not want their options for obtaining investment or research services limited... On the other hand competitive supply should be encouraged and the market should not be skewed by subsidy in favour of one group of research suppliers. This requires transparency about the true costs of research supplied, regardless of source, particularly to the client. Soft and bundled arrangements may benefit some investors and the market by encouraging research, but clearly are also subject to abuse. The commissions used by managers to pay for soft or bundled research are the property of their clients. To meet their fiduciary responsibilities to their clients, managers must use the soft commission credits generated by trading only for research services that benefit their clients'.

The response continued: 'In order to achieve the potentially conflicting objectives of providing a wide variety of research services from different sources while maintaining a competitive, fair and liquid research market, potential abuses of soft or bundled arrangements should be effectively addressed not by eliminating such arrangements and thereby possibly threatening the amount of information, analysis, and research available to investors, but by 1) increased

disclosure regarding soft and bundled practices to investors, and 2) strictly limiting the services available through soft and bundled arrangements to "research services" that primarily benefit investors.'

This was broadly the position taken by the FSA in the publication of its final rules in July 2005. Its report of that time (PS05/9)¹⁴ stated: 'Our basic analysis was that a market failure exists in relation to bundled brokerage and soft commission arrangements. The use of such arrangements to pay for goods and services other than execution lacks transparency. Investment managers then face conflicts of interest in their relationship with brokers, and are not directly accountable to their clients for expenditure on bundled and softened items. This lack of transparency makes it difficult for customers to tell whether the manager is acting in their best interests including obtaining sufficient value for money on their behalf.'

The FSA's report noted that respondents to CP 176 expressed widely divergent opinions on the materiality of the market failure and the appropriate means of dealing with it, although there was broad consensus that present practice did not then operate in the best interests of investment management clients and that transparency and accountability could and should be improved. In view of these responses, in March 2004 the FSA announced proposals to restrict the scope of soft commission and bundled brokerage arrangements and to encourage industry-based solutions to enhance disclosure and accountability. These took the form of the IMA's additions to its pension fund disclosure code in March 2005. At that time, the IMA extended the disclosure requirements around dealing commission.

This combination of tighter regulation on the use of clients' dealing commission (within a principles-based regulatory framework) and a market-led solution to disclosures around the use of dealing commission was expected to lead to reduced spending on research, more competition in the market for research and improved alignment of interests between investment managers and their clients.

DEVELOPMENTS AFTER CP176 AND THE RENEWED FOCUS ON RESEARCH

SO, WHAT HAS HAPPENED SINCE?

The regulatory requirement for best execution has led to a concentration of equity execution activity with Frost Consulting estimating that the number of execution counterparties used by European asset managers dropped by 41% (from close to 30 to under 20) in five years. Frost Consulting reckons that the volume of commission available to UK small and mid-cap brokers – who by and large chose not to support commission-sharing arrangements – fell by 80% in the same period with the total size of commission spending in that market shrinking by 40% over the five-year period.

Over the same period, the use of commission-sharing arrangements within the global market for equity trades is reckoned to have increased from 10% of the total to closer to 50%, with the proportion of CSA use significantly higher in the UK.

And while some sellside providers have left the market, with other investment banks reducing the capital allocated to trading and research in the wake of the financial crisis, the market has become more competitive in some areas with more research sourced from an increased range of non-bank providers via CSAs.

In addition, investment managers have recognised the need to demonstrate that they are acting in clients' best interests in managing research spend and have more extensively implemented broker valuation models with some implementing fixed budgets or caps for research spend.

There has been significant change in the last decade. It appears that investment management spending on research has declined, that the market for research has become increasingly competitive and – as a consequence – there is improved alignment between investment managers and their clients.

In the society's recent survey on this issue¹⁵ (to which close to 500 members responded), 70% of respondents indicated that they believed that transparency and competitiveness in the UK market for research had increased in the last five years, with just 4% of respondents believing that they had decreased. Similarly, 54% agreed that the investment profession's approach to the management of research costs has improved since execution and research costs were unbundled; just 16% disagreed that this was so.

Some of the changes to the market for research were foreseeable. Others were not. In considering actions intended to influence the evolution of the market for research, it is important to bear in mind that the operating environment may change unexpectedly and that there will be unintended consequences as well as intended ones. There may be benefits to maintaining gradual, market-led progress encouraged by regulatory and consumer influence.

SO WHY THE CURRENT CONCERN?

The renewed focus on research as a possible case of market failure requiring regulatory intervention arose in the wake of an FSA thematic review (undertaken between June 2011 and February 2012) into the management of conflicts of interest by investment management firms. That review identified a series of failings and led to the publication of a summary of a key findings document in November 2012¹⁶ (with an attached appendix requiring investment management firm CEOs to attest that they had discussed the paper's findings at Board level and that their Board had subsequently affirmed that the firm's arrangements were sufficient to manage conflicts effectively).

One of the five areas on which the report focused was firms' management of research and trade execution purchasing. In that area, the report noted that too few firms 'exercised the same standards of control over these payments that they exercised over payments made from the firms' own resources'. As an aside, the report also commented that 'Firms were also unable to demonstrate how brokers arranging for access to company management...constituted research or execution services'.

The report's findings tally with the results of our recent survey. The survey asked respondents to indicate

¹⁵ The full survey results are attached with this paper as Annex C.
¹⁶ <http://www.fsa.gov.uk/static/pubs/other/conflicts-of-interest.pdf>

whether they agreed or disagreed with the statement 'Investment firms manage clients' dealing commission with as much diligence and care as they would if it was their own money'. 33% of respondents agreed with that statement, but 44% disagreed.

Evidence that investment management firms were paying for corporate access from client dealing commission (with some regulated firms paying apparently considerable sums) embarrassed the profession and encouraged the newly-created FCA to set in motion a new consultation on the use of dealing commission rules as well as a wider-reaching thematic review of the market for research.

In short, while the market for research had become more competitive and alignment between the interests of investment management firms and their clients had improved in many cases, there was still evidence of market failure in that improved commission management practices were not applied uniformly and because definitions of permissible spend were perceived as being drawn too widely. There was little discussion at the time as to whether this was a supervisory failing, or a failure of the regulatory design, but the FCA's response was to propose additional regulation.

Following media coverage of the FSA report¹⁷ and in advance of the FCA's November 2013 publication of its consultation paper, CFA UK surveyed its membership¹⁸ to ask for their views on the merits of the current business model for research provision. Most respondents – close to 60% - indicated that they did not believe that the existing research business model worked in clients' best interests.

PURPOSE AND NATURE OF RESEARCH

CFA INSTITUTE AND CFA UK MEMBERS BELIEVE IN THE VALUE OF RESEARCH.

The ultimate purpose of investment management is to meet the risk-adjusted return requirements that the profession's clients have over their appropriate time horizons. All investment advice and investment recommendations towards that aim need to be based

on diligent, thorough analysis having a reasonable and adequate basis supported by appropriate research.

