# UK Investment Research Review

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Dear Chancellor

Thank you for asking me to lead the review into Investment Research in the UK Capital Markets.

As the Terms of Reference say, the capital markets “sit at the heart of the UK’s continued prosperity as a financial hub. They enable UK and international businesses to raise funds and manage risks, while also allowing institutional and private investors to access financial instruments, and they provide a direct source of employment and tax revenue.”

Despite that significant contribution, this is a pivotal moment for our capital markets, and the UK equity market in particular. The challenges across global markets are greater than ever, in the light of which the UK markets will need support to continue to realise their full potential.

After extensive consultation with market practitioners, I am recommending actions aimed at improving investment research in the UK, so that it can contribute fully in supporting the UK’s position as a highly attractive venue for new listings.

Why investment research? Investment research is the golden thread that runs through the UK capital markets. It supports a “virtuous circle”, contributing to better valuations, which in turn encourages investors, leading to greater liquidity and increasing the overall attractiveness of the UK as a place to list.

The UK’s investment research ecosystem has been world-beating, but a number of factors are putting pressure on this position. These include the de-equitisation of the UK capital markets, whereby institutional investors have channelled funds away from equities and into fixed income during recent decades, leading to a decline in interest in new listings in the UK’s exchanges. Moreover, the implementation of well-meaning regulation has had unintended consequences, which have also played a part.

The Investment Research Review (IRR) is just one component in the government’s current efforts to bolster our capital markets ecosystem. It is critical that implementation of all the components – including the IRR, Lord Hill’s Listing Review, and Mark Austin’s UK Secondary Capital Raising Review - occurs in harmony if we are to get this right. Capital markets will also improve as a result of any changes designed to encourage greater investment in equities (and, in particular, smaller cap companies) by institutional investors, including defined contribution pension schemes.

Our markets now need help to continue to thrive, but I am confident that by implementing the recommendations contained within the IRR, the UK can cement its position as a global centre of excellence for the provision of investment research and as one of the world’s premier markets.

Among my recommendations are:

- **Establish** a Research Platform that will provide a central facility for the promotion, sourcing and dissemination of research – in particular, in relation to smaller companies. Such a central facility can learn from and develop initiatives undertaken in other financial centres. It should be designed to support the production of research on all publicly traded companies. This should lead to improved research coverage and, ideally therefore, greater market interest in smaller cap companies and liquidity in their shares. The key concern in establishing such a facility is for adequate and sustained funding to be provided and the key outcome is that the facility would encourage wider investor interest in the participating companies. Separately, there should be a code of conduct for issuer-sponsored research.

- **Amend** regulations governing how investment research is paid for, to allow clients and their managers greater choice. Greater optionality should remove current frictions over investment research charges. By introducing additional optionality in how investment research is paid for, the UK will remain aligned with other key jurisdictions (in particular the US and EU) and not be at a competitive disadvantage. In any event, any barriers that prevent UK buy-side firms from paying for investment research in other jurisdictions where payment on a bundled basis is standard practice in that jurisdiction should be removed.

- **Review** the current complex and difficult to navigate regulatory regime related to investment research, to make it more streamlined and efficient. A bespoke regime for the provision of
investment research would be ideal. Retail investors represent a material element of liquidity, especially in the smaller cap market, but there is an asymmetry in the research available to retail and institutional investors. I recommend that the regulations relating to access good quality investment research be reviewed to facilitate the provision of research to retail investors. At present, without access to the same research as institutional investors, too many retail investors rely on information sources such as chat rooms.

- Harness the knowledge and experience within our universities to assist in the provision of research on innovative companies and sectors and to help train the next generation of research analysts.

The evidence has convinced me that increased provision of investment research, particularly to fill the gap on smaller cap companies, will help create a much stronger capital markets ecosystem, a stronger and more resilient UK economy, and more jobs across our four nations.

The UK has all the component parts to continue to build its position as a leading global provider of investment research and more. This will not happen without change and it will require prompt and decisive action on the part of the government and regulators. It will also require the industry to step up and play its part.

Finally, I would like to say thank you for the huge amount of help and encouragement I have received along this journey.

To my Hogan Lovells colleagues (Jonathan Baird, Dominic Hill, Melanie Johnson, Imogen Thwaites, Madalena Marques and Carla Soesan) who have made such a huge contribution, I know that I couldn’t have done this without you. To Hogan Lovells itself, thank you for allowing me the space to give this the attention it deserves. Thank you to the City of London Corporation and to TheCityUK (especially Miles Celic) for your unwavering support as well as to your absolute commitment to making our ecosystem as strong as it can be. Huge thanks, on behalf of the team, to all those who gave so much of their time whether in written submissions or the many roundtables and individual conversations with us. Your knowledge, generosity, patience and support have made this Review a pleasure to undertake. Thank you.

Rest assured, I will remain committed to this cause alongside the many others for whom this is such a passion.

Rachel Kent

Chair, Investment Research Review
Hogan Lovells International LLP
10 July 2023
1. **EXECUTIVE SUMMARY**

1.1 The UK Investment Research Review is part of a series of UK government initiatives aimed at bolstering the UK’s capital markets – the jewels in the crown of the UK economy. The UK Listing Review, the UK Secondary Capital Raising Review and measures set out in the Wholesale Markets Review are all designed to encourage issuers to list in the UK and investors – both institutional and retail – to invest in those companies.

The importance of investment research and our recommendations

1.2 There is a consensus that investment research is an important component of an effective and attractive public capital market, but it is only one of a range of relevant factors. The availability and quality of expert analyst research in the UK is generally agreed to be significant in attracting (and retaining) issuers and investors to the UK public capital markets.¹

1.3 More, and better, research can create a virtuous circle, leading to better pricing for all companies - larger, mid- and smaller cap. Maintaining high standards of investment research will attract as broad an audience of investors as possible, creating greater liquidity for the UK’s economy.

1.4 Our review has identified a number of areas for action to protect and develop the UK as a centre of excellence for investment research.

1.5 We are making seven recommendations to address these areas:

1. **Introduce a Research Platform to help generate research.**
2. **Allow additional optionality for paying for investment research.**
3. **Allow greater access to investment research for retail investors.**
4. **Involve academic institutions in supporting investment research initiatives.**
5. **Support issuer-sponsored research by implementing a code of conduct.**
6. **Clarify aspects of the UK regulatory regime for investment research and consider introducing a bespoke regime.**
7. **Review the rules relating to investment research in the context of IPOs.**

These recommendations are set out fully in chapter 2 and discussed in detail in chapter 5.

1.6 Investment research takes different forms and serves more than one purpose, including contributing to the valuation and pricing of publicly traded companies, highlighting public market investment opportunities and providing third party analysis and scrutiny.

1.7 Investment research can be seen as a “public good”, which can be used by institutional asset managers and asset owners to identify investment opportunities and inform investment decisions, by other market participants (for instance, market makers) to inform trading programmes (which can enhance market liquidity) and, when accessible, by individual investors to inform their own investment decisions.

1.8 Investment research is dynamic and, to optimise its contribution, must accommodate market demand and development. This requires continuing support. In particular, the encouragement

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¹ The future of research 2016 – Frost Consulting Edison Research and Bloomberg “Equity research plays a vital role in capital markets through influencing and enhancing: - Price formation and evaluation of the cost of capital; - New issuance and capital formation; and - Public/political awareness of the capital-market function globally”.
of increased investment in the UK public equity markets, especially in new and specialist sectors, will require support by sufficient numbers of expert analysts.

**Investment research in the UK**

1.9 The provision of investment research in the UK is comparable with, and in many cases, superior to, other international financial services centres, perhaps with the exception of the US (although this is reflective of the far greater depth and coverage of the public markets in that country compared to elsewhere in the world). There is a sense, however, that the UK is perhaps no longer as pre-eminent a location for investment research as it was ten to fifteen years ago.

1.10 The most significant feature of analyst coverage in the UK, in common with all other comparable international financial services centres, is the difference in coverage of larger cap companies (in broad terms, but with exceptions, companies having a market capitalisation in excess of £1 billion) compared to smaller cap companies. The larger cap companies are generally well served by analyst coverage, whereas the smaller cap companies are not.

1.11 Overall (but with some contrary views), UK investment research is not regarded as deficient in specific market sectors, including life sciences and technology. But it is important to note that research is, by definition, responsive to the nature of the companies publicly traded in the UK. Therefore, there will be fewer analysts specialising in sectors with a smaller number of UK publicly traded companies. This explains, for instance, why there are more analysts specialising in technology companies in the US and in certain Asian markets, where there are more (and more significant) publicly traded technology companies.

1.12 Maintenance of an expert investment analysis profession requires certainty and continuity of demand and funding, as well as companies to analyse. Where coverage is cut back or discontinued, it can be difficult to replace or effectively reinitiate when required. Many respondents to our Call for Evidence are concerned about a perceived “juniorisation” of investment research at sell-side banks, whereby research is undertaken by less experienced staff, each of whom have more companies to cover, than had been the case in the past. This potentially has consequences for the quality and the value of the research being undertaken.²

**Enhancing UK research coverage and availability**

1.13 The paucity of research coverage of smaller cap companies is a factor of scale – it is generally not economically viable for investment analysts to cover smaller cap companies with limited interest in their shares. Of course, this is a two-way process – more analyst coverage of smaller cap companies may lead to more interest in the securities of those companies.³

1.14 Greater investment research coverage of smaller cap companies, especially in specialist sectors that lack larger comparators, is seen as desirable in promoting more investment in those companies.⁴

1.15 The problem is that demand for research coverage of smaller cap companies is limited, so the incentive to fund and produce that research is limited. “Bundling” of research payments with trading commissions is not necessarily the whole answer, as there is no guarantee that bundled payments regime will necessarily lead to greater research on specific companies.⁵

1.16 We recommend a significant innovation to address the research coverage of smaller cap companies in the UK – the creation of a central facility or “Research Platform” - to encourage and facilitate the promotion, sourcing and dissemination provision of research.

² Substantive Research (8 March 2021) Global research market lost years of experience since MiFID II.
³ QCA/Peel Hunt Survey 2021 highlighted that 56% of those surveyed agreed that more independent research would raise investor interest in small and mid-cap companies.
⁴ Lord Hill UK Listing Review 2021: “The funding of SME research is vital to ensuring enough information on which to base investment decisions is available to investors”.
⁵ D. Thomas, “Ditching MiFID Research Rules Will Help London Market But is No Panacea” (23 March 2023) https://www.ft.com/content/a3c424f0-aea7-42e1-bd9c-2032ace7b44c.
1.17 Similar initiatives have been undertaken in other financial centres, but on relatively smaller scales.

1.18 The Research Platform would have the potential to be a major differentiator for the UK public equity markets and could enhance the UK’s attractiveness as a listing venue and, through improved research coverage, promote greater market interest in the smaller cap companies and liquidity in their shares.

1.19 In turn, this should support the UK equity market as a major source of financing for growing and innovative companies, as well as maintaining the UK’s reputation as a centre for research excellence.

1.20 The Research Platform could also be used to initiate research on private companies that are contemplating listing, which may assist in greater visibility and understanding of those companies when they become public. As issuers have been moving to other jurisdictions to list, it is imperative that a pipeline of companies that want to list is created in the UK. There is a particular need for research on new, innovative “intangibles” businesses which also struggle to obtain debt financing.  

1.21 The key concern in establishing the Research Platform will be the provision of adequate and sustained funding.

1.22 The key outcome is that the Research Platform justifies its cost by helping to make a meaningful contribution to increased investor interest in participating companies.

1.23 The Research Platform need not be a permanent measure. Assuming it helps reinvigorate research coverage across the UK markets, it will have fulfilled its purpose and may no longer be required.

1.24 Issuer-sponsored/funded research has become increasingly popular, especially for smaller cap companies, and can be an effective way of raising awareness of securities that do not otherwise have significant or any analyst coverage. We believe that this will remain the case, irrespective of the establishment of the Research Platform.

1.25 We agree that sponsored research should be supported and, to this end, we recommend the adoption of a code of conduct in order to encourage the production and use of high quality sponsored research.

1.26 An additional concern is that retail and other non-institutional investors tend to be a material component of the shareholder basis of smaller or specialist and innovative companies, but the ability of retail and other non-institutional investors to access investment research can be impeded by UK regulations, especially the consumer-related elements of the FCA rules and, potentially, with a corresponding risk aversion on the part of the producers of research.

1.27 The concern regarding retail accessibility of investment research could be alleviated by providing a clear mechanism through which research can be made available to retail investors and the terms on which it is being made available - for instance, through the Research Platform - as well as considering whether there are any elements of current regulation and practice that unnecessarily limit access to investment research.

1.28 Accordingly, we are also recommending that the current UK regime insofar as it applies to the distribution of investment research to non-institutional investors is reviewed with a view to removing any unnecessary obstacles and facilitating the availability of additional research in those investors.

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7 Freetrade (August 2022) “Retail investors hold approximately 13.5% of shares listed on the LSE’s Main Market. For AIM, the figure is 25%.”
1.29 There is a general acceptance that the MiFID II unbundling requirements introduced in 2018 have had some adverse impacts on the provision of investment research and that not all of their anticipated benefits have been achieved.

1.30 It is also generally agreed that the decline in investment research coverage in the UK pre-dates MiFID II unbundling rules.8 Explanations for the decline include a reduction in interest in investment in UK equities as institutional investors (including pension schemes) adopt a risk averse strategy and invest in fixed income markets9 (so-called “de-equitisation”), reducing the demand for research on those securities, as well as a decline in secondary market trading in UK equities and falling commissions rates, resulting in lower overall spending on research.10

1.31 The introduction of the MiFID II changes is seen as having had some positive effects on the research market, in particular by reducing the amount of relatively unsophisticated and duplicative research produced on some companies simply for the sake of maintaining a degree of coverage. The principles underpinning the MiFID II reforms – in particular the need for greater transparency regarding the cost of research and greater scrutiny of the utility of the research being consumed – are generally not disputed.

1.32 The main concerns relating to the impact of MiFID II are as follows:

(a) It has not necessarily led to more transparent pricing of research nor to greater availability of different sources of research.

(b) The main basis on which client funds can be used to pay for research under MiFID II [the Research Payment Account] is considered unnecessarily complex and therefore is rarely used.11

(c) The decision of many asset managers to pay for external research from their own resources (the P&L model) and to increase their own internal research capabilities has reduced the amount spent on external research12 and, therefore, the quality and availability of that research. There are arguments that this may have a detrimental effect on investment returns. The increased use of the P&L model has also meant that the research that has been commissioned is, understandably, less likely to become widely available.

(d) Payment for investment research through the P&L model may prove unsustainable or subject to further reduction – for example, in the event of a market downturn that leads to a reduction in asset manager fee income, with the availability of research being arguably most important in times of market stress. Similarly, if demand for investment research was to increase significantly, for example due to increased investment in smaller


9 The proportion of shares in publicly traded UK firms held by domestically-based pension funds and insurance companies increased from 16% in 1962 to 52% by 1993 and then fell precipitously to under 10% by 2014 and below 5% by 2020. - Office for National Statistics (ONS), Ownership of UK Quoted Shares 2020: https://www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/ownershipofukquotedshares/2020.


cap companies by DC pension schemes or because of increased ESG requirements, not all buy-side firms may be able to sustain the financing of research payments through the P&L model.

(e) Greater regulatory requirements regarding the process for the appointment of researchers have led to some asset managers limiting the number of providers from whom they receive research.

