PENSIONS AND LIFETIME SAVINGS ASSOCIATION

5 June 2024

Wholesale Markets Sector Team
Financial Conduct Authority
12 Endeavour Square
London
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PLSA Consultation response: FCA CP24/7 Payment Optionality for Investment Research

We welcome the opportunity to respond to FCA CP24/7 Payment Optionality for Investment Research.

The Pensions and Lifetime Savings Association (PLSA) is the voice of workplace pensions and savings. We represent pension schemes that together provide a retirement income to more than 30 million savers in the UK and invest more than £1.3 trillion in the UK and abroad. Our members also include asset managers, consultants, law firms, fintechs, and others who play an influential role in people's financial futures. We aim to help everyone achieve a better income in retirement.

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We welcome the proposals put forward by the FCA that would enable payment for investment research using bundled payments for third-party research and execution services. MiFID ii research unbundling requirements, implemented in 2018, ended the global norm of bundling payments for research with execution and brokerage services. At the time, the argument was that the new approach would remove the risk of conflicts of interest caused by bundling that could bring into question the fairness and accuracy of the research. Overall, our members have been clear however that there has been a negative impact of the restrictions which MiFID ii placed on firms obtaining investment research. We acknowledge the results of FCA research which shows that largely, the current system is allowing investors to get the research they need. However, it is also evident that at present, it is operationally complex and favours larger firms at the expense of smaller firms.

The FCA proposals provide another option for payment which looks to address the challenges cause by MiFID ii and we welcome this. Despite our broad support, we have heard concerns that the proposals could increase the risk of financial loss to clients through their assets being used to purchase unnecessary and duplicative research. We are clear that where unbundled payments work effectively, clients should not be pressured into this new arrangement and should be able to retain unbundled arrangements receiving full and complete disclosures of costs and charges as part of that.

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The FCA has indicated that for firms looking to offer bundling to their clients, they will need to put a number of measures in place. It is evident that fulfilling these proposed requirements will incur

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some form of administrative burden. To maximise the opportunity to apply a more internationally consistent payment model and genuine alternative to the more complex Research Payment Accounts (RPA), we would encourage the FCA to permit a more flexible approach to operating within the guardrails that it is proposing to introduce. This would maximise the interoperability with overseas regimes and potentially increase the attractiveness of the new payment model.

Whilst it remains to be seen what impact the proposed measures that must be put in place could have on use of this payment option and whether it is seen as viable, we are fundamentally of the view that optionality is a good thing. We do acknowledge that this change may improve access to research, which is vital in allowing investors to make decisions, but we are clear that availability of independent research is not the only key barrier to greater investment in smaller UK companies. We have previously set out our views on how to attract greater pension fund investment in UK companies in our June 2023 report.

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We thank the FCA for the opportunity to respond to this consultation and look forward to seeing the outcome of it.

Kind regards,

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