The CFA Program¹⁹ – the three-level course of study that investment professionals must successfully complete to be awarded the CFA charter – is designed to provide the tools and knowledge that investment professionals require to undertake research, to draw appropriate conclusions from research and to act upon those.

Research is a key factor in the investment decision-making processes enabling investment professionals to undertake fundamental and relative valuation and to set those valuations in a macroeconomic context.

Research is also a driver of UK market efficiency. The provision of research on companies lowers the cost of researching their securities and encourages greater participation, thereby improving liquidity in the stock. Continuing research on a company by a set of research providers limits the likelihood of earnings surprises, reduces volatility and lowers the cost of capital to the company. In summary, there is strong evidence that research enhances price formation, improves liquidity and reduces the cost of capital²⁰.

WHAT CONSTITUTES RESEARCH?

The term 'research' is used to describe a range of products and services. The most common product is the research report, but there are multiple forms of research reports (coverage initiation, earnings forecasts, results reports, sectoral analyses etc), multiple layers of research (macro, strategic and security specific) and there are extensive services relating to research, such as sales support, access to analysts and access to companies. Each of these products and services can contribute to an investment manager's information-gathering on behalf of its clients, as can primary research in the form of raw data that is incorporated into the analytical process.

The soft dollar standards define research as 'services and/or products provided by a broker, the primary use of which must directly assist the investment manager in its investment decision-making process and not in the management of the investment firm'. Under this definition, research is defined by its use within the investment decision-making process.

¹⁷ Such as, <http://www.ft.com/cms/s/0/afa48800-81bd-11e2-ae78-00144feabd0.html>

¹⁸ <https://secure.cfauk.org/about/profile-history-annual-reports.html?pid=71>. This first survey was conducted in August 2013 and generated close to 350 responses.

¹⁹ <http://www.cfainstitute.org/programs/cfaprogram/Pages/index.aspx>

²⁰ See Annex B for reference to academic research. It is also interesting to note – as described in a recent Edison white paper on the future of equity research – that stock exchanges have begun to sponsor research in order to promote liquidity in the securities that they list (p46 of their January 2014 report)

The FCA's current definition of research that can be paid for by commission is content-based. COBS 11.6.5 states '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 11.6.3 R) are met 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; and
- (d) involves analysis or manipulation of data to reach meaningful conclusions.'

The proposed changes under CPI3/17 go further to tighten this content-based definition by only permitting the use of dealing commission to pay for 'substantive' research and by tightening the language around the existing criteria. This is unwise and potentially detrimental to clients. 45% of respondents to our recent survey felt that amending the regulations so that only 'substantive' research could be charged to dealing commission would make little contribution to improved client outcomes, against 28% who felt that it would make a significant contribution.

As we noted in our response to PS05/5 in May 2005, 'We fully support the FSA's intent to restrict what types of goods and services are permissible. We believe that the definition of what is permissible should encompass inputs into the research process, not simply already completed research. Investment managers should be permitted to acquire the necessary inputs into their own research process so that they can arrive at their own conclusions'.

The response continued: 'We characterize the FSA's proposed definition as a content-based definition. We believe that this content-based approach may be too narrow and could potentially eliminate many products and services that investment managers legitimately

use as research to benefit their clients. Products and services that one manager may use primarily for non-research purposes may be a critical research tool for another manager. For example, access to certain information or data sources may not be used for research purposes by large firms that have extensive in-house research departments. But small firms may rely on the information gleaned from such a source to help them formulate an effective investment strategy for their clients.

By focusing only on the content of the material, the proposed definition may inappropriately narrow the scope of services available to be obtained by commissions to only research reports and conclusions in their final form. This approach ignores the use of commissions to obtain building blocks of information or raw data that can be used by investment managers to form their own independent strategies or analysis'.

As stated in our earlier response, CFA UK supports the restriction on the types of goods and services that may be paid for from dealing commission. However, we believe that the proposed approach may not, on balance, be in clients' interests both because it prevents appropriate competitive models for research use from developing and – as has been shown over the years since the introduction of the original rules – because it is hard to enforce rules relating to payment for what may or may not be deemed research when the definitions are subjective and where they might be circumvented through diligent (if misdirected) compliance work.

That some firms are perceived not to have acted in line with the rules established in 2005 is telling. That indicates that even as commission management and research procurement practices have improved, the market has struggled to identify and apply the existing criteria. We do not believe that tightening what is essentially a flawed definition of the research that can add value for clients will improve the situation. It is not the type and format of research that requires regulation; it is the way that research is valued and paid for and how those payments are disclosed to clients.

The society's recent member survey showed clear support for better benchmarking of research costs, improved research valuation practices, clearer

guidance on research valuation practices and, above all, improved disclosures to clients. On a 1 to 5 scale, where a score of five indicates that the action would make a very significant contribution to improved client outcomes (and a score of one indicates that the measure would have little or no impact), 64% of respondents scored 'improved disclosures on the costs of research' at either four or five.

CFA UK believes that the definition of research should be use-based so that different models of research can develop and compete. However, we agree that there is a need for the regulator to require appropriate management of research costs paid by dealing commission and understand that another mechanism would be required if the FCA were to change its approach. Our suggestion is that the FCA should require investment managers to demonstrate and attest that they have valued research carefully and that they have managed the cost of that research as carefully as they would any other cost to the firm.

This approach might have the supplementary benefit of helping to break the link between trading and research commission. At present, dealing commission is generated with every trade on an ad valorem basis, with part of the dealing commission being used to pay for the execution related to the transaction and with the remainder allocated to research which may be unrelated to the transaction. This arrangement does not make economic sense. There are no grounds for spending on research to move in line with market cycles. Demand for research does not diminish as market values subside, nor does it increase sharply when market values rise.

While 36% of respondents to our recent survey felt that attestations could contribute substantially to improved client outcomes, 39% thought that they would make little contribution.

Many investment management firms have already moved to a system of controlling spending on research through budgets or caps on spending. Their approach allows them to compensate research providers for research, but breaks the link between trading and spending on research and, in the absence of explicit sellside pricing, helps them to identify relative value across the research that they use.

Firms use budgets because they wish to improve their valuation of research and because they recognise that excess spending on research is neither in their interests, nor their clients' interests as it will depress net returns to the client and make it harder for the firm to retain or gain assets.

Our survey respondents were unconvinced about the merits of budgets or caps with more than twice as many indicating that their use would make little or no contribution to improved client outcomes as those who thought that they could make a significant impact. While respondents acknowledged the need to value research effectively and to disclose costs to clients, concerns were raised about: the difficulty of being the first mover to a system of commission budgets; the opportunity for firms to give lip service to their use of budgets and the governance of budgets.

In order to manage spending on research effectively – so that the investment firm obtains research that contributes to the investment firm's ability to generate returns for clients – the investment firm needs to take two steps. The investment firm should determine in advance the universe of research that it might want to access and, secondly, at the close of a reporting period, it should estimate the value of the research that it received.