(f) The reduction in research spending has led to less willingness to engage in speculative and innovative research, including in respect of niche and growth areas, including ESG-related companies and issues.

1.33 The international impact of MiFID II is also important and causes significant concern. Investment research is a global business, both in terms of production and consumption. A differing approach to regulation in the UK needs to be justifiable, both in light of the potential impediments that those differences can bring to UK asset management businesses that operate internationally and, arguably, to the extent that they may impact investment performance (by restricting the ability of UK asset managers from accessing information from elsewhere).

1.34 The contrast between the UK and the US is particularly significant. The US continues to follow a bundled model for the purchase of investment research. There is a view that the bundled payment model has enabled US investment banks and brokers to invest more in developing research capabilities than in the UK and to maintain broader coverage.13 In addition, the recent withdrawal of concessions granted by the US Securities and Exchange Commission to allow asset managers who are subject to the MiFID II standards to purchase research on an unbundled basis may result in UK asset managers no longer being able to access some US research.

1.35 To address these concerns, and to ensure that the UK investment research market remains robust and wide-ranging, the Review recommends additional optionality regarding payment for research in order to:

(a) permit asset managers to pay for research on a bundled basis; and

(b) ensure that UK asset managers remain able to procure research from elsewhere in the world, especially the US.

1.36 The Review also recommends that the UK should seek to remain aligned with other key jurisdictions (in particular, the US and EU) in relation to the question of paying for investment research, in order to prevent the UK being at a competitive disadvantage.

Greater academic involvement in supporting investment research

1.37 One effect of the MiFID II reforms has been an overall reduction in the number of analysts preparing research and, therefore, the number of people who are qualified to undertake it. This is particularly the case for new and innovative sectors which require investment to cover.

1.38 Some of the respondents to the Call for Evidence noted that the UK has leading expertise in the world of academia which could be called upon to assist in the provision of additional research resource.

1.39 We recommend that, as part of the process of establishing the Research Platform, the operator of the Research Platform should consider exploring mechanisms to strengthen the collaboration between academic institutions and the capital markets ecosystem.

1.40 These mechanisms could include:

(a) assisting academic institutions who have the necessary knowledge and experience and who wish to engage in, or assist financial institutions with, the provision of research or improving knowledge of particular sectors and areas of innovation;

(b) harnessing particular expertise that academic institutions have in relation to highly innovative enterprises that have been spun out of academic study; and

(c) using academic expertise to assist in the provision of training for research analysts – particularly where academics have more detailed knowledge of specialist or technical areas.

Clarity around the UK regulatory regime for investment research

1.41 The regulatory perimeter and the requirements of the FCA rules applicable to the regulation of providers of investment research and the distribution of investment research are unnecessarily complex.

1.42 We recommend that the current regime is reviewed with a view to determining whether it should be simplified and/or clarified, for the benefit of both the providers and users of investment research. It may be appropriate to have a bespoke regime relating specifically to investment research.

IPO-related reform

1.43 The production of research in connection with the initial listing and offering (IPO) of a company is commonplace in the UK, most often by analysts who are connected to the banks involved in the listing.

1.44 We recommend that the following IPO-related points, which have been highlighted in connection with the UK’s attractiveness as a IPO venue, are considered further:

(a) the changes to the Conduct of Business Rules of the Financial Conduct Authority (FCA) made in 2018 which were designed, among other things, to encourage unconnected analysts to produce research in connection with IPOs, but at the expense of extending the UK IPO timetable. These changes are not believed by some market participants to have led to a significant upturn in IPO coverage by unconnected analysts, and the consequential impact on the IPO timetable has been highlighted as putting the UK at a competitive disadvantage compared to other potential listing venues;

(b) making connected analyst research produced on a company in connection with an IPO available on a similar basis to the company’s prospectus, so that all investors can access the same information; and

(c) the limitation contained in the FCA’s Conduct of Business rules on connected analysts being allowed to meet with potential IPO candidates prior to an investment bank being mandated on the IPO, which is perceived as putting the UK at a disadvantage compared to other major listing venues.
2. THE RECOMMENDATIONS

Recommendation 1: Introduce a Research Platform to help generate research

(a) A "Research Platform" should be created which will provide a central facility for the promotion, sourcing and dissemination of research on publicly traded companies – potentially open to all, but in particular, for smaller cap companies.

(b) The exact details of the Research Platform would need to be considered carefully. There are examples of such arrangements internationally, from which useful elements could be taken and developed for the UK market. As a starting suggestion, the Research Platform could have the following characteristics:

(i) Whilst the focus should be on smaller cap companies, it could also be made available more broadly to all publicly traded UK issuers, as well as private companies who are contemplating listing, companies in new, highly technical business and companies participating in the UK’s proposed new intermittent trading venues. However, participation in the Research Platform would not be compulsory.

(ii) It should be operated centrally by one or more third parties, and operated through a constitutional framework, with the participants agreeing to contractual obligations.

(iii) The research it produces should be freely available.

(iv) We anticipate that the operator would procure a roster of research providers who have the relevant expertise and the capacity to carry out the research. The research providers should all be authorised persons. The operator of the Research Platform would select a shortlist for an issuer, and the issuer would choose who to appoint. Each issuer should be covered by a minimum of three researchers, at least one of whom should be independent of the issuer.

(v) The research provider should commit to certain minimum standards. It may also be possible to have different levels of coverage (including specifically for retail investors), with different price points, as has been seen in other jurisdictions.

(vi) An Advisory Committee, drawn from interested groups, could support and monitor the effectiveness of the Research Platform.

(c) Options for financing the Research Platform could include funding:

(i) through a levy on issuers;

(ii) by the exchanges;

(iii) by contribution from government, on a short term-basis – e.g. as seed funding or to support particular objectives (such as assisting high growth companies);

(iv) through a levy on participants in the market in connection with the purchase of shares (the cost of which could potentially be offset by a stamp duty rebate); and/or

(v) through a levy on financial services firms.

(d) The Research Platform need not be a permanent measure. If it helps reinvigorate research coverage in the UK, it may not be required in the longer term.
(e) The Research Platform could include a facility under which a central repository of information is kept in relation to issuers, along the lines of EDGAR in the US. This could build upon, or be connected with, the UK’s National Storage Mechanism.

Responsibility for implementation:

- HMT
- The chosen operator
- The relevant exchanges (if they are not also acting as operator)
- FCA, in relation to the information repository (building on its existing work in this area)

Timetable: The timing will depend on determination of the preferred funding source(s), (some of which might require legislation) and other arrangements in relation to the establishment of the Research Platform (e.g. the possible tender process to be the operator). We therefore envisage that the Research Platform would be implemented in the medium term.

Recommendation 2: Allow additional optionality for paying for investment research

(a) Additional flexibility should be built into the rules, so that buy-side firms have the option of being able to pay for research either:

(i) out of their own resources;
(ii) by making a specific charge directly to their clients in respect of the costs of research; or
(iii) by combining the cost of research with execution charges.

(b) Buy-side firms that use investment research should:

(i) allocate the costs of research fairly between their clients, having regard to the obligation on regulated firms to treat their customers fairly;
(ii) have a structure for the allocation of payments between the different research providers - such as Commission Sharing Agreements;
(iii) establish and implement a formal policy regarding their approach to investment research and how it is paid for;
(iv) periodically undertake benchmarking or price discovery in relation to the research that the firm uses; and
(v) make appropriate disclosures to the client, which could include:

(1) whether it pays for that research only using its own P&L or whether it expects the client to fund the cost of the research (either through a specific charge or bundled payments);
(2) where the firm’s clients are expected to fund the cost of the research:

- what the expected aggregate cost of that research (across all its clients) would be for a defined period; and
- how the firm intends to collect the charge (i.e. through a specific charge, a bundled charge or a combination of these);
(3) details of the firm’s policies and benchmarking arrangements; and

(4) subsequent disclosure of the amounts actually made for investment research, as part of the firm’s ordinary regime for making fee disclosures (rather than as a discrete obligation). The amounts should be included in the annual report and accounts and be audited.

(c) Sell-side firms should not be required to facilitate payments on a bundled basis or be able to require that buy-side firms use bundled charges.

(d) We do not propose that the specific consent of the buy-side’s underlying clients to these arrangements would be mandatory – but this would be subject to any pre-existing contractual arrangements between the parties or existing (non-research-related) regulatory obligations that require consent.

(e) The FCA should identify and remove any barriers in the current rules to achieving the additional flexibility being recommended.

(f) The UK should seek to remain aligned with other key jurisdictions (in particular the US and EU) in relation to research rules, where appropriate, to avoid being at a competitive disadvantage.

(g) The UK should in any event remove any barriers which prevent UK buy-side firms from paying for investment research in other jurisdictions where payment on a bundled basis is standard practice in that jurisdiction.

Responsibility for implementation: FCA.

Timetable: As soon as practicable. We note that the FCA has a statutory duty to consult on any proposed rule changes before implementing them, to consider whether any particular proposal would be likely to advance one or more of its statutory objectives, and to carry out cost benefit analysis.

Recommendation 3: Allow greater access to investment research for retail investors

Consider how the regulatory regime may prohibit or discourage access by retail investors to investment research prepared by authorised persons, where the research provider wants to make the investment research widely available. The FCA should consider whether rules could be amended or guidance offered to allow retail investors to access investment research more easily.

Responsibility for implementation: FCA.

Timetable: Ideally, this review would be done as soon as practicable (taking into account the FCA’s current workloads and priorities), as it would facilitate other aspects of our recommendations – in particular the establishment and effective operation of the Research Platform, which would aim to include retail investors. However, the Research Platform would not be contingent upon the questions that the FCA would be considering. In addition, the question of access for retail investors is something that should be addressed regardless of the development of the Research Platform.

Any changes should potentially apply to all types of investment research, and so would need to be consulted on appropriately by FCA in accordance with its statutory duties.
Recommendation 4: Involvement of academic institutions and bursaries in the provision of investment research

(a) Academic institutions should be considered as a potential resource in relation to investment research.

(b) As part of the process of establishing the Research Platform, the operator of the Research Platform should consider exploring mechanisms to strengthen the collaboration between academic institutions and the capital markets ecosystem, including in relation to (i) the provision or support of research; (ii) providing training for analysts; and (iii) encouraging academic institutions to assist innovative enterprises that seek to develop out of academic study.

(c) The potential shortfall in the number of analysts could also be addressed by the creation of bursaries to assist academic institutions with the cost of training new analysts. Some of the bursaries could be aimed at specific issuer types or innovative sub-sectors.

(d) This collaboration (including the bursaries) should be administered by the Research Platform, to encourage participation in the Research Platform and to support upskilling in relation to the kinds of the issuer that the Research Platform is intended to support.

(e) The bursaries could be funded from the resources available to the Research Platform.

Responsibility for implementation: The operator of the Research Platform would administer and oversee the collaboration and the bursaries.

Timetable: Implementation would be to the same timescales as the Research Platform.

Recommendation 5: Support issuer-sponsored research by implementing a code of conduct

(a) Issuer-sponsored research serves an important purpose and should continue to be available over and above what is available on the Research Platform.

(b) The industry should collaborate to support the creation and adoption of a voluntary code of conduct for issuer-sponsored research, to add structure to the issuer-sponsored research market and enhance the integrity of issuer-sponsored research as a potential useful source of information in its own right.

(c) The details of the code of conduct would need to be determined, but in our view it should have the following characteristics:

(i) The code should apply to all issuer-sponsored research.

(ii) The code should be voluntary. It would apply in addition to any legal or regulatory requirements that the signatories are already subject to.

(iii) It may be appropriate for any code to be industry-led, but the FCA could consider recognising the code.

Responsibility for implementation: This could be provided by one of the relevant trade bodies.

Timetable: Short-term.
**Recommendation 6: Clarify aspects of the UK regulatory regime for investment research and consider introducing a bespoke regime**

(a) The regulatory regime for investment research should be reviewed and steps taken to identify any areas that are unclear, unnecessarily complex or difficult to justify. Where appropriate, the regime should be simplified and/or clarified.

(b) It may be appropriate to have a bespoke regime relating specifically to investment research.

**Responsibility for implementation:** FCA and (if the FCA’s review identifies that changes to the regulatory perimeter are required) HMT.

**Timetable:** As soon as practicable, taking into the FCA’s current workload and priorities. Any changes to the rules would need to be consulted on appropriately by FCA, in accordance with its statutory duties.

**Recommendation 7: Review the rules relating to investment research in the context of IPOs**

(a) The IPO timetabling changes introduced in 2018 should be reviewed to consider if amendments could be made to simplify the IPO timetable, while continuing to ensure adequate and timely access to information.

(b) Consideration should be given to connected analyst research produced in connection with an IPO being made available on a similar basis to the company’s prospectus, so that all investors can access the same information.

(c) The limitation on connected analysts being allowed to meet with potential IPO candidates prior to an investment bank being mandated on an IPO transaction contained in the FCA rules should be reconsidered.

**Responsibility for implementation:** FCA.

**Timetable:** In conjunction with the FCA’s existing work on the implementation of the recommendations of the Listing Review and the Secondary Capital Raising Review. (It is noted that the FCA’s work on those other reviews may have their own timelines.)

Any changes to the rules would need to be consulted on appropriately by FCA, in accordance with its statutory duties.
3. **BACKGROUND INFORMATION REGARDING INVESTMENT RESEARCH IN THE UK**

**What is investment research?**

3.1 The expression “investment research” can refer to a very wide range of information and analysis supplied in many different formats.

3.2 This Review is mostly concerned with investment research relevant to the public capital markets and, in particular, companies with publicly traded shares ("equity research") and, to a somewhat lesser extent, publicly traded debt securities ("FICC research").

3.3 Investment research may cover individual companies, may compare companies in the same or similar sectors or may address broader thematic topics.

3.4 Investment research is compiled by analysts who specialise in the evaluation of financial and investment information, often with specific expertise relating to particular industries, sectors, technologies and geographies. An analyst will usually be in contact with the companies covered by the analyst’s research, as well as utilising publicly available information.

**How does investment research benefit the capital markets?**

3.5 The purpose of investment research is to provide public capital markets participants with information about publicly traded securities. This information may be analytical (whether on a stand-alone or comparative basis), educational (for instance in respect of new or difficult-to-understand businesses or markets) or highlight specific investment opportunities.

3.6 By providing information on, and coverage of, specific publicly traded securities, investment research supports (but is not the primary driver of) liquidity or valuation of those securities. The process is two-way: greater interest in a capital market will promote more research coverage of that market, but without the availability of investment research, a capital market is likely to be less liquid and, therefore, less attractive to investors.

3.7 Investment research can provide an insight on, and scrutiny of, publicly traded securities which is distinct from the information provided to the market by the issuer of those securities.

**Types, purposes and users of investment research**

3.8 Investment research produced in the UK takes different forms and serves different purposes.

3.9 Most investment research is “non-deal” research about companies with existing publicly traded securities. “Non-deal” research will often focus on financial performance but will also consider significant events affecting companies, such as product developments, acquisitions or disposals. As described further below, “non-deal” research is produced in varying forms and for varying purposes, depending on by whom, and for whom, it is prepared.

3.10 A specific feature of the UK market is the production of research in connection with the initial public offering (“IPO”), or listing, of a company. This usually takes the form of “connected” research, which is produced by analysts employed by the same financial institutions that are mandated on the IPO (albeit that the connected research will often be “independent” research for regulatory purposes)

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14 See Part A of Appendix 4 regarding the meaning of “non-independent research” and “independent research”. 
Users of investment research

3.11 All investors in the public capital markets will utilise investment research to a greater or lesser extent.

3.12 “Buy-side” professional asset managers and investment advisers will use investment research to help locate and assess investment opportunities on behalf of their clients. Institutional investors or “asset owners” (including insurance companies and pension funds) may also utilise research for similar purposes.

3.13 “Sell-side” brokers and traders will use investment research to support their own trading strategies and, thereby, to help support market liquidity.

3.14 Retail and non-institutional investors may also use investment research to inform their own investment decisions, although investment research (other than issuer-sponsored research, as described further below) tends to be less readily available to them.

Producers of investment research

Sell-side investment banks and brokers

3.15 “Sell-side” investment research is produced by analysts employed by investment banks, brokers and other financial institutions who provide execution and brokerage services. Most such UK-based financial institutions will have analyst capability.

3.16 Analysts employed by financial institutions that have corporate brokerage relationships will often write research on brokerage clients.

3.17 Sell-side research generally focuses on larger cap publicly traded companies and is ordinarily intended for institutional asset managers and other professional investors active in the public markets, including hedge funds. Many sell-side research providers will aim to provide research coverage in respect of a wide range of publicly traded companies, so long as the relevant company is of a sufficient size or nature to make research coverage viable.

3.18 Sell-side research will also be used by the market making and brokerage operations of the financial institution that employs the analyst to help inform their trading strategies.

3.19 Sell-side research may be produced so that it is “independent” research for regulatory purposes, which requires specific rules to be followed, including in respect of the management of conflicts of interest and the separation of the research function from other functions in the relevant financial institution. Not all sell-side financial institutions will follow these specific regulatory requirements for the production of “independent” research – in which case the research prepared by those institutions is described by the FCA rules as “non-independent research” and must be labelled as “marketing material”.

Independent research providers

3.20 Investment research is also produced by analysts who are not connected with investment banks, brokers or other financial institutions providing execution and brokerage services. These providers are often referred to as “independent” research providers. Here, the term “independent” refers to the stand-alone nature of the research provider and not the regulatory status of the research produced, which, in common with much sell-side research, will also be “independent” research for regulatory purposes.

3.21 Independent research providers generally will not be of the same scale or provide as wide-ranging coverage as the sell-side providers.
Providers of issuer-sponsored research

3.22 Providers of issuer-sponsored research produce research that is funded by the issuer – i.e. the company that is the subject of the research. Companies who use providers of issuer-sponsored research tend to be smaller cap companies or specialist companies (such as investment trusts), that are less likely to be covered by sell-side or independent research providers. Issuer-sponsored research is a means of providing these companies greater visibility with potential investors.

3.23 Issuer-sponsored research may be used by professional asset managers and, unlike most sell-side investment research, certain, sophisticated retail investors.

Buy-side asset managers

3.24 Asset managers (especially the larger managers) may also employ their own investment analysts to produce research specifically for use by the relevant asset manager and which is generally not made more widely available. The number of buy-side analysts is thought to have increased significantly in the UK since the introduction of MiFID II, as the MiFID II changes have made it more difficult for asset managers to procure research from third party providers.

3.25 An internal research capability allows the relevant asset manager to prepare internally generated research tailored to its specific needs and to generate individual research that is not more widely available. (A potential downside of the increased production of internal research, however, is a decline in the development of consensus views based on multiple pieces of more widely available research.)

3.26 Most asset managers with internal research capability will also acquire and utilise external research.

3.27 Internal research capabilities are usually funded by asset managers from their own resources. They can also be funded by the asset managers' clients – i.e. the underlying asset owners.

UK law and regulation relating to investment research

3.28 A summary of the key provisions of UK law and regulation relating to investment research is set out in Appendix 4. However, by way of background, a short summary of the history of UK regulation is set out below.

3.29 Historically, the UK used to allow “bundled payments” – i.e. where a broker who was executing a transaction for a buy-side firm would add an additional amount above the actual cost of executing the trade, and use the additional amount to fund certain benefits which it would provide to the buy-side firm. At one time, the additional amount could also be used to pay for things like the provision of information technology, but it was most commonly used to pay for investment research, which would be made available to the buy-side firm.

3.30 The UK regulators had concerns about this practice, in particular on the grounds that it: (i) made the cost of transactions opaque; and (ii) gave rise to potential conflicts of interest, under which the buy-side firm might choose to use that broker for the additional benefits it would receive rather than because it was in the best interests of the buy-side firm’s client.

3.31 Between 2006 and 2018, the FCA introduced various restrictions on the use of bundled payments. Firms were prevented from using bundled payments to pay for anything other than investment research, and where they used bundled payments they were made subject to additional regulatory requirements.

3.32 In 2018, the EU’s revised Markets in Financial Instruments Directive (“MiFID II”) came into effect, and was implemented in the UK (which was, at that time, still required to implement EU law). The MiFID II changes introduced a much stricter regime regarding payments for investment research, under which firms were effectively required to “unbundle” their pricing. Following those changes, investment research could only be paid for either (i) out of the buy-side firm’s own resources; or (ii) using a “Research Payment Account” mechanism, under which the underlying client would
pay for the investment research, but subject to strict controls. Firms were also allowed to accept “minor non-monetary benefits” – which included some limited types of investment research.

3.33 Following the implementation of MiFID II, the FCA undertook a multi-firm review of the unbundling reforms, the results of which were published in 2019. Following that review, the FCA made further changes to the rules (the “Post-MiFID Revisions”, as described in more detail in Part A of Appendix 4). In particular, the rule regarding minor non-monetary benefits was amended so that additional categories of investment research could come within the scope of the rule. The additional categories of investment research included research (i) relating to issuers with a market cap below £200 million; (ii) on FICC instruments; or (iii) produced by independent providers.

3.34 The UK has therefore already taken some steps to move back from the requirements of MiFID II. One of the purposes of this Review is to consider whether further steps should be taken.

3.35 In considering the UK’s position, it is also worth considering how the UK’s position compares to other major markets – in particular, the US (which allows bundled pricing and has consistently done so for several decades) and the EU (which was subject to the same MiFID standards as the UK, but has recently introduced its own exceptions and is considering moving back to a bundled model). More information on the position in those markets can be found in Appendix 4.
4. **THE RESULTS OF OUR REVIEW**

4.1 This chapter sets out our conclusions in respect of the objectives posed in the Investment Research Review’s Terms of Reference. Appendix 3 contains a summary of the responses that we received to the specific questions included in the Call for Evidence and on which we have relied, along with our discussions with interested parties, in developing our conclusions.

**How does investment research provision in the UK compare with other international financial services centres, in both public and private markets?**

4.2 The provision of investment research in the UK is comparable with, and in many cases, superior to, other international financial services centres, especially in the case of larger cap stocks, where the UK is ahead of other European financial centres.

4.3 Investment research is generally associated with the public markets, as it is ordinarily concerned with readily tradable securities, but it can – generally with the involvement and agreement of the relevant company – sometimes cover private companies, in particular those that are considering becoming public.

4.4 The most significant feature of analyst coverage in the UK, in common with all other comparable international financial service centres, is the difference in coverage of larger cap companies compared to smaller cap companies.

4.5 Larger cap companies are considered to be sufficiently well served by analyst coverage whereas smaller cap companies are not. An important factor is that, in order to maximise the value of research coverage, a security needs to be covered by a sufficient number of analysts, so that different viewpoints can be considered and a consensus view can be developed.

4.6 It is difficult to identify a bright line test as to what counts as larger cap for these purposes – larger cap companies are often identified as companies with a market capitalisation over £1 billion and/or constituents of the FTSE 100, and possibly FTSE 250 indices. But there are numerous exceptions and the distinction is most adequately drawn as being between those companies which are perceived to have adequate analyst coverage and those which do not.

4.7 The paucity of research coverage of smaller cap companies is a factor of scale and it is generally not economically viable for investment analysts to cover smaller cap companies with limited interest in their shares. Further, much research on smaller cap companies is produced by an analyst which has some relationship with the relevant company, either through a corporate broking or corporate finance relationship or as a provider of issuer-funded sponsored research.

4.8 Overall, UK investment research is not regarded as deficient in specific market sectors, including life sciences and technology (as opposed to in smaller companies). But it is important to note that research is, by definition, responsive to the nature of the companies listed in the UK. Therefore, there will be fewer analysts specialising in sectors with a smaller number of UK listed companies. This explains, for instance, why there are more analysts specialising in technology companies in the US and certain Asian markets, where there are more (and more significant) listed technology companies.

4.9 There is a widely held view that provision of investment research in the UK previously positively distinguished the UK market from most other major international financial services centres and that the UK is perhaps no longer as pre-eminent a location for investment research as it was ten to fifteen years ago.

4.10 The US, in particular, may be ahead of the UK in the provision of research. This is reflective of the far greater depth and coverage of the US public markets compared to elsewhere in the world.

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15 This is sometimes thought of as a two-way process – more analyst coverage of smaller cap companies may lead to more interest in the securities of those companies. However, the provision of research is not a guaranteed generator of interest or liquidity in a specific security.
However, the fact that the US market generally pays for investment research on a bundled basis has probably also enabled US investment banks and brokers to invest more in maintaining and developing research capabilities than in the UK, including retaining more senior and expert analysts and maintaining broader research coverage.

4.11 The perceived decline in the UK research market significantly pre-dated the MiFID II unbundling reforms (although the decrease in research budgets following the introduction of MiFID II appears to have accelerated this trend) and can be attributed to the decline in commission rates for secondary trades in shares on the London market, at least over the last ten to fifteen years.

4.12 There is a widely held (but not uncontested) view that the decline in research budgets for sell-side research following the introduction of MiFID II appears to have led to a “juniorisation” and reduction in the number of sell-side investment analysts, which has impacted the quality of research in the UK, both by reason of the experience of analysts and the number of companies they are expected to cover.

What is the amount, quality and type of investment research currently provided on firms listed or quoted, or seeking to be listed or quoted, on UK public markets? Has that had an effect on the attractiveness of UK markets for issuers?

4.13 As described above, analyst coverage of larger cap companies that are publicly traded in the UK is generally considered to be of an appropriate amount and quality (notwithstanding issues such as juniorisation), whereas - in common with elsewhere in the world - coverage of smaller cap companies is less extensive.

4.14 Subject to some limited concerns that a lack of expertise among UK analysts regarding some new or novel technology businesses, the provision of investment research in the UK is generally not seen as having an adverse effect on the attractiveness of the UK public markets for issuers.

4.15 However, the availability of research is seen as only one of a number of factors that influence the choice of listing venue.

4.16 The provision of research on IPOs is considered important. Views are divided, however, on the nature of that research and the impact of the UK’s IPO timetable reforms in 2018 aimed at encouraging more unconnected research.

4.17 Non-sell-side investment bank respondents noted the conflicts inherent in IPO related research and the extent to which a relatively poor quality IPO pipeline had not allowed the 2018 IPO reforms – which were intended to assist in the provision of independent research on IPOs – to be properly tested.

4.18 Investment banks, however, noted the 2018 IPO reforms as unhelpful to the UK IPO process as they extend the timetable and potential market risk by one week in the UK in comparison to other jurisdictions and that unconnected analysts have not taken full advantage of the 2018 IPO changes.

Are there any specific issues for research into the tech and life science sectors?

4.19 On balance, there do not appear to be specific issues relevant to UK investment research on technology or life science companies that should be addressed over and above comments made in respect of investment research more generally.

4.20 As mentioned above, research is, by definition, responsive to the nature of the companies listed in the UK. Therefore, there will be fewer analysts specialising in sectors with a smaller number of UK listed companies. This explains, for instance, why there are more analysts specialising in technology companies in the US and certain Asian markets, where there are more (and more significant) listed technology companies.
4.21 A limited number of respondents did express the view that there was a shortage of UK investment research on technology and life sciences companies compared to other sectors and, potentially, a more conservative approach to analysing those companies.

4.22 Further, some respondents noted that markets with more significant technology sectors (in particular the US and certain Asian financial centres) will tend to have more specialist analysts with a deeper understanding of the sector. A perceived lack of understanding on the part of UK analysts (or a need to educate the analysts) was noted by some respondents as potentially negatively affecting the perception of certain listed companies (especially in new or novel businesses) of the quality of the UK capital markets and the support that an issuer may receive if it wanted to access further capital.

4.23 Respondents also noted that technology and life sciences companies generally lean towards listing in the US or other jurisdictions where investors in these markets are more prevalent. While improved UK research provision would be unlikely to be a deciding factor for such companies to list in the UK compared to other markets, it could help strengthen the UK’s position as a listing venue.

4.24 It was also noted that the informational and educational value of research is more pronounced for issuers in more complex and new areas, such as technology and life sciences, than for issuers in more conventional or traditional areas, meaning that it is important to have analysts competent to write that research.

What current level of demand do investors have for research? What factors are driving this demand? Is the amount, quality and type of investment research sufficient to meet such demands?

4.25 Investment research can be seen as a “public good”, which can be used by institutional asset managers and asset owners to identify investment opportunities and inform investment decisions, by other market participants (for instance market makers) to inform trading programmes (which can enhance market liquidity) and, when accessible, by individual investors to inform their own investment decisions.

4.26 But the demand for research on UK listed companies is also a function of interest in the UK equity markets, which has been steadily decreasing over the last ten to fifteen years.

4.27 As described earlier, most investment research focuses on larger cap companies, and is generally considered by institutional investors to be adequate in amount and quality.

4.28 The position on smaller cap companies is different, which tend to be under-covered by research. In large part, this reflects the lower level of investor interest in those companies but there is also a view that demand for research on smaller cap companies is not currently being met.

4.29 Sponsored research, which is paid for by the issuer, is generally seen as performing an important role in providing coverage of smaller cap companies, and there is general agreement that more should be done to encourage the production of more high quality issuer-sponsored research.

4.30 Some respondents noted that, although some buy-side asset managers have increased their internal research capabilities in particular following the introduction of MiFID II, externally generated research remains very important and provides asset managers and asset owners with very significant economies of scale and differences of opinion that could not – either from a cost or time perspective – be replicated by internal research functions.

4.31 Some respondents identified an increased focus in UK investment research on short-term trading opportunities at the expense of longer-term assessments of industry and company drivers. Some of the reasons given for this change were the impact of MiFID II in reducing research-attributed revenues and the increasing importance of hedge funds as consumers of research.

4.32 Some respondents noted that more thematic, as well as company-specific, research would help investors better understand specific sectors, especially novel or hard-to-understand businesses.
4.33 A commonly held view is that investment research should be made more readily accessible to retail investors and that the existing UK regulatory regime presents hurdles to retail access to research, in particular compared to other countries. The view was expressed that greater availability of professionally prepared investment research could help generate wider investor interest, on an informed basis, in smaller cap companies, including by retail investors.16

What impact have the MiFID II unbundling rules had on the provision of research in the UK and what is the likely impact of any proposed changes on investment and fees?

4.34 The MiFID II unbundling rules were aimed, in broad terms, at achieving greater transparency on the pricing of investment research and greater control over expenditure on research.

4.35 The unbundling reforms did not require asset managers to pay for research instead of their underlying clients nor were the reforms specifically aimed at delivering that outcome.

4.36 The impact of the MiFID II unbundling rules on the provision of research in the UK is generally perceived to include the following:

(a) MiFID II required significant overhauls to compliance systems and procedures by buy-side asset managers regarding the consumption of research.