Estimating the value of research accurately – whether internally or externally sourced – is, though, extremely difficult for investment managers to do. There are two reasons why this is so. First, the investment decision-making process is complex. It rarely relies on a single contribution to the research process, but is instead made up of different pieces of information. It is difficult, even with hindsight, to establish the values of the individual parts of the research process that contributed to a specific investment decision. Secondly, even where the contribution of different elements in the process could be identified, the value of the investment decision itself may not be apparent for some time. For instance, a well-researched contrarian investment into a falling market may appear to have a negative value for a year or more, but might have significant value over a five-year term and might fluctuate in value substantially in the intervening period. At what point should the value of the research be assessed?

The answer is cumulatively and through investment managers' experience of working with different research providers. Over time, an investment management firm – in the shape of the portfolio managers and analysts whose views will likely determine the firm's research relationships – will come to a view on the value of each provider's contribution to their process. These will change over time, but in any given quarter it is reasonable for an investment firm to make ex ante assessments of the providers that are likely to provide value in the following period. These assessments allow firms to make allocation decisions across fixed budgets for research.

It has been suggested that a move to a priced model for sellside and independent research would make it easier for investment firms to determine the value of the research they receive. The society's membership would certainly welcome such a move. 58% of respondents to the society's recent survey scored explicit pricing of specific levels of service by research providers as four or five out of five (indicating that they believe it would make a significant contribution to improved client outcomes). Just 16% of respondents thought that explicit pricing would have only a minimal effect.

A priced market for research would clearly be easier to navigate and the move to the use of CSAs has, to some extent, meant a de facto move towards a priced system, with investment firms allocating commission to pay for specific research from third parties. However, there are a number of reasons why it has proved difficult to move to a priced model for external research.

If all investment firms had similar strategies, scale and structures, it would be relatively easy for a priced market for research to develop as demand would be reasonably transparent and predictable. Unfortunately (for these purposes anyway), they do not.

Investment firms seek to generate value across a wide range of markets – geographically, by sector and by size – and then employ an array of different investment approaches. As a consequence, they have different demands for research and observe the value of the same research product or service differently. Not only are different firms' utility functions for the same research product or service different at any single

point in time, but an individual firm's utility function for that research product or service will also vary across time. It is unsurprising that profit-maximising research providers choose to operate differentiated pricing.

This does not mean that the market is inefficient. Differentiated pricing may be the best mechanism to provide a return to research providers sufficient for them to invest in a sufficient supply. And the market for research is competitive. Investment managers actively review the value of the products and services that they receive from research providers, compare the costs of the products and services provided to them and will relocate research relationships to follow individual analysts whose research they value, with those analysts' compensation bid up in recognition of their value to a research provider.

The market is also efficient in that the cost of the products and services delivered to investment managers by research providers will vary based on the potential value of that relationship to the provider. Sellside research providers are aware of the relative value of different relationships based on the scale, strategies and structure at different firms and will likely 'price' the research resources that they offer to larger firms more cheaply in basis points than those they offer to smaller firms in order to maximise revenues from large firms against a largely fixed cost base. After all, the marginal cost of published sellside research is low in comparison to its high fixed costs (though the marginal value of an analyst's time might be high).

Even if their per unit cost may be slightly higher, smaller firms, that also take products and services from the high fixed cost bases built by research providers to meet the needs of larger users, typically benefit from a cross-subsidy. Those products and services are provided to them at a cost that would not support the market were it not for the demand from larger firms. Research providers are happy to offer the products and services to smaller investment firms because the marginal revenue they gain far outweighs the marginal cost of delivery and the opacity of the market allows the cross-subsidy to persist. Large investment firms are content to bear the cost of the cross subsidy as it supports a broader, deeper market into which those firms can trade on clients' behalf.

Explicit pricing of external research would improve the economic efficiency of the market and would allow consumers more easily to make ex ante judgments as to which investment approaches they wished to support. Explicit external research pricing would allow better comparison with the cost and value of internal research teams and may diminish the over-supply and over-consumption of research.

Ultimately, clients should be concerned about the relative value that they receive from investment managers. Determining that value does not require them to be able to isolate and account for each specific cost that might impact the net risk-adjusted return delivered to them, but does require them to be able to identify the total cost of management (inclusive of the cost of research bought through dealing commission) so that they can accurately measure investment managers' relative net risk-adjusted returns.

It is extremely important that consumers are able to identify the full range of costs borne by their investments and are able quickly and simply to see the net return to them. As we wrote in our position paper on fees and compensation: 'CFA UK believes that fee and compensation structures should be transparent and aligned with clients' interests. Clients need to have a complete picture of the fees and charges that apply to their portfolios or segregated accounts. Clients need to understand the impact of fees on returns (other things being equal, the more that is paid out in fees, the less money there is available to compound across future returns) and should be aware of the types of charges that might be incurred in investing their assets (and the purpose of those charges). They should have an understanding of the behaviour that different fee structures might encourage and should know in advance what many of these costs will be'.

In relation to dealing commission, investment firms should publicise their policies and processes for managing those costs (preferably via online publication within Level 1 disclosures) and investment firms should be encouraged to provide specific fund or client-level disclosure of commissions generated and their use (Level 2 disclosures). The investment profession should collaborate on the development of disclosure standards that will be relatively simple to use and

can be consistently applied. We welcome the IMA's determination to improve cost transparency and the enthusiasm of individuals across the profession to support that work.

Where consumers fail to include the cost of research within their calculation of the net risk-adjusted return, they disadvantage those firms that attempt to act in clients' best interests by minimising their spending on research from dealing commission (or by paying for all research directly).

Take a situation where two firms have the same annual management charge and generate the same risk-adjusted return on the portfolio. If a client fails to observe that one firm is generating higher costs of execution and research (thus reducing the clients' net return), while the other is paying out of its own pocket either to support an internal, buy-side research team or to buy external research, then the client is not properly comparing the relative value that the two investment managers provide. Clients' consumption decisions may not be fully informed and, where they are not, they do not contribute to an efficient market for investment management services.

Effective disclosure of dealing costs is vital and so, too, is the effective use of those disclosures by clients. The easy availability of accurate, comparable cost data would be extremely helpful.

It is not inherently economically inefficient for investment managers to use dealing commission to pay for external research – in fact, the ability for managers to do so probably improves competition in the market by allowing smaller investment managers to compete against larger firms by not having to build a substantial fixed cost base – but the complexity of the arrangement creates conflict of interest problems and there is a danger that economic efficiency is lost if consumers fail to play their part.

Though competition and greater awareness among investment firms has improved the situation, additional pressure from consumers would help to maintain that trend.

WHAT CHARACTERISTICS SHOULD THE MARKET FOR RESEARCH HAVE?

Consumers should benefit from a competitive market for investment management products and services, where market efficiency drives the provision of different approaches, with consumers making informed, relative value consumption decisions based on information from transparent disclosures.