(b) Most buy-side asset managers now pay for research from their own resources (the P&L model) instead of requiring clients to pay directly for research on an unbundled basis.

(c) Payment for research from P&L has reduced the amount of money available to pay for research.

(d) Reduced research budgets have been reflected in the sell-side’s approach to pricing research, including selling research on the basis of packaged prices.

(e) Buy-side asset managers have increased their own internal research capabilities, funded from their own resources.

(f) The MiFID II rules on inducements are perceived as leading to buy-side asset managers limiting the number of providers from whom they acquire external research.

4.37 It is generally agreed that the decline in investment research coverage in the UK pre-dates MiFID II unbundling rules. Explanations for the decline include:

(a) A decline in interest in investment in UK equities as institutional investors including pension schemes adopt a risk averse strategy and invest in fixed income markets (so-called “de-equitisation”), reducing the demand for research on those securities.

(b) The decline in secondary market trading in UK equities (resulting in lower overall trading commission receipts and therefore smaller sums being applied to fund research).

(c) Falling commission rates for trades in UK equities (resulting in lower trading commissions on individual trades and therefore the amount applied to fund research from those commissions decreasing).

4.38 The MiFID II changes are, however, also seen as having had some positive effects on the research market, in particular by reducing the amount of relatively unsophisticated and duplicative research produced on those companies simply for the sake of maintaining a degree of coverage.

16 QCA research conducted in 2021 highlighted that more independent research would raise investor interest in small and mid-cap companies.
4.39 Further, the principles underpinning the MiFID II changes – in particular the need for greater transparency regarding the cost of research and greater scrutiny of the utility of the research being consumed – are generally not disputed.

4.40 The main concerns relating to the impact of the MiFID II changes are as follows:

(a) It has not necessarily led to more transparent pricing of research nor to greater availability of different sources of research.

(b) The main basis on which client funds can be used to pay for research under MiFID II (the Research Payment Account) is considered unnecessarily complex and therefore is rarely used.

(c) The decision of many asset managers to pay for external research from their own resources and to increase their own internal research capabilities has reduced the amount spent on external research and, therefore, the quality and availability of that research. There are arguments that this may have a detrimental effect on investment returns. The increased use of the P&L model has also meant that the research that has been commissioned is less likely to become widely available.

(d) Payment for investment research through the P&L model may prove unsustainable or subject to further reduction – for example, in the event of a market downturn that leads to a reduction in asset manager fee income, with the availability of research being arguably most important in times of market stress. Similarly, if demand for investment research was to increase significantly, not all buy-side firms may be able to sustain the financing of research payments through the P&L model.

(e) Concerns regarding compliance with the MiFID II inducement rules has led to some asset managers limiting the number of providers from whom they receive research, which has led to limits on the circulation of some research. This is perceived as having an adverse effect on the development of consensus views, as the full range of views on a specific security contained in different pieces of research on that company are no longer as widely available to market participants. This reduction in available information could have an adverse effect on share price formation and liquidity.

(f) The reduction in research spending has led to less willingness to engage in speculative and innovative research, including in respect of niche and growth areas, including ESG-related companies and issues.

4.41 The international impact of MiFID II is also important. Investment research is a global business, both in terms of production and consumption. UK-based asset managers can invest on a global basis and, in order to be competitive (and for the UK to have a globally competitive asset management industry), UK-based asset managers require access to research produced throughout the world.

4.42 Differing approaches to regulatory regimes need to be justifiable, both in light of the potential impediments that those differences can bring to UK asset management businesses that operate internationally and, arguably, to the extent that they may impact investment performance (by restricting the ability of UK asset managers from accessing information).

4.43 A consistent theme of respondents is that the UK should seek to be aligned with other jurisdictions in the options available to UK buy-side firms to purchase research, where possible.

4.44 Lack of alignment of the UK rules with those in other major international financial centres (in particular the US and EU) could, in the absence of accommodation of the UK position by those other financial centres, lead to the following problems:

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17 Risk Control Limited (April 2020) ‘The impact of MiFID II on SME and fixed income investment research’ shows an immediate impact of MiFID II on the decline of asset manager budgets between 2017-2019 of 20-30%.
The UK buy-side may effectively be prohibited from acquiring research produced in other financial centres on securities traded in those financial centres by lacking the means to pay for that research in accordance with local requirements.

The buy-side in other financial centres may be deterred from acquiring research on UK listed securities, on the basis that they would not want to pay for that research directly (or otherwise on an unbundled basis). This could make the UK public capital markets less attractive for investment than other major financial centres.

4.45 The contrast between the UK and the US is particularly significant. The US continues to follow a bundled model for the purchase of investment research.\(^{18}\) In addition, the recent withdrawal of concessions granted by the US Securities and Exchange Commission to allow asset managers who are subject to the MiFID II standards to purchase research on an unbundled basis may result in UK asset managers no longer being able to access US research in the absence of further regulatory action.

4.46 It also appears likely that the EU will itself move away from the MiFID II approach and may allow bundling in all cases.

4.47 The limited exceptions to the MiFID II unbundling and inducement rules made in 2022 are not perceived to have had, and are not expected to have, any meaningful impact on the UK research market. One reason for this is perceived to be an unwillingness of the buy-side to make exceptions to detailed compliance procedures introduced to address MiFID II requirements. The varied content of investment research, especially comparative elements, also means that it is difficult to classify research by reference to relatively arbitrary measures (for instance, the same piece of research may cover different companies which may have market capitalisations above and below the £200 million threshold).

4.48 It is difficult to assess the impact on the UK research market of changes to the MiFID II unbundling requirements. The organisation and operational changes required in order to implement MiFID II were significant and the move to P&L payment of research costs is perceived as a major commercial change in the relationship between asset managers and their clients. So it seems unrealistic, and unreasonable, to expect rapid further changes in behaviour as a result of new rule changes. Further, the response to the Post-MiFID Revisions in 2022 also demonstrates that piecemeal changes are unlikely to have a meaningful impact.

4.49 However, the introduction of further optionality into the UK’s rules should, over time, have an incremental benefit as those who wish to do so take advantages of the flexibility that those changes would provide.

4.50 Further, the removal of friction with the rules of other major international financial centres should be of significant value to UK users of non-UK research and avoid the isolation of the UK from those other financial centres as a result of the UK regulatory environment.

\(^{18}\) We are aware that the US model is not without its critics and that some hoped that the MiFID II unbundling requirements may lead to a similar approach being taken in the US, but our sense is any change in the US approach is unlikely in the foreseeable future.
5. **ANALYSIS AND RECOMMENDATIONS**

5.1 In this chapter, we set out our views on the key issues and made any associated recommendations. The text of the Recommendations is also set out in chapter 2.

**Recommendation 1: Introduce a Research Platform to help generate research**

5.2 A Research Platform, which will provide a central facility for the promotion, sourcing and dissemination of research on issuers – in particular, in relation to smaller cap companies – will address the current disparity of available research between larger cap companies and smaller cap companies.\(^{19}\)

5.3 Our research into how other jurisdictions deal with problems with the availability of research for smaller companies identified a number of different arrangements, the central purpose of which is to organise the creation of research relating to issuers in those markets. Such arrangements do not currently exist in the UK. Jurisdictions that either have, or have had, such arrangements include Singapore, Malaysia, Israel, Australia, Switzerland, France, Germany and Spain. There is also an arrangement involving the European Bank for Reconstruction and Development. Details of all these arrangements are set out in Appendix 6.

5.4 These arrangements differ significantly in the details, but the main points to note are as follows:

- **(a)** They are at least primarily aimed at coverage of smaller and mid cap entities, sometimes with a sector focus.

- **(b)** They frequently involve mechanisms to break the link between the issuer/payer and the research provider, in order to mitigate the perception of conflicts of interest.

- **(c)** Although they frequently involve an element of financial contribution from the issuer, they are often subsidised by a relevant exchange and occasionally attract financial support from government, presumably in order to underpin a government objective to support a particular sector (e.g., technology).

- **(d)** In many cases (as set out in Appendix 6), the research reports created under these arrangements are made publicly available - reflecting the need of the issuers to raise their profile amongst the investor community. They are typically available on a website or by subscribing to emails. Often, such reports are made available to the retail market, in acknowledgement of the importance of that segment of investors to smaller cap issuers.\(^{20}\)

- **(e)** Occasionally, these arrangements go beyond the mere production of research and, for example, contribute to salaries of individuals with equity research capabilities and provide grants to initiatives that boost the development of the equity research ecosystem (including innovative distribution mechanisms and, for those who need investor or public relations support, to improve their engagement with the public).

- **(f)** Research providers are often pre-selected by the operator of these arrangements, to support the independence of the research. They can be chosen by reference to their expertise in sectors or to companies at a particular stage of development. They can include researchers from the sell side, independent researchers and those who specialise in issuer-sponsored research. In some cases the arrangements are voluntary and open.

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\(^{19}\) “62% of investors believe that less research is being produced on SMEs since MiFID II came into effect” QCA/Peel Hunt mid and small-cap investor survey – February 2019.

\(^{20}\) EBRD Listed SME Research Hub “The aim is to produce free, publicly available, high-quality research reports to overcome information barriers that depress market liquidity. Making markets more transparent by increasing the amount of reliable information is regarded as key to increasing the availability of financing for SMEs”.
to all publicly traded companies; in others, they are limited to smaller companies only. In some cases, the research providers are chosen by the operator by reference to specific criteria.

(g) Occasionally there are different “tiers” or approaches available at different price points or to different issuers. For example, in the model operated by the Australian Stock Exchange a “Company Snapshot” is available for companies with a market cap of less than A$50 million (approximately £27 million). Content is limited to factual data with no analysis or commentary. A “Retail Report” is available for companies with a market cap of between A$50 million and A$200 million. These are suitable for the retail market and include analysis and commentary. “Institutional Reports” are available for companies with a market cap of between A$200 million to A$1 billion.

5.5 It is difficult to find evidence of the direct success or otherwise of these schemes but, for example, it was suggested that the initial results of the Bursa RISE in Malaysia had been encouraging, with the 60 listed companies participating in the scheme showing an improved performance despite overall negative market sentiment, with their share price increasing by 4% in the first five months of the scheme launching in March 2022. In addition, we understand that the Tel Aviv Stock Exchange scheme resulted in increased improvements in liquidity, with a number of companies taking advantage of this to complete secondary offerings.

5.6 In our view, the Research Platform has the potential to create a virtuous circle by supporting broader coverage of investment research, supporting long-term investment, maintaining high standards in the research created and allowing access to investment research for as broad an audience of investors as possible. More research means better valuations for smaller cap companies, more liquidity and more growth.

5.7 The Research Platform should aim to make the UK a centre of excellence for investment research and help to address the de-equitisation of markets, whereby institutional investment has been channelled into risk-averse fixed income markets and away from equities markets. The Research Platform will be well placed to meet any demand for greater investment in equities. In addition, we are hopeful that the increased analyst coverage that the Research Platform provides will encourage more companies to choose the UK as a listing venue, thereby assisting them in raising capital for their growth and contributing overall to the UK capital markets.

5.8 The details of the Research Platform would need to be carefully developed, but based on our analysis of the arrangements in other jurisdictions and our discussions with key market participants, we believe that the Research Platform would be most likely to achieve its objectives if it had the following characteristics:

(a) While the focus should primarily be on smaller cap companies, for which the research gap is more acute, participation in the Research Platform should potentially be open to all UK publicly traded companies, on all exchanges (including the London Stock Exchange and Aquis) and regardless of size. Companies participating in the intermittent trading venues that are being contemplated under the Edinburgh Reforms should also potentially be able to participate.

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22 Data provided by Edison.
24 In 2000, 39% of all shares listed on the LSE were owned by UK pension funds and insurers. By the end of 2020, that number had decreased to 4.3%.
27 The intermittent trading venue is a new kind of exchange that is being considered in the UK. Under the proposals, private companies will be able to use the exchange to raise capital during pre-defined periods, but without having to relinquish their status as private companies.
Participation in the Research Platform should not be compulsory for any issuer. Instead, we would expect that all issuers that value analysis and scrutiny of their business model and are seeking liquidity in their securities would welcome the possibility to participate in the Research Platform.

The Research Platform should also be able to initiate research on private companies that are contemplating listing (which may assist in greater visibility and understanding of those companies when they become public).

The Research Platform should be operated centrally by one or more entities. The operator could be an exchange or other provider of market infrastructure, and could be appointed after a tender process.

The Research Platform should have a constitutional framework and be secured by a series of standardised contracts – for example, in the way that exchanges have their own framework, to which their members bind themselves contractually.

The terms on which research is provided on the Research Platform and the liability of research providers and the Research Platform to users of that research should be clearly set out in the terms of access to the Research Platform.

The research produced through the Research Platform should be freely available. This should help ensure maximum visibility of the participating issuers.

In relation to the selection of research providers:

(i) The operator would procure a roster of research providers who are willing to provide such a service.

(ii) Given that the research reports will be freely accessible, the research providers should all be authorised persons. This should include any authorised persons who currently engage in issuer-sponsored research.

(iii) Research providers would let the operator know what capacity they have and whether they have any particular specialisms.

(iv) The detail of the selection process would need to be worked out in conjunction with the operator, but our suggestion is that the operator should select a shortlist of, say, five research providers who are willing to provide research for the relevant issuer and who have any particular expertise that is required. From that shortlist, the issuer may then choose who to appoint. Each issuer within the scope of the arrangement should be covered by a minimum of three researchers in order to form a consensus view. At least one of the research providers should be independent, in the sense of having no other contractual relationship with the issuer for any other services.

Each research provider would be appointed to provide minimum levels of research coverage over a particular period (e.g. to produce reports not less than quarterly over a minimum period of two years) and which would comply with certain pre-agreed content requirements. It may also be possible to have different levels of coverage, with different price points, as has been seen in other jurisdictions. The impact of the publication of research on the relevant company’s share price could also be monitored.

An Advisory Committee, with its members drawn from research providers, research consumers and issuers, could be established to provide assistance in relation to the objectives, the parameters and the requirements of the Research Platform.

As part of the arrangements, the issuers should be required to agree contractually to undertake certain tasks or to refrain from doing certain things. Examples of the kinds of
obligation that might be appropriate would be those included for issuers under the proposed code of conduct for issuer-sponsored research (see Recommendation 5) – such as not unduly influencing the relevant research providers. Another example of an obligation for the issuer would be to facilitate calls between investors and the research analysts covering specific companies.

(l) There are various options for how the Research Platform could be funded. Examples from the international research schemes set out in Appendix 6 include funding:

(i) by the participating issuers;
(ii) by the participating exchange(s); and/or
(iii) by contribution from government, on a short term-basis – for example, by way of seed funding or payments reflecting particular objectives (such as to support high growth companies). We expect this would only be necessary on a temporary basis in order to ensure accelerated provision of research in key areas.

(m) Further options for funding include:

(i) a levy on all financial firms; and/or
(ii) a levy on participants in the market in connection with the purchase of shares. This could, for example, be something similar to the PTM Levy that is used to fund the Takeover Panel in the UK. The cost of this levy could potentially be offset by a rebate of stamp duty payable in respect of the relevant transactions.

Although we understand that these funding models were not used in the international models we investigated, none of the relevant markets were of the size and complexity of the UK market. A levy of this nature might be helpful in order to deliver changes of the scale and breadth required to cover the UK market.