The majority of the respondents to the society's recent survey agreed with the statements that the UK markets for investment management and for research are competitive (with 79% and 65% of respondents agreeing, respectively). However, most respondents disagreed that the markets for investment management or research are transparent in terms of value and cost.

Purchased research should be effectively valued by investment managers and dealing commissions should be managed appropriately so that only research that contributed to the investment decision-making process is paid for from dealing commission and so that firms can attest to their careful and appropriate use of dealing commission.

The costs of investment management services should be clear to clients and it should be relatively straightforward for clients to calculate and compare net risk-adjusted returns.

The costs incurred by clients through investment managers' use of their dealing commission should be easily apparent.

There should be a competitive market for research, with a range of providers delivering research products and services at different costs to consumers with different utility functions.

The regulatory regime should require transparency through disclosures, enforce high standards of commission management and support a competitive market for research products and services that deliver value to clients

WHAT IS THE FCA PROPOSING?

The FCA's CPI3/17 proposes changes to the use of dealing commission requirements in the regulator's Conduct of Business Sourcebook (COBS) which apply to investment managers. The rules are intended to clarify the criteria for research so that investment management firms can better judge what they can and cannot purchase through the use of dealing commission.

The FCA is concerned by evidence that investment management firms were using dealing commission to pay for research products and services outside the existing criteria or failing to manage 'mixed use' research (under which parts of a bundled service may qualify as research) appropriately.

THE PROPOSED RULES SEEK TO:

- » **define corporate access and add it to the list of services that cannot be paid for through the use of dealing commission;**
- » **amend the COBS provisions so that charging non-exempt services and products to dealing commission would amount to a breach of the rules;**
- » **clarify the criteria for research so that only research that presents meaningful conclusions to an investment manager can count as research and to remind investment managers that goods or services allowing managers to draw their own inferences cannot be regarded as research;**
- » **clarify how investment managers might approach judgments around their duty to act in clients' best interests, (and specifically in relation to mixed use assessments).**

The FCA hopes that these changes and any further reforms that might emerge from a wider thematic review around this topic will increase transparency and efficiency, promoting market integrity and competition in the interests of consumers.

CFA UK supports the introduction of new guidance that should help investment managers to act consistently in clients' best interests by treating the use of dealing commission as if it were the firm's own money and only charging to clients for research used in the investment decision-making process (and not elsewhere in the

firm). We also support the tightening of the COBS rules so that non-compliance is easier to identify and so that the regulatory purpose of the rules can be better achieved.

However, as has been stated elsewhere in this paper, we do not support a content-based approach to the definition of research. We favour a use-based definition requiring investment managers to make reasonable, evidence-based assessments of the extent to which different research products and services have contributed to investment decision-making across specific investment vehicles. We believe that this would reduce the volume of dealing commission spent on research, but would do so without preventing investment managers from sourcing research that they believed would contribute to value generation.

We share the FCA's intention to promote market integrity and competition in clients' best interests, but are unsure that all of the proposed changes will contribute to those aims.

If the proposed changes are introduced, a number of superficial changes may occur as well as some deeper ones.

There is a danger that if the regulations change to require research to meet certain criteria to be regarded as 'substantive', the research will either be amended slightly to meet the criteria or, more likely, the nature of the research will not change, but every piece of research will be accompanied by an extensive note²¹ – carefully drafted by in-house and external legal advisers – that affirms that the research meets the criteria to be regarded as substantive. The costs of this legal work will probably be clawed back through charges ultimately borne by clients.

Secondly, the proposed changes may lead sellside research providers to specify that meetings with company management – no longer termed corporate access, but essentially the same thing – are not included in any set of chargeable services, but are provided free to clients. Unless a company is responsible for selecting the lists of institutions to be invited to attend by its broker (who is arranging the meetings as part of the paid for service as the corporate broker), selection to enjoy these 'free services' may be influenced by the amount

of execution generated and research consumed. Corporate access will persist in all but name, but will be managed as a 'free' service' only to be enjoyed by large investment management firms. This outcome would support neither competition, nor optimal capital allocation. CFA UK's views on corporate access are contained in Annex A.

There would be positive immediate outcomes from the FCA proposals – particularly in that more investment managers might adopt good practices in managing dealing commission – but the proposals would not be effective in addressing the root issues that impede market efficiency and may simply cause current practices to be recategorised, with the costs still borne by clients but via a more circuitous route.

The FCA's proposed regulatory reforms might also generate more profound change.

Applying tighter criteria to the research that can be paid for through dealing commission may reduce the total amount spent on external research and place greater emphasis on internal research. That would be a benefit to consumers, except to the extent that it reduced competition in the market for investment goods and services. Relatively large investment management firms (by assets under management) rely less on external research and have greater pricing power in negotiations with research providers. Large firms would be able to realise the benefits of an increased investment in buy-side research across a broader range of assets.

In short, an increase in fixed cost would be more easily borne by large investment firms than by small investment firms. The UK's market for investment goods and services is currently competitive. (The IMA estimates a Herfindahl-Hirschman Index [HHI] figure of 415 for the UK investment sector²² in 2012-13. The HHI is a leading measure of industrial concentration and is often cited in competition law. HHI figures range from zero to 10,000 with a 415 figure indicating a lack of concentration and a good level of competition). The proposed changes may increase concentration and reduce competition by disadvantaging small investment firms²³.

Similarly, while reduced revenue from spending on research would impact all research providers,

²¹ Such as the three pages of 'important disclosures' and 'other important disclosures' that are appended to the foot of every piece of research and that are, as one observer puts it 'never read, but always paid for'.

²² <http://www.investmentfunds.org.uk/assets/files/research/2013/20130806-IMA2012-2013AMS-chapter6.pdf>

²³ While consumers would lose out from reduced competition, they might gain from activity being transferred to larger firms enjoying economies of scale. However, the potential benefit for consumers would be limited to the extent to which larger firms shared cost savings with them.

the impact would be more easily borne by those large research providers that could maintain some cross-subsidy for research through their execution activity and which benefit from the cross-subsidy provided by corporate finance revenues. Specialist and independent research providers would be more significantly exposed to reduced spending – either via CSAs or directly – and while they might prosper in time, may find it difficult to survive a transitional period.

Introducing regulations that drive lower spending on external research might reduce the number of providers of investment goods and services and of research. The investment management market may become less competitive. In research, there may be less independent research and the trend towards reduced coverage of stocks may accelerate, inhibiting liquidity and increasing the cost of capital. In addition, with the market more dependent on research from corporate brokers, the overall quality of research may diminish.

It may be that these effects would be transitional. In time, small investment managers might start to be set up again if, either, larger firms failed to compete effectively with one and other, or if small firms were able to demonstrate additional value at the same cost. Similarly, if there was apparent demand for additional research that larger providers chose not to issue at a cost that the market might bear, then new, independent research providers might crop up. However, the potential benefit to consumers of a reduction in costs and a shake-up in the market for research provision, needs to be carefully balanced against the risk of a lasting blow to competition. Even if small investment firms and independent research houses were to recover, both would be exposed to the danger that larger providers could respond by using their pricing power and other resources to protect their new market position.