5.9 The Research Platform need not be a permanent measure. Assuming it helps reinvigorate research coverage across the UK markets, it may be that it is no longer required to foster that coverage in the longer term.

Information repository to support investment research

5.10 The Research Platform should include a function under which it acts as a central repository for information – for example, information that publicly traded issuers are required to provide under the Disclosure and Transparency Rules. This function could, for example, be similar to the Electronic Data Gathering, Analysis, and Retrieval (EDGAR) system that is available in the US in respect of information filed by companies with the Securities and Exchange Commission.

5.11 The FCA already has a National Storage Mechanism ("NSM") which serves a similar purpose to EDGAR, albeit on a smaller scale. We understand that the FCA is upgrading the NSM in a way that is likely to make the data on that system more accessible and potentially have broader coverage. We would support that approach, and we consider that there could be connectivity between the Research Platform and the NSM. Any such facility could also be extended to specific ESG information as well as periodic financial and other information.

Recommendation 1: Introduce a Research Platform to help generate research

(a) A “Research Platform” should be created which will provide a central facility for the promotion, sourcing and dissemination of research on publicly traded companies – potentially open to all, but in particular, for smaller cap companies.

(b) The exact details of the Research Platform would need to be considered carefully. There are examples of such arrangements internationally, from which useful elements
could be taken and developed for the UK market. As a starting suggestion, the Research Platform could have the following characteristics:

(i) Whilst the focus should be on smaller cap companies, it could also be made available more broadly to all publicly traded UK issuers, as well as private companies who are contemplating listing, companies in new, highly technical business and companies participating in the UK’s proposed new intermittent trading venues. However, participation in the Research Platform would not be compulsory.

(ii) It should be operated centrally by one or more third parties, and operated through a constitutional framework, with the participants agreeing to contractual obligations.

(iii) The research it produces should be freely available.

(iv) We anticipate that the operator would procure a roster of research providers who have the relevant expertise and the capacity to carry out the research. The research providers should all be authorised persons. The operator of the Research Platform would select a shortlist for an issuer, and the issuer would choose who to appoint. Each issuer should be covered by a minimum of three researchers, at least one of whom should be independent of the issuer.

(v) The research provider should commit to certain minimum standards. It may also be possible to have different levels of coverage (including specifically for retail investors), with different price points, as has been seen in other jurisdictions.

(vi) An Advisory Committee, drawn from interested groups, could support and monitor the effectiveness of the Research Platform.

(c) Options for financing the Research Platform could include funding:

(i) through a levy on issuers;

(ii) by the exchanges;

(iii) by contribution from government, on a short term-basis – e.g. as seed funding or to support particular objectives (such as assisting high growth companies);

(iv) through a levy on participants in the market in connection with the purchase of shares (the cost of which could potentially be offset by a stamp duty rebate); and/or

(v) through a levy on financial services firms.

(d) The Research Platform need not be a permanent measure. If it helps reinvigorate research coverage in the UK, it may not be required in the longer term.

(e) The Research Platform could include a facility under which a central repository of information is kept in relation to issuers, along the lines of EDGAR in the US. This could build upon, or be connected with, the UK’s National Storage Mechanism.

Responsibility for implementation:

- HMT
- The chosen operator
- The relevant exchanges (if they are not also acting as operator)
- FCA, in relation to the information repository (building on its existing work in this area)

Timetable: The timing will depend on determination of the preferred funding source(s), (some of which might require legislation) and other arrangements in relation to the establishment of
the Research Platform (e.g. the possible tender process to be the operator). Therefore, we envisage that the Research Platform would be implemented in the medium term.

Recommendation 2: Allow additional optionality for paying for investment research

5.12 Ensuring the UK both remains and develops as a centre of excellence for investment research requires not only the creation of new facilities such as the Research Platform, but also the tackling of the obstacles created – often unintentionally – particularly in relation to how investment research is paid for.

5.13 By introducing additional optionality in how investment research is paid for, the UK should seek to remain aligned with other key jurisdictions (in particular the US and EU) in terms of allowing flexibility in paying for research and this should help avoid the UK being put at a competitive disadvantage. In any event, the barriers that prevent UK buy-side firms from paying for investment research in other jurisdictions where payment on a bundled basis is standard practice in that jurisdiction should be removed.

5.14 The options that are available to UK buy-side firms when paying for third party investment research have proved to be overly restrictive. The current UK rules, which largely reflect the requirements of MiFID II, have led to potentially unintended consequences. In particular:

(a) Research Payments Accounts (RPAs), which were intended to provide a more transparent arrangement for paying for investment research, appear to be rarely used. The responses to the Call for Evidence suggest that the operational requirements for RPAs are so challenging and costly that firms were discouraged from using them.

(b) Instead of using RPAs, buy-side firms have instead paid for research out of their own pockets. Although this has in turn made buy-side firms focus more closely on what research they require, which is a positive consequence of the MiFID II changes, at the same time this has contributed to a reduction in the amount of investment research available, particularly for smaller cap companies.

(c) Research has become proportionately more expensive for smaller asset managers to acquire than for larger asset managers.

5.15 A number of respondents highlighted that the amount spent by buy-side managers from their own resources on research could reduce more in the future, potentially to the further detriment of investment performance. Reasons identified included the increasing amount that the buy-side is being required to devote to ESG-related matters and reporting (which potentially competes with research spend), as well as the potential for a decline in buy-side revenues, which could be caused by reductions in assets under management (and, therefore, fee revenues) or by further pressure on fee rates themselves (in both cases resulting in there being less money to allocate to research). Buy-side budgets would also come under pressure in a falling market.

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29 "62% of investors believe that less research is being produced on SMEs since MiFID II came into effect" (QCA/Peel Hunt mid and small-cap investor survey February 2019): https://www.theqca.com/article_assets/article.dir_356/178156/QCA-Peel_Hunt_Investor_Survey_2019_Report.pdf.

30 Under a bundled model, the amount paid for research is determined by the number of trades executed. Therefore, a larger buy-side asset manager (with a greater amount of assets under manager) is likely to place more trades than a smaller buy-side asset manager and, therefore, to generate more trading commissions (and thereby make a larger contribution to the total amount of trading commissions applied to research).

This linkage is broken by direct (e.g. unbundled) payments for research. Instead, research is more likely to be acquired for a fixed price. Especially where this price is paid by the buy-side asset manager from its own resources (the P&L model), this is likely to favour larger buy-side asset managers, on the basis that larger managers will have more resources from which to pay for research (with those payments representing a smaller fraction of their overall resources) as well as having more investment personnel to utilise, and clients to benefit from, that research.
which is the time at which investment research might arguably be at its most useful. The cost of paying for research from an asset manager's own resources was also identified as a potential barrier to entry for new entrants to the asset management industry.

5.16 The problems resulting from buy-side firms paying for research from their own resources are also likely to be exacerbated if demand for investment research increases in the near future, for example in response to some of the industry initiatives. If, for example, the demand from pension funds to make investments in smaller cap companies increases (in accordance with the recent proposals), and/or as investors require more information regarding ESG issues in relation to stocks, the amount of research required will increase and this will put increasing pressure on the P&L of buy-side firms if they continue to meet the cost of research out of their own pocket.

5.17 Numerous respondents to the Call for Evidence described the pricing of investment research in the UK post-MiFiD II as "broken", with research being sold at what is, for some providers, unrealistically low prices. We believe that the pricing of research should be market-led, but we also consider that allowing for greater optionality in the methods of payment for research could potentially assist in addressing these concerns.

5.18 The current position also puts the UK at risk of continuing to be out of step with the approaches taken in other major international financial centres (e.g. the US). In addition, it seems probable that the EU will move away from the MiFID II standard and reintroduce bundled payments, in recognition of similar issues to those that we have identified (see Part C of Appendix 4). The UK therefore risks being an outlier if it does not change its approach and this could put the UK at a competitive disadvantage.

5.19 The Post-MiFiD Revisions made by the FCA in 2022 were intended to improve the availability of research on smaller cap issuers. The FCA relaxed the bundling rules in relation to investment research relating to issuers with a market cap of below £200 million, research on FICC instruments and research from independent research providers.31 However, although the Post-MiFiD Revisions have only been in place for a relatively short period of time (since 1 March 2022), the submissions in response to our Call for Evidence suggest that the changes have had little positive impact and are not expected to do so. Among the reasons given by respondents was a reluctance by buy-side firms to:

(a) amend complex systems that had already been put in place to comply with MiFiD II;

(b) renegotiate with their underlying clients regarding arrangements for payment for research in respect of the piecemeal regulatory changes. (Respondents also noted that the use of a threshold to distinguish smaller cap companies presented operational challenges to firms); and/or

(c) comply with the compliance challenges that the rules, even as amended, still contain.

The respondents to the Call for Evidence suggested that additional relatively minor changes to the regime, like those under the Post-MiFiD Revisions are not likely to achieve the level of change required.

5.20 The restrictions on payments for investment research were introduced for sound policy reasons. We agree with the views previously expressed by the FCA that bundled payments are capable of being opaque and difficult for clients to challenge, and that they have the potential to influence firms not to act in the best interests of their clients. Respondents to the Call for Evidence noted some of the benefits that the restrictions had brought – for example, in terms of discipline, transparency of amounts paid to brokers for research, improved behaviours and in terms of causing firms to focus on producing genuinely useful, substantive research. These benefits should be retained, if possible. However, that does not mean that there should not be any place for bundled payments in the regulatory environment, particularly if they could help address some of the problems that we have identified with a lack of investment research. The UK rules have already been relaxed so that bundled payments are possible for investment research relating to

31 See Part A of Appendix 4.
firms with a market cap of below £200 million. It should benefit the market if additional flexibility can be introduced. A more equitable allocation of the costs of investment research, especially in light of future potential increases in demand, via the introduction of additional optionality of payment mechanisms, requires a cultural change in the UK markets, but it is one that should deliver benefits for end investors and the capital markets and will ultimately deliver a public good.

5.21 Our recommendation is therefore to remove the restriction on combining the cost of research with execution charges, so that bundled payments become one of a range of options that is available. Bundled payments should not be compulsory; buy-side firms should not be compelled to pay on that basis, and sell-side firms should not be compelled to offer the ability to pay for investment research in that way.

5.22 The additional flexibility would mean that buy-side firms could pay for investment research in one or more of the following ways:

(a) out of their own resources;
(b) by making a specific charge directly to their clients in respect of the costs of research; or
(c) by combining the cost of research with execution charges.

5.23 We propose that appropriate protections should be included for the benefit of the client. However, these protections should also be relatively simple. Where a specific charge is made to the client, for example, these protections could replace the existing rules relating to Research Payment Accounts.

5.24 Buy-side firms that use investment research should:

(a) allocate the costs of research fairly between their clients, having regard to the obligation on regulated firms to treat their customers fairly;\(^{32}\)
(b) have a structure for the allocation of payments between the different research providers - such as Commission Sharing Agreements, under which the brokers hold the research payments and allocate them to research providers in accordance with instructions from the buy-side firms;
(c) establish and implement a formal policy regarding their approach to investment research and how it is paid for;
(d) periodically undertake benchmarking or price discovery in relation to the research that they use;
(e) make appropriate disclosures to the client. Appropriate disclosures could include:

(i) whether the firm pays for that research only using its own P&L or whether it expects the client to fund the cost of the research (either through a specific charge or bundled payments);
(ii) where the firm's clients are expected to fund the cost of the external research:

(1) what the expected aggregate cost of that research (across all its clients) would be for a defined period – e.g. the 12 month period following the disclosure, or during a calendar year; and

(2) how the firm intends to collect the charge (i.e. through a specific charge to the client, through a bundled charge or through a combination of these); and

\(^{32}\) Principle 6 of the FCA’s Principles for Business.
(iii) details of the firm's policies and benchmarking arrangements (see above); and

(f) make subsequent disclosure of the amounts actually made for investment research – but as part of the firm's ordinary regime for making fee disclosures, rather than as a discrete obligation. These amounts should be included in the annual report and accounts of the buy-side firm, and should be audited.

5.25 Where the buy-side firm requires additional research above and beyond the disclosed aggregate amount, it should have to pay for that research out of its own resources.

5.26 We do not propose that the specific consent of the buy-side's underlying clients to these arrangements would be mandatory - subject to any pre-existing contractual arrangements between the parties or existing (non-research-related) regulatory obligations that require consent - but the requirement to disclose the arrangements in advance would give the client the ability to raise questions and to ask the buy-side firm to take a different approach towards paying for investment research. If unsatisfied with the buy-side firm's approach, the client could object.

5.27 Although there were arguments either way, some respondents to the Call for Evidence suggested that buy-side firms should also disclose from whom they purchased research and the relevant proportion of their budgets spent on each, in particular the split between research purchased from sell-side investment firms and research purchased from unaffiliated research providers. We are not convinced that mandating disclosure of this type is necessary, but further consideration of this is necessary. We agree that buy-side firms should be encouraged to be as transparent as possible in their disclosures to their clients.

Alignment with other financial centres

5.28 A consistent theme of the responses to the Call for Evidence is that the UK should seek to be aligned with other jurisdictions in relation to the options available to UK buy-side firms to purchase research, where possible.

5.29 We are aware that the EU is currently consulting on changing its own rules on bundling (see Part C of Appendix 4 for details). It appears likely that the EU will itself move away from the MiFID II approach and may allow bundling in all cases, subject to there being an obligation to disclose to clients the actual amount spent on research.

Barriers to UK firms paying for research on a bundled basis in other jurisdictions

5.30 The effect of the current rules is that UK buy-side firms are prevented from paying for investment research in other jurisdictions where payment on a bundled basis is standard practice in that jurisdiction.

5.31 The main example of this situation is the US:

(a) US law provides that broker-dealers are not permitted to accept discrete payments for research (so-called “hard dollar” payments) unless they are willing to be registered as investment advisers (which most broker-dealers would prefer to avoid). The rules derived from MiFID II, however, prevent UK and EU firms from making bundled payments.

(b) Prior to 3 July 2023, this was not a problem for UK firms, as an SEC “no action” relief allowed US broker dealers to accept such payments. However, this relief expired on 3 July 2023.

(c) As a result of this development, it appears that UK buy-side firms may not be able to make separate payments to US broker-dealers in respect of any investment research received from the broker-dealer – which, in practice, could mean that the UK buy-side firms cannot receive such investment research from the US.

(d) UK buy-side firms may therefore be likely to experience a significant reduction in their ability to access US investment research – which ultimately would be to the detriment of their UK clients. Some market-led solutions are being implemented to address these concerns, but they are not universal in their application or availability.
Many respondents to the Call for Evidence, including some who did not necessarily otherwise advocate changing the rules regarding payment for research in the UK, highlighted the disparity of the UK rules with the US position as an area where swift action is required in order to avoid harm to UK buy-side firms and their clients.

If the EU also introduces rebundling as part of its Listing Act proposals, and bundled payments become commonplace in the EU, the current UK rules could affect the ability of UK buy-side firms to access EU investment research in the future as well.

We recommend that the UK should in any event remove any barriers which prevent UK buy-side firms from paying for investment research in other jurisdictions where payment on a bundled basis is standard practice in that jurisdiction. We recommend that this should be taken forward even if our recommendations to provide for greater optionality in payments for research in the UK are not taken forward.

**Amending the UK regulatory regime to facilitate optionality for bundled payments**

In order to facilitate the optionality for bundled payments, the FCA should consider what other rules could act as an obstacle to achieving the necessary changes. We identified two rules, in particular, that the FCA could consider in this context:

(a) When the FCA relaxed some of the bundling requirements as part of the Post-MiFID Revisions (see Part A of Appendix 4), it did so by providing that research reports funded by bundled payments can in certain circumstances be regarded as “acceptable minor non-monetary benefits”. However, that categorisation depends on the reports also satisfying certain conditions – including that the benefit is capable of enhancing the quality of the service to the specific client and that the amount is of a sufficiently minor scale and nature. If these provisos were applied to any broader relaxation of the bundling rules, it would require firms to make difficult judgments and may discourage them from taking advantage of the optionality. We suggest that bundled payments should be made the subject of a specific exception rather than being characterised as minor non-monetary benefits.

(b) Firms which provide execution services are required to take all sufficient steps to ensure “best execution” (see Part A of Appendix 4). Best execution has been a feature of the UK regime for a long time, including during periods when the UK rules allowed bundled pricing more extensively than it currently does, but it has never been particularly clear how the best execution obligation applies in relation to bundled pricing. Respondents to the Call for Evidence specifically asked that the impact on the best execution rules of any relaxation of the unbundling rules would need to be considered. We recommend that the FCA provide additional guidance regarding how firms using bundled pricing can comply with the best execution rules.

If our wider recommendations regarding optionality are not taken forward, we nevertheless recommend that the existing limitation on the distribution of FICC macro-economic research and the limitations around research trial periods (both of which were flagged as problematic by many respondents to the Call for Evidence) should be reviewed, to ascertain whether the concerns that the relevant rules are intended to address outweighs the practical difficulties that the specific terms of the relevant rules appear to create.

**Recommendation 2: Allow additional optionality for paying for investment research**

(a) Additional flexibility should be built into the rules, so that buy-side firms have the option of being able to pay for research either:

(i) out of their own resources;

(ii) by making a specific charge directly to their clients in respect of the costs of research; or
(iii) by combining the cost of research with execution charges.

(b) Buy-side firms that use investment research should:

(i) allocate the costs of research fairly between their clients, having regard to the obligation on regulated firms to treat their customers fairly;

(ii) have a structure for the allocation of payments between the different research providers - such as Commission Sharing Agreements;

(iii) establish and implement a formal policy regarding their approach to investment research and how it is paid for;

(iv) periodically undertake benchmarking or price discovery in relation to the research that the firm uses; and

(v) make appropriate disclosures to the client, which could include:

1. whether it pays for that research only using its own P&L or whether it expects the client to fund the cost of the research (either through a specific charge or bundled payments);

2. where the firm’s clients are expected to fund the cost of the research:
   - what the expected aggregate cost of that research (across all its clients) would be for a defined period; and
   - how the firm intends to collect the charge (i.e., through a specific charge, a bundled charge or a combination of these);

3. details of the firm’s policies and benchmarking arrangements; and

4. subsequent disclosure of the amounts actually made for investment research, as part of the firm’s ordinary regime for making fee disclosures (rather than as a discrete obligation). The amounts should be included in the annual report and accounts and be audited.

(c) Sell-side firms should not be required to facilitate payments on a bundled basis or be able to require that buy-side firms use bundled charges.

(d) We do not propose that the specific consent of the buy-side’s underlying clients to these arrangements would be mandatory – but this would be subject to any pre-existing contractual arrangements between the parties or existing (non-research-related) regulatory obligations that require consent.

(e) The FCA should identify and remove any barriers in the current rules to achieving the additional flexibility being recommended.

(f) The UK should seek to remain aligned with other key jurisdictions (in particular the US and EU) in relation to research rules, where appropriate, to avoid being at a competitive disadvantage.

(g) The UK should in any event remove any barriers which prevent UK buy-side firms from paying for investment research in other jurisdictions where payment on a bundled basis is standard practice in that jurisdiction.

Responsibility for implementation: FCA.

Timetable: As soon as practicable. We note that the FCA has a statutory duty to consult on any proposed rule changes before implementing them, to consider whether any particular proposal would be likely to advance one or more of its statutory objectives, and to carry out cost benefit analysis.
Recommendation 3: Allow greater access to investment research for retail investors

5.37 A common theme in the responses to the Call for Evidence is that investment research should be made more readily accessible to retail investors. In particular, the view was expressed that greater availability of professionally prepared investment research would help generate wider investor interest, on an informed basis, in smaller cap companies.\(^3\)

5.38 Retail investors are freely permitted to purchase the securities of publicly traded companies in the secondary market, and we found evidence that retail and other non-institutional investors can represent a material component of the shareholder basis of some publicly traded companies (and, in particular, of smaller, specialist or innovative companies). Retail participation is perceived as a source of untapped potential for further boosting investment in the UK capital markets.\(^4\)

5.39 Publicly traded companies are generally required to produce disclosure documents (either a prospectus or an admission document) in connection with the admission to trading of their securities and are required to make on-going disclosures, including in respect of periodic financial information and material developments in their businesses. All this information is required to be freely and publicly available, including to retail investors.

5.40 However, although retail investors can freely trade in publicly traded securities and can access the corporate disclosure documents referred to in paragraph 5.39 above, they are in practice less able to access investment research on such securities.\(^5\) Much of the investment research that is currently produced is not made public in a way that retail investors can access.

5.41 In terms of what information is available to retail investors:

(a) Summaries of financial projections contained in professional investment research are sometimes made available by established larger publicly traded companies in the form of “analyst consensus” estimates on their websites, but without the additional commentary in the underlying analyst report being made available.

(b) Recommendations included in (but not the substantive content of) professional investment research is often reported in the business sections of newspapers.

(c) Investment research produced by authorised persons (particularly issuer-sponsored research) is sometimes made available publicly available websites, on the basis of exemptions from the financial promotion regime.

5.42 In the absence of access to professionally prepared investment research, there may be greater incentive for retail investors to resort to other, less reliable sources of opinions regarding public companies (e.g. chat rooms and social media) for their investment decisions.

5.43 We understand that outside the UK, investment research is frequently made publicly available, especially in the case of “exchange” facilitated research concerning smaller cap companies (see Appendix 6 for examples).

5.44 We believe that wider availability of professionally prepared investment research would help generate wider investor interest in smaller cap companies, on an informed basis. The Austin QCA research conducted in 2021 [https://www.theqca.com/article_assets/articledir_524/262051/qca_peel_hunt_mid and small-cap survey 2021_asset_e04745b857272.pdf](https://www.theqca.com/article_assets/articledir_524/262051/qca_peel_hunt_mid and small-cap survey 2021_asset_e04745b857272.pdf) highlighted that more independent research would raise investor interest in small and mid-cap companies.

3 Peel Hunt/QCA Survey 2022 “There is broad agreement that retail investors make a positive impact and are desirable on a company’s share register”.  

5 LSEG evidence to the Treasury Select Committee (April 2023).
Review highlighted the value of equal participation of retail investors in capital raisings,\(^36\) and we consider that this should also be the case in relation to access to information.

5.45 We identified the following main obstacles to the provision of investment research to retail investors:

(a) the perception on the part of research providers that they would be subject to relatively onerous requirements under the FCA rules if their research was made available to retail investors; and

(b) an aversion on the part of research providers to offering investment research, in particular based on a perception that they could be exposing themselves to additional liability.

5.46 The FCA should consider how the asymmetry that exists under the current arrangements could be reduced. In particular, to the extent that the FCA rules introduce an additional overlay in respect of retail investors, the FCA should consider to what extent that is necessary in relation to investment research and what rules could be amended or guidance offered to allow retail investors to access investment research more easily.

**Recommendation 3: Allow greater access to investment research for retail investors**

Consider how the regulatory regime may prohibit or discourage access by retail investors to investment research prepared by authorised persons, where the research provider wants to make the investment research widely available. The FCA should consider whether rules could be amended or guidance offered to allow retail investors to access investment research more easily.

**Responsibility for implementation:** FCA.

**Timetable:** Ideally, this review would be done as soon as practicable (taking into account the FCA’s current workloads and priorities), as it would facilitate other aspects of our recommendations – in particular the establishment and effective operation of the Research Platform, which would aim to include retail investors. However, the Research Platform would not be contingent upon the questions that the FCA would be considering. In addition, the question of access for retail investors is something that should be addressed regardless of the development of the Research Platform.

Any changes should potentially apply to all types of investment research, and so would need to be consulted on appropriately by FCA in accordance with its statutory duties.

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\(^36\) See the [Austin Review](#).
Recommendation 4: Involve academic institutions in supporting investment research initiatives

5.47 One effect of the MiFID II reforms has been an overall reduction in the number of people who are qualified to undertake investment research. In addition, post-MiFID II research has tended to focus more on larger cap companies, with the result that the number of people who have experience of researching smaller cap companies has diminished.

5.48 Some of the respondents to the Call for Evidence noted that the UK has leading expertise in the world of academia which could be called upon to assist in the provision of additional research resource.

5.49 We recommend that, as part of the process of establishing the Research Platform, the operator of the Research Platform should consider exploring mechanisms to strengthen the collaboration between academic institutions and the capital markets ecosystem. These could include:

(a) assisting academic institutions who have the necessary knowledge and experience and who wish to engage in, or assist financial institutions with, the provision of research or improving knowledge of particular sectors and areas of innovation;

(b) harnessing particular expertise that academic institutions have in relation to highly innovative enterprises that have been spun out of academic study; and/or

(c) using academic expertise to assist in the provision of training for analysts – particularly where academics have more detailed knowledge of specialist or technical areas.

5.50 One of the benefits of encouraging the involvement of academia in this area is that it has the potential to assist with the growth of new and innovative companies across the whole of the UK. The availability of funding to assist with this could help overcome any geographic barriers that currently exist.

5.51 The current shortfall in the number of analysts could also be addressed by the creation of bursaries to assist academic institutions with the cost of training new analysts. There is also a concern that, if the demand for investment research increases as a result of this Review and other government initiatives, there will not be enough researchers to meet that demand. Providing bursaries to pay for the training of additional analysts should address those concerns and may help to kick-start the collaboration that is desired.

5.52 Some of the bursaries offered under these arrangements could be aimed at specific issuer types or innovative sub-sectors, where there is perceived to be a particular shortfall in current research capabilities or where, in view of anticipated developments, it would be beneficial to have additional resource capability.

5.53 This collaboration (including the bursaries) should be administered by the Research Platform, to encourage participation in the Research Platform and to support upskilling in relation to the kinds of the issuer that the Research Platform is intended to support.

5.54 The bursaries could be funded from the resources available to the Research Platform.

37 Any academic involvement in actually providing investment research would need to take into account the UK regulatory perimeter and the possible need for FCA authorisation.
Recommendation 4: Involvement of academic institutions and bursaries in the provision of investment research

(a) Academic institutions should be considered as a potential resource in relation to investment research.

(b) As part of the process of establishing the Research Platform, the operator of the Research Platform should consider exploring mechanisms to strengthen the collaboration between academic institutions and the capital markets ecosystem, including in relation to (i) the provision or support of research; (ii) providing training for analysts; and (iii) encouraging academic institutions to assist innovative enterprises that seek to develop out of academic study.

(c) The potential shortfall in the number of analysts could also be addressed by the creation of bursaries to assist academic institutions with the cost of training new analysts. Some of the bursaries could be aimed at specific issuer types or innovative sub-sectors.

(d) This collaboration (including the bursaries) should be administered by the Research Platform, to encourage participation in the Research Platform and to support upskilling in relation to the kinds of the issuer that the Research Platform is intended to support.

(e) The bursaries could be funded from the resources available to the Research Platform.

Recommendation 5: Support issuer-sponsored research by implementing a code of conduct

5.55 Issuer-sponsored research is sometimes seen as a less objective and detailed form of research than independent research, as it is paid for by the issuer and there is a perception of inherent conflicts of interest.

5.56 Nevertheless, many respondents to the Call for Evidence felt that issuer-sponsored research has an important role in providing coverage of issuers.

5.57 We agree that, particularly if there are concerns about there being insufficient capacity for research overall, more should be done to support the production of high quality issuer-sponsored research.

5.58 In the EU, the proposed changes under the Listing Act (see Part C of Appendix 4) include introducing a framework for issuer-sponsored research, under which sell-side firms would have to follow a code of conduct and ensure that issuer-sponsored research is clearly labelled so as to prevent conflicts of interest. The code of conduct will be subject to regulatory technical standards, which will be published by the European Securities and Markets Authority (ESMA).

5.59 In France, the relevant regulatory authority and local trade associations worked together to create a code of conduct relating to issuer-sponsored research – details of which are set out in the Box below.
The French code of conduct for issuer-sponsored research

The French code of conduct includes a number of best practices, for both research providers and issuers.

The research provider is asked to make the following commitments:

- To aim for equivalence in means, content and quality between independent and issuer-sponsored research.
- To use one of two ways of disseminating the research: (i) making it accessible to all investors when issuer-sponsored research has been fully paid (100%) by the issuer; or (ii) reserving it for investors who contribute to the payment of the research when the issuer only partially covers the cost of research coverage.
- To disclose that it is issuer-sponsored research (on the front/cover page of the research paper at a minimum).
- To disclose potential conflicts of interest specific to issuer-sponsored research, which are in addition to the disclosures required by MiFID II. This includes disclosing whether the issuer represents more than 5% of the research provider’s income.
- To update the research paper and recommendations – e.g. when the results of the issuer are published.
- To be transparent when communicating with media and social media – e.g. so that an analyst has to remind journalists that he has a research contract with the issuer.
- To provide information regarding the contract with the issuer to a national register of issuer-sponsored research, so that there is a central record of all the contracts made under the code.
- To agree a minimum duration of the contract – specifically, an initial period of at least 24 months, with an automatic renewal for at least 12 months, subject to early termination rights in certain situations.

For their part, issuers are asked to make the following commitments:

- Not to exercise influence on the provider of issuer-sponsored research.
- To strengthen communication to the market and notify market participants when new coverage is available.
- To refer to the existence of issuer-sponsored research on the issuer’s website.
- To pay at least 50% of the annual remuneration at the time of signature and then at each anniversary date.

The French code of conduct is applied through the issuers and the research providers incorporating the code of conduct into their contracts for the provision of investment research.

5.60 If the UK authorities consider that there could be benefits in supporting issuer-sponsored research, they could consider doing something along similar lines. Respondents to the Call for Evidence who are themselves providers of issuer-sponsored research said they would be in favour of having a code of conduct similar to the French code.

5.61 Where a code of conduct is most likely to assist is in relation to matters which are beyond the scope of current UK regulation. Some aspects of the French code, such as seeking contractual commitments from the issuer and having standard commercial terms (e.g. regarding the minimum length of appointment, the frequency of reports and the structuring of the fee payments) could be considered for the UK. A properly calibrated code of conduct will add
structure to the issuer-sponsored research market and enhance the integrity of issuer-sponsored research as a potential useful source of information in its own right.

5.62 The details of the code of conduct would need to be determined, but in our view it should have the following characteristics:

(a) The code should apply to all issuer-sponsored research (other than that relating to investment companies).

(b) The code should be voluntary. It would apply in addition to any legal or regulatory requirements that the signatories are already subject to (e.g. any applicable FCA rules regarding the content of the research).

(c) Given that the areas where the code is most likely to make a difference is in relation to matters such as commercial terms, it may be appropriate for any code to be industry-led. The FCA has a formal process for recognising industry codes, and could consider recognising the code of conduct for issuer-sponsored research under this process.