WHAT IS THE PROBLEM THAT WE ARE TRYING TO SOLVE?

The market for research has become more competitive in recent years. It appears that the alignment of interests between clients and their investment managers has improved as spending on sellside research has diminished. Nevertheless, the objectives should continue to be that:

- » Investment managers should manage dealing commission as if it was their own money and should value and account for the cost of research effectively. Clients' and investment managers' interests should be as closely aligned as possible.
- » Clients should value the effective management of dealing commission and should account for the cost of research and execution within their calculations for net risk-adjusted return.
- » There should be a competitive market for investment management goods and services.
- » There should be a competitive market for research goods and services (as there is for execution).
- » These objectives should be attained without impairing the competitiveness of the UK markets for investment management and/or research relative to other markets.

WHAT MIGHT DELIVER A BETTER OUTCOME AND WHY?

Rather than decree the forms of research that should be payable through dealing commission, the FCA should define research by its use within the investment decision-making process. Only research that contributes directly to specific investment decision-making should be chargeable against dealing commission

At the same time, the FCA should encourage investment firms to compete with one and other on whether or not to use dealing commission to pay for research, the quality of their dealing commission management (where dealing commission is used) and on the value that they generate through the use of research. The regulator should encourage clients to pay as much attention to research costs (and their impact on net risk-adjusted returns) as they do to execution and other costs.

The FCA should introduce its proposed guidance as to how investment managers might approach judgments around their duty to act in clients' best interests and the use of dealing commission and around mixed usage. The FCA should also amend its COBS provisions as proposed so that the use of research not directly for investment decision-making on behalf of existing clients would establish non-compliance.

Investment firms' senior management should be required to attest that they manage dealing commission as if it was their firm's own money and the use of dealing commission and the valuation of research should be carefully supervised. Investment firms should be encouraged to use budgets for spending on research to help establish a price for external research and to break the ad valorem link between trading and research. Sellside research firms should be encouraged to move towards explicit pricing for different service levels.

This approach would allow firms to use dealing commission to pay for research (of whatever type) to be used in specific investment decision-making on clients' behalf. It would support a competitive market for investment management and for research. Improving the price transparency of research and requiring appropriate attestations from firms' senior management may help to maintain the pressure on the use of dealing commission. This approach incentivises consumers to use disclosures to improve market discipline, but also gives the regulator appropriate tools to help them support consumers in enforcing market discipline.

Where the market is able to demonstrate the value of research, consumers should be willing to pay for that. This should mean that research coverage is maintained at a sufficient level and that effective capital allocation takes place.

CONCLUSION

Regulatory intervention, to date, has been successful in improving the alignment of clients' and firms' interests, reducing costs incurred on clients' behalf and increasing competition in the market for research. Regulators should maintain the pressure on the market so that these trends persist, but should do so by requiring the consumers of research (investment management firms that are the agents of the ultimate clients) to attest that client commission is managed with the same prudence, diligence and thoroughness as any other cost to the firm and by allowing investment management firms to adopt and market varying approaches to payment for research (from commissions or direct to the firm). It is important that clients take a closer interest in the cost of research and

balance that against the value (over a sufficient time period) that a firm's use of research delivers to them. Ensuring best execution and the appropriate use of commission (if used) in paying for research falls under fund trustees' fiduciary duty to act in the best interests of the beneficiaries they represent.

CFA INSTITUTE AND CFA UK

CFA Institute is a champion for ethical behaviour in investment markets and a respected source of knowledge in the global financial community. The end goal: to create an environment where investors' interests come first, markets function at their best, and economies grow. CFA Institute has more than 117,000 members in 140 countries and territories, including 110,000 CFA charterholders, and 140 member societies.

The CFA Society of the UK (CFA UK) is one of CFA Institute's largest member societies. CFA UK serves society's best interests through the provision of education and training, the promotion of high professional and ethical standards and by informing policy-makers and the public about the investment profession. The society supports the CFA Program and is the awarding body for the Investment Management Certificate (IMC), the UK's leading entry level qualification for investment professionals. The society also supports the ASIP designation that was awarded to those passing the Associate examinations that the society offered in the 1980s and 1990s.

Founded in 1955, CFA UK represents the interests of roughly 11,000 investment professionals. Society members work across the UK investment profession. While the most common roles for members are portfolio manager and research analyst, members occupy a wide variety of positions and work for many different types of firm. Roughly two-thirds of members work for investment management firms, with roughly a quarter of members working for investment banks. Most of the remainder work for asset owners, investment consultancies and rating agencies.

The society's portfolio manager and research analyst members cover the entire range of asset classes and specialisms. Their common characteristic is a determination to practice and uphold the highest level of professional and ethical standards.

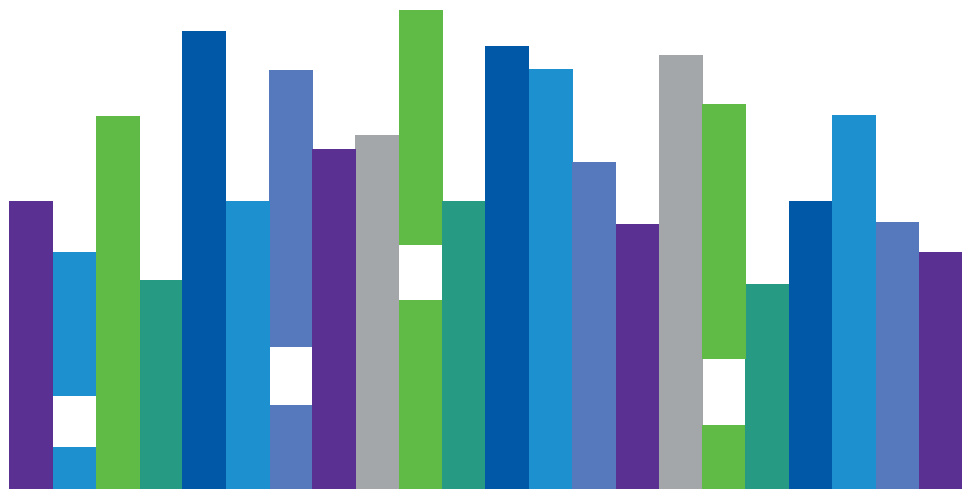


CFA Society
United Kingdom

THE MARKET FOR RESEARCH

ANNEX A - CORPORATE ACCESS

Position paper
February 2014



CORPORATE ACCESS

The Financial Services Authority 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 clients¹.

Meetings between investment managers and companies are valuable to both parties. They provide an opportunity for companies to inform investors and potential investors about their strategy and the outlook for their business. Meetings allow investors the opportunity to question senior management about issues that may concern or interest them and might also provide insight into the relationship across a company's senior management team.

The Kay Review and the government's response to it noted the importance of promoting investors' engagement with the companies in which they are invested so that they act more like owners and better perform their duties accordingly².

There is little argument that there is value in meetings between companies and investors. However, there is considerable confusion about how payment for that value is made and allocated.

Normal practice is for a company to use its house broker to organise its regular meetings with investors. Here, the company should recognise this as service that is paid for under its arrangement with its broker and the company will liaise with the house broker regarding the decisions as to which investors should be invited.

Even here, though, there are opportunities for some confusion as to how the value of the meetings is recognised and compensated. The decision as to which investors are involved in a roadshow or meetings may be influenced, at the margin, by the broker's views as to which investors might be more likely to trade with them in future and which might be more likely to trade

with greater frequency or in greater volumes.

Additionally any retainer paid by the company to its house broker may not in fact cover the costs of this 'facilitation of meetings' service. There may be an implicit arrangement in it whereby there is a promise of involvement in future corporate finance work. There is nothing wrong, per se, with this arrangement, given that it is one between two sophisticated counterparties. However, it may make the cost of individual elements of the service (such as corporate access) more difficult to determine.

Additionally, a company whose management attends a meeting organised by an investment bank that is not the company's appointed broker is unlikely to pay for the meeting. They may value the opportunity to meet the investors attending the meeting, but the company will reckon that they have not paid for that event to be arranged and held. Likewise, the investors attending the event will almost certainly not pay directly for the event and may or may not pay indirectly (knowingly or unknowingly) – irrespective of whether or not they find the meeting useful. The investment bank meanwhile seeks to obtain value from the service by competing with a company's existing broker as a provider of access to investors (beyond those typically sourced by the house broker) and may hope to benefit, too, from increased commission revenue.

Some of those investors attending the meeting may choose to trade in the stock at a subsequent point, others may decide to maintain or open a research relationship with the broker in that sector as a consequence of the broker's access to companies, but the relationship between the value received by the investors attending the meeting and any later trading activity that generates dealing commission is unclear as may be the contribution of the meeting to the overall investment process and, thereby, to the value generated for clients.

¹ We support this definition though note that managers may wish to meet the senior management of corporations (within their investable universe) in which they are not invested and have no immediate plans to invest in order to inform their decision to have a zero weight position.

² <http://www.bis.gov.uk/assets/biscore/business-law/docs/k/12-917-kay-review-of-equity-markets-final-report.pdf> (6.27 -The Review believes that we can contribute most effectively to good long-term decision making in British business and finance by promoting a culture of stewardship throughout the equity investment chain. The most important links of the chain, for these purposes, are the relationship between directors and their companies, the relationship between asset managers and the companies in which they invest, and the relationship between asset holders and asset managers. We favour establishing statements of good practice in each of these relationships, to be provided for company directors, asset holders and asset managers, describing the responsibilities of stewardship).

It is important to note that large investment management firms will almost certainly never pay directly for corporate access – few investment firms of any size do so – but they will also be clear that corporate access is not a service that they value from third parties (and so is not used to credit brokers within their voting systems). Large investment firms can afford to take this view because they will almost always be given access to senior management because of their role as owners and potential providers of long-term capital. They do not need to value corporate access as a service provided by third parties as access to management will be provided to them by companies directly.

The value of corporate access facilitation increases as the size of the investment firms falls. Companies will always be keen to maintain close relationships with large investment firms, but smaller investment firms will then have to compete for the limited remaining access to senior management time. It is CFA UK's view that these meetings with smaller shareholders or potential shareholders are valuable and add to the depth and quality of the UK market.

There is common agreement that meetings between investment managers and companies are valuable. Most people accept that investment banks – because of their broker relationships and on account of their research resources – can effectively intermediate these activities (as can other agents). However, there is also a consensus that it is inappropriate to pay for corporate access with client dealing commission and widespread support for the FCA's reminder that doing so is disallowed under the rules.

There are a number of inter-related reasons for the general concern about using clients' dealing commission to support corporate access.

While everyone understands that there must be some costs related to bringing people together, it is more difficult to accept that charges for this service should be much above cost plus a reasonable margin. Companies should be accountable for the choices of the investors that they meet and investment banks or other agents should not be in a position to auction access to corporate management. This is particularly

so, given that most investment professionals would prefer to meet company management without investment bank representatives present at the meeting.

Meeting companies is seen as fundamental to many research processes. Many investment firms will not invest in a company until they have met its management. However, it may also be the case that it is hard for investment management firms to estimate in advance the value of corporate access within the overall research service. Whereas the likely contribution of other specific research products and services to investment decision-making can be considered in advance and checked afterwards, it is difficult to be certain that meetings with companies will occur and that they will influence investment decisions. This perhaps contributes to the sense that corporate access should be treated and paid for differently to other sources of research supplied by third parties.

Payment for corporate access via the use of dealing commission is also economically inefficient as it prevents the value of that access from being apparent and also prevents participants in the activity from seeing who is bearing the cost and what the cost is. This inhibits competition and makes it hard for agents to be sure that they are obtaining value on clients' behalf.

On balance, CFA UK believes it is appropriate that paying for corporate access from dealing commission is disallowed. It is welcome that FCA CP 13/17 reminds investment firms that this is so. However, CFA UK would also be disappointed if corporate access was reduced as a consequence of any changes and would encourage close monitoring of this important area.

It is important to note that it is the view of CFA UK that a company is accountable for the actions of its agents, and is, therefore, accountable for the choice of investors it meets, irrespective of how this is organised or paid for.

Alongside, their duty to take into account the long-term consequence of their decisions, the firm's reputation and the interests of other stakeholders such as employees and the community, company directors

have a fiduciary responsibility to act in a way which is most likely to promote the success of the company for the benefit of its shareholders and need to give equal consideration to shareholders. Issuers need to take ultimate responsibility for the quality of their engagement with investors. This is not to say that the function cannot be delegated to a broker or another agent, but the company should ensure that it has appropriate contact with large shareholders and provides reasonable opportunities for contact with representative smaller shareholders.

As noted in CFA Institute's Analyst/Issuer Guidelines³: 'Investors benefit when investment professionals, whether analysts or investment managers ("analysts") have a clear and open dialogue with management of corporations that issue publicly traded debt and equity securities ("corporate issuers"). Open communication facilitates fair and consistent information which helps investors make sound decisions and allocate their capital appropriately.'

Reminding investment managers that client dealing commission may not be used to pay for corporate access may lead to a number of outcomes.

Firstly, companies might take greater control of their engagement with capital providers; by working more closely with their corporate broker, by increasing their investment in investor relations and arranging more activity themselves, or through a combination of both. In these cases, the direct costs of arranging and holding meetings with investors would either be paid directly by the company or would be charged to the company by its broker.

Secondly, corporate access may continue to be provided by investment banks (not acting as corporate brokers), but those banks will have to be explicit that no compensation is payable for the service and investment managers would have to be clear that the provision of corporate access had no bearing on their determination of broker spend. In essence, the status quo would persist, but with more compliance costs and no improvement in the transparency of who is bearing the cost of arranging the meeting.