<table>
<thead>
<tr>
<th>Recommendation 5: Support issuer-sponsored research by implementing a code of conduct</th>
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<tbody>
<tr>
<td>(a) Issuer-sponsored research serves an important purpose and should continue to be available over and above what is available on the Research Platform.</td>
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<tr>
<td>(b) The industry should collaborate to support the creation and adoption of a voluntary code of conduct for issuer-sponsored research, to add structure to the issuer-sponsored research market and enhance the integrity of issuer-sponsored research as a potential useful source of information in its own right.</td>
</tr>
<tr>
<td>(c) The details of the code of conduct would need to be determined, but in our view it should have the following characteristics:</td>
</tr>
<tr>
<td>(i) The code should apply to all issuer-sponsored research.</td>
</tr>
<tr>
<td>(ii) The code should be voluntary. It would apply in addition to any legal or regulatory requirements that the signatories are already subject to.</td>
</tr>
<tr>
<td>(iii) It may be appropriate for any code to be industry-led, but the FCA could consider recognising the code.</td>
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Responsibility for implementation: This could be provided by one of the relevant trade bodies.

Timetable: Short-term.

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**Recommendation 6: Clarify aspects of the UK regulatory regime for investment research and consider introducing a bespoke regime**

5.63 In relation to investment research, the regulatory perimeter and the requirements of the FCA rules are complex. They include, in particular, a complex overlay of the UK regulatory framework by the requirements of MiFID II, which has created differences in approach (e.g. to the question of which FCA rules apply) which are difficult to rationalise. Various aspects of the law and regulation could be made clearer. Examples of these issues are identified in Part A of Appendix 4.

5.64 A number of respondents to the Call for Evidence indicated that they found the regulatory perimeter unclear, in particular with regard to the question of when a research provider is required to be authorised by the FCA. We also noted that some respondents were not clear as to the impact of the financial promotion restriction.

5.65 We also received feedback that it should be easier for unregulated firms to issue investment research in the UK.
5.66 We do not believe the UK regulatory perimeter needs to be changed. In particular, if a research provider currently needs to be authorised by the FCA to carry on its activities and/or comply with the financial promotion restriction (without having to rely on exemptions), that should continue to be the case. The applicability of FCA rule requirements to the content and production of investment research acts as a positive factor and enhances the credibility and integrity of the research. However, if changes to the perimeter are necessary to produce a better functioning regime, such changes could be considered.

5.67 If the UK wishes to be a market leader in relation to investment research, however, it should consider whether the regime should be simplified and/or clarified, for the benefit of firms wishing to engage in investment services and to make it clearer to the recipients of research what standards have been applied in producing the research. In particular:

(a) there should be greater clarity about when the providers of research need to be authorised by the FCA in order to carry on their activities – and to what extent investment research can be provided by non-authorised persons;

(b) it should be made clearer when investment research – particularly that which is presented as being objective and/or independent – is capable of amounting to a financial promotion and capable of being caught by the financial promotion restriction; and

(c) where possible, the FCA rules should be simplified and made to apply more consistently in like situations.

5.68 It may be appropriate to have a bespoke regime relating specifically to investment research.

Recommendation 6: Clarify aspects of the UK regulatory regime for investment research and consider introducing a bespoke regime

(a) The regulatory regime for investment research should be reviewed and steps taken to identify any areas that are unclear, unnecessarily complex or difficult to justify. Where appropriate, the regime should be simplified and/or clarified.

(b) It may be appropriate to have a bespoke regime relating specifically to investment research.

Responsibility for implementation: FCA and (if the FCA’s review identifies that changes to the regulatory perimeter are required) HMT.

Timetable: As soon as practicable, taking into the FCA’s current workload and priorities. Any changes to the rules would need to be consulted on appropriately by FCA, in accordance with its statutory duties.

Recommendation 7: Review the rules relating to investment research in the context of IPOs

5.69 Research is ordinarily published in connection with UK IPOs, which can be "connected" research (produced by analysts employed by the same financial institutions that are mandated on the IPO) or "unconnected" (produced by analysts who are not connected with the financial institutions mandated on the IPO). The production of research is seen as an important feature of UK IPOs.

5.70 The FCA’s Conduct of Business Rules were changed in 2018, among other things, to encourage unconnected analysts to produce research in connection with IPOs. These changes had the effect of extending the UK IPO timetable to accommodate the publication of unconnected research.
Many respondents to the Call for Evidence noted that the changes have not led to a noticeable increase in the publication of unconnected research) while the extension of the IPO timetable has risked putting the UK at a competitive disadvantage compared to other potential listing venues. Other respondents stated that the changes had not yet had sufficient time to be properly tested.

The circulation of connected analyst research is usually limited to institutional investors and is generally not accessible by retail investors. Some respondents identified the wider availability of connected analyst research in connection with IPOs, potentially on similar terms to the IPO prospectus, as a positive enhancement of information provision to potential IPO investors.

Some respondents also noted that the UK rules regarding engagement between connected investment analysts and potential IPO candidates in advance of banks being mandated on IPO transactions, in particular in the context of pitches, are stricter than in the US and the EU and that this may put the UK at a competitive disadvantage on the basis that potential IPO candidates are restricted from meeting analysts who would cover the company going forward.

Each of these points potentially affect the attractiveness to potential IPO candidates of choosing to list in the UK. We recommend that they are considered further, with any identified changes potentially being implemented in connection with the on-going IPO reform process.

Recommendation 7: Review the rules relating to investment research in the context of IPOs

(a) The IPO timetabling changes introduced in 2018 should be reviewed to consider if amendments could be made to simplify the IPO timetable, while continuing to ensure adequate and timely access to information.

(b) Consideration should be given to connected analyst research produced in connection with an IPO being made available on a similar basis to the company’s prospectus, so that all investors can access the same information.

(c) The limitation on connected analysts being allowed to meet with potential IPO candidates prior to an investment bank being mandated on an IPO transaction contained in the FCA rules38 should be reconsidered.

Responsibility for implementation: FCA.

Timetable: In conjunction with the FCA’s existing work on the implementation of the recommendations of the Listing Review and the Secondary Capital Raising Review. (It is noted that the FCA’s work on those other reviews may have their own timelines.)

Any changes to the rules would need to be consulted on appropriately by FCA, in accordance with its statutory duties.

38 COBS 12.2.21A.
# Appendix 1

## Explanatory Terms

This Appendix contains an explanation of some the key terms and abbreviations used in this Report.

<table>
<thead>
<tr>
<th>Term</th>
<th>Meaning</th>
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<tr>
<td>Asset owner</td>
<td>The underlying owner of the assets that are being managed by a buy-side firm. Examples of asset owners include pension funds and insurance companies.</td>
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<tr>
<td>Authorised person</td>
<td>A person or firm that is authorised by the FCA to carry on regulated activities in the UK.</td>
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<tr>
<td>Bundling</td>
<td>The practice of combining, or “bundling” together into a single charge, a charge for executing a transaction and a charge in respect of other matter (such as investment research).</td>
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<tr>
<td>COBS</td>
<td>The FCA’s Conduct of Business handbook.</td>
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<tr>
<td>Connected IPO research</td>
<td>Research written by a sell-side research provider in respect of an IPO of a company in respect of which that sell-side research provider’s financial institution is providing underwriting or placing services in connection with the IPO.</td>
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<tr>
<td>ESG</td>
<td>Environmental, Social and Governance matters.</td>
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<td>FCA</td>
<td>The Financial Conduct Authority.</td>
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<tr>
<td>FICC</td>
<td>Fixed income, currency and commodity.</td>
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<tr>
<td>Financial promotion</td>
<td>An invitation or inducement to engage in investment activity. Under the Financial Services and Markets Act 2000, financial promotions can normally only be issued by authorised persons.</td>
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<tr>
<td>FPO</td>
<td>The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, which sets out exemptions to the restriction on non-authorised persons issuing financial promotions in the UK.</td>
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<td>IPO</td>
<td>Initial Public Offering.</td>
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<tr>
<td>Issuer-sponsored research</td>
<td>Research written by an issuer-sponsored research provider in respect of which it receives payment from the issuer covered by the research.</td>
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<tr>
<td>Issuer-sponsored research</td>
<td>A research provider that writes research in exchange for payment from the issuer covered by that research.</td>
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<td>provider</td>
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<td>MAR</td>
<td>The UK’s Market Abuse Regulation.</td>
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<tr>
<td>P&amp;L model</td>
<td>The model under which a buy-side firm pays for investment research uses its own resources (which therefore represents a cost on its own profit and loss account).</td>
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<tr>
<td>Term</td>
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<tr>
<td>Post-MiFID Revisions</td>
<td>A series of changes to COBS that were made by the FCA in 2022 and which allowed bundled charging in relation to specific types of investment research (subject to certain conditions being met).</td>
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<tr>
<td>Regulated activity</td>
<td>An activity connected with financial services which can usually only be carried out in the UK by an authorised person, under the statutory framework contained in the Financial Services and Markets Act 2000.</td>
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<tr>
<td>Sell-side research provider</td>
<td>A research provider that is part of a financial institution that also provides execution and brokerage services</td>
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<tr>
<td>Unaffiliated research provider</td>
<td>A research provider that is not affiliated with a financial institution that provides execution and brokerage services</td>
</tr>
<tr>
<td>Unconnected IPO research</td>
<td>Research written by a sell-side research provider or an unaffiliated research provider in respect of an IPO of a company and which is not providing underwriting or placing services in connection with the IPO</td>
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APPENDIX 2

OUR APPROACH AND METHODOLOGY AND TERMS OF REFERENCE

1. Announced as part of the Edinburgh Reforms in December 2022, the government launched this independent review of investment research and its contribution to the competitiveness of the UK’s capital markets in March 2023. The Review is part of the government’s wider commitment to enhance the UK’s ability to attract companies to list and to grow.

2. The Terms of Reference for the Review are set out in the box further below.

3. Following the launch of the Review, we issued a Call for Evidence39 on 3 April 2023, which remained open for written submissions until 24 April 2023. In addition to considering responses to the Call for Evidence, we have engaged in a series of discussions with interested parties to evaluate the options for improving the UK market for investment research.

4. We have welcomed input from all interested parties including buy-side and sell-side firms, publicly traded and unlisted companies, investors, independent research firms, trading venues, trade associations and legal and academic professionals. We also appreciate the input we have had from various market sectors.

5. A summary of the responses to the Call for Evidence is set out in Appendix 3 and a list of the public respondents is at Appendix 5.

39 Call for Evidence
Terms of Reference

1. **Context**

The UK is home to one of the largest financial services centres in the world, providing more than £194 billion in value to the UK economy. Deep and liquid capital markets sit at the heart of the UK’s continued prosperity as a financial hub. They enable UK and international businesses to raise funds and manage risks, while also allowing institutional and private investors to access financial instruments, and they provide a direct source of employment and tax revenue.

To take advantage of the UK’s new freedoms in financial services following its withdrawal from the EU, the government has launched several initiatives to strengthen the UK’s capital markets. In particular, the Lord Hill Listing Review made recommendations on how to boost the UK as a destination for IPOs and optimise the capital raising process for large and small companies on UK markets. Similarly, the Wholesale Markets Review (WMR) aims to improve the regulation of secondary markets, proposing wide-ranging reforms to the UK’s capital markets framework.

The government is currently in the process of taking forward these reforms, including through the landmark Financial Services and Markets Bill currently before Parliament. While a lot of progress has been made, the government is aware there is still much to do to ensure the UK continues to be one of the best places for companies to grow, list and trade.

The importance of information available to investors has been a key part of the government’s agenda and was highlighted as a key issue by Lord Hill. The government's reforms to the prospectus regime, and other Financial Conduct Authority (FCA) changes to listing rules, seek to address this. As part of this, however, the availability and market for investment research has been highlighted as an issue that should also be examined.

Investment research can provide investors with information that can allow them to better understand a company’s business model, performance, and risks, and therefore to assess its value as an investment. It is used by potential investors who are looking to trade in both public and private markets to inform investment decisions. Low levels of investment research can therefore make it harder to value companies, make it more difficult for companies to attract investors, and make UK markets less attractive to businesses that want to raise capital.

The market for investment research for publicly listed companies changed substantially in the UK in 2018, when the rules on the payment for investment research were amended as part of the UK’s implementation of the revised Markets in Financial Instruments Directive. These changes separated payment for investment research from payment for execution services (“unbundling”). The FCA made some revisions to those rules at the start of last year including as they applied to investment research on smaller quoted companies.

Several commentators, including Lord Hill as part of his Review, have suggested that the UK has lower levels of investment research capability in comparison to other jurisdictions, in particular the US, and that this problem is particularly acute for certain sectors, such as for tech and life sciences companies. Some commentators believe that the unbundling rules may be contributing to these lower levels of research.

The government has therefore launched an independent review of investment research and its contribution to the competitiveness of the UK’s capital markets (the Investment Research Review). The review is part of the government’s wider commitment to enhance the UK’s ability to attract companies to list and to grow.

2. **Objectives**

The Investment Research Review will consider the provision of investment research and its contribution to the competitiveness of the UK’s capital markets, and will focus on two key objectives:

1. To assess the link between levels of research and the attractiveness of the UK as a destination to list, the Investment Research Review is asked to:
- Provide evidence on how investment research provision in the UK compares or is perceived to compare with other international financial services centres, in both public and private markets.

- Consider the amount, quality and type of investment research currently provided on firms listed or quoted, or seeking to be listed or quoted, on UK public markets, and whether that has an effect on the attractiveness of UK markets for issuers. As part of this, consider if there are specific issues for research into the tech and life science sectors.

- Consider the current level of demand investors have for research, factors driving this demand, and evidence of whether the amount, quality and type of investment research is sufficient to meet such demands.

2. To evaluate options to improve the UK market for investment research and provide recommendations to this effect. In particular:

- The Investment Research Review may recommend both legislative and non-legislative measures, including measures that may fall to the Financial Conduct Authority (FCA) to consider.

- As part of this, the Investment Research Review will consider the impact of the MiFID II unbundling rules on the levels and quality of investment research and evaluate the likely impact of any proposed changes on investment and fees.

- Actions that industry should take.

This is not an exhaustive list, and the Investment Research Review may consider other matters that it considers to be relevant to its objectives.

3. **Governance, engagement and timetable**

The Investment Research Review is being conducted on an independent basis. It will be for the Chair of the Investment Research Review to take this work forward and for them to decide how to best to convene those with an interest in this topic. However, the government expects that it should be carried out in consultation with a wide range of relevant stakeholders, including but not limited to the regulators, buy-side and sell-side firms, investors, independent research firms, trading venues, listed and quoted companies, and legal and academic professionals.
APPENDIX 3

CALL FOR EVIDENCE AND SUMMARY OF RESPONSES

Questions:

1. How does investment research provision in the UK compare, or how is it perceived to compare, with other major international financial services centres?

1.1 The view of most respondents is that the provision of investment research in the UK is similar to other major international financial centres, especially in the case of larger cap stocks, and the UK is ahead of other European financial centres.

1.2 The observation was made that asset management businesses tend to be global, not country-specific, meaning that in order for the UK to have a globally competitive asset management industry, asset managers based in the UK require access to research wherever it is produced in the world (and that MiFID II could place UK regulated managers at a disadvantage in terms of procuring research from elsewhere, especially the US).