The danger of concentrating on roadshows and

meetings arranged by a company's house broker is that the quality of the activity might drop as the corporate broker would be faced with less competitive activity from other potential brokers. Direct investment in investor relations (IR) activity would increase the cost to companies (though that might be beneficial as it should encourage them to focus on the value generated). The cost of increased services through a corporate broker or through a company's IR team would be relatively heavy for small and mid-cap companies and may widen the gap between the quality of the information available (and the liquidity) on large companies and small and mid-cap companies.

A third scenario would see non-research provider intermediaries of corporate access services being set up to bring companies and investors together at relatively low costs to both parties (but, at least, recognising that both investors and companies value the activity). Investment managers and companies could then both subscribe – at a direct cost to their organisations – to services designed to facilitate meetings. However, it is worth noting that the general anxiety about being seen to pay for any form of corporate access – even where payment is made exclusively from an investment firm's own resources – means that investment firms are cautious about subscribing for such services.

That said, the provision of a low-cost corporate access service – directly paid for, with costs shared across investment managers and companies – would be a welcome development and CFA UK is pleased to see the development of a number of competing approaches in this area.

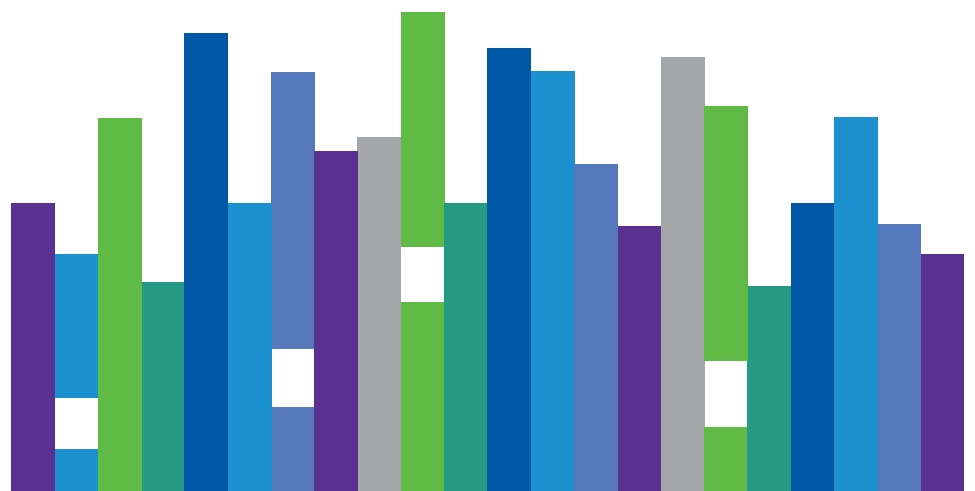


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United Kingdom

THE MARKET FOR RESEARCH

ANNEX B - ACADEMIC EVIDENCE ON THE VALUE OF RESEARCH

Position paper
February 2014



ACADEMIC EVIDENCE ON THE VALUE OF RESEARCH

There is significant academic research relating to the impact of intermediated disclosures on the liquidity and volatility of markets and on companies' costs of capital.

As Botosan notes in a 2006 review¹ of the academic literature on the subject 'extant theory strongly supports the hypothesis that greater disclosure reduces cost of equity capital'. In a separate study from 2009², Kothari, Li and Short state: 'Demand for financial reporting and disclosure arises from information asymmetry and agency conflicts between managers, outside investors and intermediaries. Disclosures and institutions facilitating credible disclosure between managers and investors play important roles in mitigating these problems. Corporate disclosures, reports in the financial press, and analysts' reports and discussion of corporate performance all enhance the information reflected in stock prices. That is, they reduce information asymmetry between the average investor and informed market participants, e.g., company management. The consensus among financial economists is that a rich disclosure environment and low information asymmetry have many desirable consequences. These include the efficient allocation of resources in an economy, capital market development, liquidity in the market, decreased cost of capital, lower return volatility, and high analyst forecast accuracy.'

For instance, Lang, Lens and Maffett document lower transaction costs and greater liquidity (as measured by lower bid-ask spreads and fewer zero-return days) for firms with greater transparency (as measured by less

evidence of earnings management, better accounting standards, higher quality auditors, more analyst following and more accurate analyst forecasts)³. They report that the relationship between transparency and liquidity is more pronounced in periods of high volatility, when investor protection, disclosure requirements, and media penetration are poor, and when ownership is more concentrated. This suggests that firm-level transparency matters more when overall investor uncertainty is greater. Increased liquidity is associated with lower implied cost of capital and with higher valuation.

Lambert, Leuz and Verrecchia demonstrate that the quality of accounting information can influence the cost of capital, both directly and indirectly. The direct effect occurs because higher quality disclosures reduce the firm's assessed covariances with other firms' cash flows, which is non-diversifiable. The indirect effect occurs because higher quality disclosures affect a firm's real decisions, which likely changes the firm's ratio of the expected future cash flows to the covariance of these cash flows with the sum of all the cash flows in the market. They show that this effect can go in either direction, but also derive conditions under which an increase in information quality leads to an unambiguous decline in the cost of capital

Similarly, Easley and O'Hara show that firms can influence their cost of capital by choosing features like accounting treatments, analyst coverage, and market microstructure.

¹'Disclosure and the cost of capital: what do we know', *Accounting and Business Research, International Accounting Policy Forum*, pp. 31-40. 2006

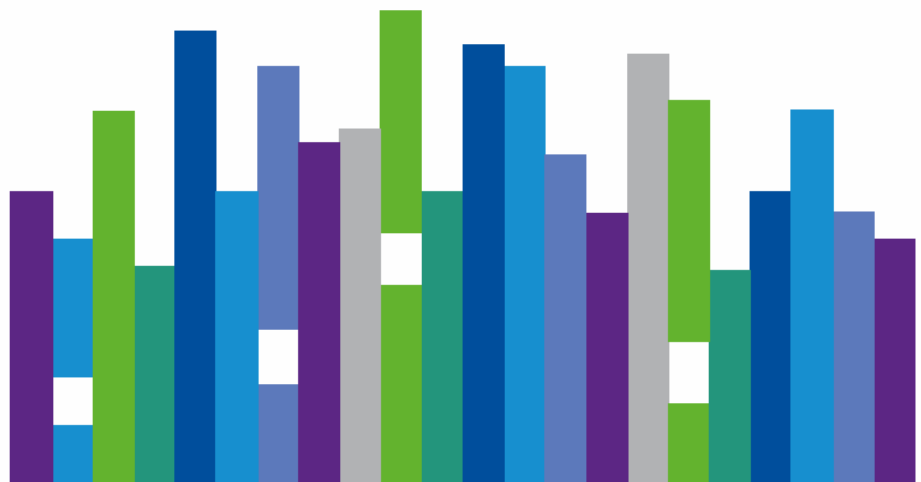
²'The Effect of Disclosures by Management, Analysts, and Financial Press on Cost of Capital, Return Volatility, and Analyst Forecasts: A Study Using Content Analysis', *Accounting Review*, Volume 84, No 5

³'Transparency, Liquidity, and Valuation: International Evidence on When Transparency Matters Most' 2011, *Journal of Accounting Research* (forthcoming)

THE MARKET FOR RESEARCH

ANNEX C - RESULTS FROM CFA UK MEMBER SURVEY

Position paper
February 2014



Dealing commission survey

1. Are you directly involved in the valuation of research services or the estimation of the proportion of research that should be paid for through dealing commission (if that is your firm's practice)?

| Answer Options | Response Percent | Response Count |
|-----------------------------------|------------------|------------------------------|
| Yes, I am involved in one or both | 25.0% | 126 |
| No | 75.0% | 378 |
| | | answered question 504 |
| | | skipped question 0 |

2. Are you aware of the FCA's consultation paper on the use of dealing commission (CP13/17)?

| Answer Options | Response Percent | Response Count |
|----------------------------------|------------------|------------------------------|
| Yes, aware and have read it | 13.3% | 67 |
| Yes, aware, but have not read it | 54.2% | 273 |
| No | 32.5% | 164 |
| | | answered question 504 |
| | | skipped question 0 |

3. The investment profession's approach to the management of research costs has improved since execution and research costs were unbundled.

| Answer Options | Response Percent | Response Count |
|----------------------------|------------------|------------------------------|
| Strongly agree | 8.5% | 37 |
| Agree | 45.1% | 196 |
| Neither agree nor disagree | 31.0% | 135 |
| Disagree | 12.9% | 56 |
| Strongly disagree | 2.5% | 11 |
| | | answered question 435 |
| | | skipped question 69 |

4. Investment firms manage clients' dealing commission with as much diligence and care as they would if it was their own money.

| Answer Options | Response Percent | Response Count |
|----------------------------|------------------|------------------------------|
| Strongly agree | 7.4% | 32 |
| Agree | 24.7% | 107 |
| Neither agree nor disagree | 23.5% | 102 |
| Disagree | 36.9% | 160 |
| Strongly disagree | 7.6% | 33 |
| | | answered question 434 |
| | | skipped question 70 |

| 5. The UK market for investment management is highly competitive. | | |
|---|------------------|----------------|
| Answer Options | Response Percent | Response Count |
| Strongly agree | 36.7% | 159 |
| Agree | 42.7% | 185 |
| Neither agree nor disagree | 8.1% | 35 |
| Disagree | 9.7% | 42 |
| Strongly disagree | 2.8% | 12 |
| <i>answered question</i> | | 433 |
| <i>skipped question</i> | | 71 |

| 6. The UK market for research is highly competitive. | | |
|--|------------------|----------------|
| Answer Options | Response Percent | Response Count |
| Strongly agree | 24.9% | 108 |
| Agree | 43.4% | 188 |
| Neither agree nor disagree | 16.2% | 70 |
| Disagree | 12.5% | 54 |
| Strongly disagree | 3.0% | 13 |
| <i>answered question</i> | | 433 |
| <i>skipped question</i> | | 71 |

| 7. The UK investment management market is transparent in terms of value and cost. | | |
|---|------------------|----------------|
| Answer Options | Response Percent | Response Count |
| Strongly agree | 3.5% | 15 |
| Agree | 21.6% | 93 |
| Neither agree nor disagree | 24.1% | 104 |
| Disagree | 36.9% | 159 |
| Strongly disagree | 13.9% | 60 |
| <i>answered question</i> | | 431 |
| <i>skipped question</i> | | 73 |

| 8. The UK market for research is transparent in terms of value and cost. | | |
|--|------------------|----------------|
| Answer Options | Response Percent | Response Count |
| Strongly agree | 1.9% | 8 |
| Agree | 14.4% | 62 |
| Neither agree nor disagree | 25.6% | 110 |
| Disagree | 43.3% | 186 |
| Strongly disagree | 14.9% | 64 |
| <i>answered question</i> | | 430 |
| <i>skipped question</i> | | 74 |

| 9. In the last five years, do you think that transparency and competitiveness in the UK research market have: | | |
|---|--------------------------|----------------|
| Answer Options | Response Percent | Response Count |
| Increased significantly | 11.1% | 48 |
| Increased somewhat | 59.6% | 257 |
| Remained the same | 25.8% | 111 |
| Decreased somewhat | 3.0% | 13 |
| Decreased significantly | 0.5% | 2 |
| | <i>answered question</i> | 431 |
| | <i>skipped question</i> | 73 |

| 10. How would you score the following measures on their contribution to improved outcomes for clients (through their balanced impact across cost, value generation and competition)? One is a low score. A score of five indicates that you believe that this measure is very strongly in clients' best interests. | | | | | | | |
|--|---|----|-----|-----|---|--------------------------|----------------|
| Answer Options | 1 (Little or no contribution to improved client outcomes) | 2 | 3 | 4 | 5 (Very significant contribution to improved client outcomes) | Don't know | Response Count |
| Introduction of the FCA regulation requiring that only | 78 | 92 | 65 | 81 | 26 | 33 | 375 |
| Explicit pricing of specific levels of service by research | 27 | 37 | 73 | 134 | 83 | 19 | 373 |
| Better benchmarking and/or estimation of external | 48 | 53 | 94 | 113 | 38 | 31 | 377 |
| The use of budgets or caps on spending by investment | 109 | 85 | 81 | 50 | 26 | 22 | 373 |
| Attestation by a named individual at an investment firm | 65 | 79 | 73 | 92 | 46 | 20 | 375 |
| Banning the use of dealing commission to pay for access | 79 | 55 | 48 | 71 | 88 | 36 | 377 |
| The FCA allowing firms to define research by its use | 35 | 62 | 83 | 104 | 46 | 44 | 374 |
| Improved research valuation practices by investment | 32 | 62 | 91 | 121 | 50 | 20 | 376 |
| Clearer guidance on research valuation practices by | 33 | 53 | 99 | 117 | 52 | 19 | 373 |
| Clearer guidance on how to allocate allowable research | 34 | 46 | 100 | 108 | 60 | 27 | 375 |
| Banning the use of dealing commission to pay for | 130 | 67 | 41 | 52 | 62 | 23 | 375 |
| Reminding clients of their fiduciary or agency duty to | 46 | 72 | 80 | 116 | 36 | 24 | 374 |
| Improved FCA supervision of conflicts of interest relating | 43 | 70 | 75 | 101 | 67 | 18 | 374 |
| Improved disclosures on the costs of research to clients | 22 | 42 | 61 | 137 | 100 | 13 | 375 |
| | | | | | | <i>answered question</i> | 378 |
| | | | | | | <i>skipped question</i> | 126 |