1.3 The following points of differentiation were noted:

(a) The provision of investment research in the UK previously positively distinguished the UK market from other major international financial services centres. However, this differentiation no longer exists and the US, in particular, may be ahead of the UK (one respondent described the US as "indisputably the global leader in terms of the breadth and incentivisation of investment research provision"). As noted below, this decline in the UK research market significantly pre-dated the MiFID II unbundling reforms (although some respondents noted that unbundling may have further hastened the decline) and could, in the view of some respondents, be attributable to the decline in commission rates for secondary trades on the London market, at least over the last 15 years.

(b) Some respondents noted the reduction in research budgets following the introduction of MiFID II has led to a juniorisation of research analysts impacting the quality of research.

(c) Contrastingly, a sell-side respondent stated that the US market is typically staffed by experienced CFA and MBA qualified professionals which can create a deeper and more dynamic and creative financial analysis culture.

(d) Reduced research budgets has resulted in reallocation of resources from the UK to other jurisdictions where issuer and investor activity is centred.

(e) There is a perception of an increased focus in the UK on short-term trading at the expense of longer-term assessments of industry and company drivers in comparison to other jurisdictions. One of the reasons given for this change was the impact of MiFID II in reducing research-attributed revenues.

(f) Coverage of smaller cap stocks is perhaps less deep and broad than in the US, but this is as a result of the significantly larger size of the US markets. However, one respondent noted that coverage of smaller companies in the UK was perhaps greater than on NASDAQ.

(g) Opinion is split about the extent to which the MiFID II unbundling reforms have had a negative impact on the availability of investment research in the UK. It was noted that the decline in the provision of investment research pre-dated MiFID II and that a positive impact of MiFID II was to reduce the amount of duplicative and relatively uninformed research, at least in the case of larger cap stocks. It was also noted, however, that the UK position had declined post-the MiFID II reforms relative to the US, which could be
attributable to the US research funding mechanism remaining largely unchanged (through bundling and the use of soft dollars). One respondent noted that the unbundling reforms had negatively impacted the ability to provide or acquire research on a speculative basis.

(h) Some respondents noted that markets with more significant technology sectors (in particular the US and certain Asian financial centres) will tend to have more specialist analysts with a deeper understanding of the sector. A perceived lack of understanding on the part of UK analysts (or a need to educate the analysts) was noted by a limited number of respondents as negatively affecting an issuer’s perception of the quality of the UK capital markets and of the support the issuer would receive if wishing to access further capital.

(i) One respondent noted that there was now less innovative research in newer, niche and growth areas in the UK, especially compared to some Asian markets and this could be attributed to unbundling.

(j) Some respondents noted that restrictions introduced following MiFID II limiting the number of providers from whom research could be purchased could have the effect of limiting the distribution of research on smaller companies produced by smaller research providers.

(k) One respondent noted that no location is especially good at providing thematic or sector based research, although the UK is better than most.

(l) Some respondents noted that restrictions introduced following MiFID II had the effect of limiting the number of providers from whom research could be purchased, which could in particular adversely impact the distribution of research on smaller companies produced by smaller research providers.

(m) Some respondents attributed a decline in the quality and availability of UK investment research to Brexit, as a result of loss of talent and business opportunities and an increase in the cost of doing business.

2. What is your assessment of the amount, quality and type of investment research currently provided on companies that are listed or quoted, or seeking to be listed or quoted, on the UK public markets?

(a) Has that position changed since 2014 (when the UK took steps regarding the use of dealing commission) (or earlier) or 2018 (when the MiFID II unbundling rules came into effect)?

(b) If you are aware of particular differences relating to specific sectors (e.g. technology and/or life sciences), please provide further details.

(c) If you are aware of particular differences with other jurisdictions, please provide further details.

2.1 Some respondents noted that, overall, the quality and type of investment research has not materially changed since 2014.

2.2 Some respondents noted a decline in the quality and quantity of research beginning before 2014 that, in general terms, could not be attributed to any specific regulatory action although the MiFID II unbundling reforms contributed to a decline in the amount of research (albeit it generally being lower quality research that has left the market).

2.3 Some respondents specifically attributed a decline in smaller cap research to the impact of MiFID II, as it led to research providers tending to focus on larger capital companies. The observation was also made that the MiFID II reforms in respect of inducements had led buy-side firms to reduce the number of providers with whom they are prepared to interact, which can limit the distribution of available research. The observation was made that regulatory interventions since
2014 have reduced the amount of money available to spend on research and that although this has led to some reduction in the production of duplicative research, it has also led to a significant reduction in the breadth and quality of research produced. Reductions in remuneration for research analysts due to falling research budgets was also given as a reason for juniorisation which has an impact on the depth and quality of the research produced.

2.4 One respondent noted that the provision of research had changed materially since 2018 but that this is a result of changed working practices and investment focus as a result of the Covid pandemic.

2.5 Buy-side respondents generally noted that research on larger cap stocks was of an appropriate amount and quality. It was also noted that the MiFID II unbundling rules may have led to lower, but more efficient, consumption of this research. It was noted that there has been an increase in buy-side internally produced research since MiFID II, in part as a result of better technology and improved issuer disclosures.

2.6 One buy-side respondent noted that investment research should give considerably more emphasis to ESG and non-financial considerations in order to be useful to the buy-side.

2.7 Some respondents noted that sell-side investment bank research providers are often loss-making, with the consequence that they will only cover liquid stocks or companies with whom there is a corporate finance relationship or, alternatively, that the sell-side actively pursues a “loss-leader” model to the detriment of smaller competitors.

2.8 The reduction and juniorisation of research teams at sell-side investment banks and the departure of senior analysts (including to private equity) as well as an increase in the expectation of the number of stocks to be covered by each analyst were noted by some buy-side respondents as impacting on the quality of research. Some respondents noted that some sell-side research has become less analytical and more a “cut and paste” of issuer announcements. Some sell-side respondents disputed these claims.

2.9 Non-sell-side investment bank respondents noted the conflicts inherent in IPO-related research and the extent to which a relatively poor quality IPO pipeline had not allowed the 2018 IPO reforms – which were intended to assist in the provision of independent research on IPOs – to be properly tested. Investment banks, however, noted the 2018 IPO reforms as unhelpful to the IPO process as they extend the timetable and potential market risk by one week in the UK in comparison to other jurisdictions. The view was also expressed that unconnected analysts have not taken advantage of the IPO changes to the COBS rules in 2018.

2.10 A number of respondents made the point in the context of sector-specific research that sector specialisms are driven by the types of companies that are publicly traded, not by the availability of research. Therefore, it is inevitable that there will be less UK research on sectors that make up a smaller part of the UK public markets overall. It was noted that the expertise to produce expert research exists in the UK – but the production of research requires the presence of appropriate issuers to cover. Some respondents noted that the US market provides more research coverage on the technology or life sciences sectors yet this is a reflection of the significantly larger size of the US markets. Other respondents made the opposite point – that an absence of UK analyst expertise deters UK-based technology companies from listing in the UK.

2.11 The observation was made that the US’s bundled commission model means that US investment banks and brokerages have continued to have more ability to invest in research departments than their counterparts in the UK and the EU.
3. How important is investment research to the attractiveness of the UK public markets to listed companies (or companies considering listing) and their investors or to companies looking to access capital in private markets? Is there a specific link between research and valuations for listed companies or those seeking to list?

3.1 Many respondents noted that research is fundamental to the effective, fair and reliable operation of the capital markets and to their efficiency and liquidity.

3.2 Some respondents (largely buy-side) were of the view that the provision of research is not the primary driver of a decision about where to list, though it may be a factor for smaller companies (i.e. those with below £1 billion expected market cap). Others (largely sell-side) considered that it is one of a number of key influencing factors. One sell-side respondent noted that ready access to research can increase the attractiveness of the UK as a potential market for listing.

3.3 Most respondents agreed that whilst there is no direct link between research and valuation or the primary driver of the valuation differential between UK and US markets, the availability of investment research enhances the visibility and understanding of companies which could have an impact on valuation depending on investor interest.

3.4 It was noted that lack of liquidity in a stock is a greater inhibitor of investment than a lack of provision of research (although each may lead to the other).

3.5 One respondent noted that investment research is a critical factor in restoring the attractiveness of the UK market for publicly traded equities and that the availability of quality research (which the UK lacks relative to the US) is needed to provide asset managers with the confidence to invest.

3.6 It was noted by some respondents that research is an important factor in determining the offering price for an IPO. Other respondents noted that for IPOs of hard-to-understand companies, the availability of appropriate research has more impact on whether the IPO succeeds, rather than the specific valuation achieved.

3.7 It was noted that the equity markets are best suited to the funding of growth companies and that research is vital for growth companies, especially in new industries with characteristics and future potential that may not be well understood by all investors.

3.8 One respondent noted that the availability of pre-IPO research is very important to persuade institutional investors to invest in smaller cap issuer IPOs. Further, investment research is very important in increasing the market visibility of smaller issuers.

3.9 One respondent noted that the availability of credible research was particularly important to non-UK investors looking to invest in UK publicly traded companies.

4. Are there specific issues relevant to UK investment research on technology and life sciences companies that should be addressed, including compared to other jurisdictions?

4.1 Respondents generally did not identify any specific issues relevant to UK investment research on technology or life science companies that should be addressed over and above comments made in respect of investment research more generally. A number of respondents noted that improvements in research should be general in application and not focussed on specific sectors.

4.2 A limited number of respondents did express the view that there was a shortage of UK investment research on technology and life sciences companies compared to other sectors and, potentially, a more conservative approach to analysing those companies. One suggestion was that this could be addressed by encouraging collaboration among US based analysts and elsewhere in the world, in particular the US. The absence of thematic research related to specific areas of interest relevant to life sciences companies was also flagged.

4.3 Some respondents flagged the desirability for action in other areas, especially taxation, to encourage technology and life science investment.
One sell-side respondent was of the view that some technology and life sciences companies argue that better valuation benchmarking can be achieved in the US, the Netherlands and France. The “old economy” perception of the UK public markets depresses overall valuations but also has a feedback loop into the incentives of researchers with the skills to analyse these companies choosing an alternative career path. The result is that North American investors are noticeably more open to investing in high growth and high valuation technology and life science stocks, and better equipped to do so.

Some respondents noted that any concerns regarding the position on research on technology and life science companies was not unique to the UK and that the US market had significant advantages over all other markets. One asset manager observed that investment research can only reflect available investment opportunities, and that technology companies are underrepresented in UK publicly traded businesses compared to the global market. Other respondents noted that technology and life sciences companies generally lean towards listing on the NYSE or other jurisdictions where investors in these markets are more prevalent, and while improved research provision will not be a deciding factor for such companies to list outside the UK, it could help strengthen the UK’s position as a listing venue. It was also noted that the informational and educational value of research was more pronounced for issuers in more complex and new areas, such as technology and life sciences than for issuers in more conventional or traditional areas.

Are there specific issues relevant to UK investment research on smaller UK listed or quoted companies that should be addressed?

Respondents were generally of the view that the main concern regarding research on smaller companies is a matter of economic viability and insufficient economic incentives to cover smaller companies. It was noted that these concerns are not specific to the UK.

One sell-side participant argued that valuations of smaller companies suffer from a lack of liquidity partly due to a lack of coverage that makes anything beyond “the house view” hard to establish. As funds consolidate (moving their liquidity thresholds ever higher) this becomes harder for research to have an economic audience. It also noted that there are two concerns with issuers paying for research: firstly, it undermines any semblance of an independent view; second, it further increases the financial burden of being a public company.

The same respondent also highlighted that another issue relevant to UK investment research on smaller UK publicly traded or quoted companies is the smaller number of passive ETF products that are tailored to smaller companies. The respondent noted that as passive investment increases, there is a risk that research will prioritise ETF or index eligibility as a key investment tenet. Some buy-side companies are already doing this and it is hard to argue this is research that leads to the most efficient allocation of capital.

An industry body noted that there is general agreement amongst its members that MiFID II resulted in a significant reduction in research available which, in some cases, has led firms on the buy-side to reduce the range of trading facilities available to their clients in smaller and illiquid company shares. Additionally, it indicated that bigger buy-side firms have access to reports from a wide range of research providers and can benefit from flexible payment arrangements. In contrast, this is unlikely to be available for smaller firms, including with the result that they may not have access to the best analysts in the market.

Respondents were also generally of the view that attempting to define what counts as “smaller” is unhelpful and any changes to the research regime should not be limited to issuers meeting specific criteria. There were varying opinions among buy-side respondents as to what should be counted as “smaller”, with one respondent suggesting below £1 billion market cap and another suggesting that this figure would be under about £500 million market cap.
5.6 Some respondents noted that the availability of high-quality research can help provide investors with more assurance to counterbalance the lower liquidity and higher financial risk involved in investing in smaller companies.

5.7 One respondent did note that the UK financial promotion rules act as an impediment to the distribution of investment research to retail investors, who tend to dominate trading in smaller quoted companies.

5.8 One respondent noted that decreased funding for research following the introduction of MiFID II may have been most acutely felt by smaller independent research providers, who were more likely to cover smaller companies than the sell-side investment banks. Another respondent noted that there are not sufficient economic incentives for research on smaller companies, primarily because of research paid for via the manager's P&L.

6. What demand do investors have for research on UK listed and quoted companies, what are the factors driving this demand, and is the amount, quality and type of investment research currently provided sufficient to meet this demand?

6.1 Respondents noted that the demand for research on UK publicly traded companies is a function of interest in the UK equity markets, which has been steadily decreasing.

6.2 Respondents noted that research is a necessary part of finding secondary market investors and thereby helps provide liquidity in stocks.

6.3 Respondents generally agreed that the amount of research on larger companies meets most investors' demands but that some smaller cap companies are under-covered and demand for research on those companies is not being met. Some respondents noted that research was not always updated in a timely fashion.

6.4 Some respondents noted that the quality of research in the UK markets is described as insufficient, and adversely affects the UK capital markets, although noting that this is difficult to quantify. It was also noted that the number of analysts covering a stock is important, as research can be more informative and credible when there are different reports to compare.

6.5 One sell-side respondent noted that although there is demand for high quality and differentiated research, the compression of discretionary management fees does not incentivise sell-side institutions to invest in this type of research. Other sell-side respondents noted that investors ask for high quality and differentiated research but were not necessarily able or willing to pay for it.

6.6 Some respondents noted that, although some asset managers have increased their own research capabilities, external research remained very important and providers asset managers and asset owners with very significant economies of scale that could not – either from a cost or time perspective – be replicated by internal research functions.

6.7 One respondent noted that investment banks and brokerage firms use research as a loss leader and as part of their marketing strategy. The same respondent noted that there is demand for good quality research, but the concern is that the sell-side produces 90% of research on UK stocks, and that research is always by definition conflicted.

6.8 One respondent noted that UK corporate reporting is world-leading. Therefore, in order to be of value, investment research needs to add value, and not simply reflect what is already included in corporate reports.

6.9 Some respondents noted that more thematic, as well as company-specific, research would help investors better understand specific sectors.

6.10 One buy-side respondent noted that sell-side research generally did not satisfy its requirements for ESG coverage, which required it to source relevant ESG data from other providers.
6.11 Some respondents noted that some sell-side research is increasingly short term in outlook and attributed this to hedge fund managers increasing being the intended market for that research.

7. What impact does the current UK legislative and regulatory environment have on the provision and quality of research, including (but not limited to) the MiFID II unbundling rules? Please provide references to relevant legislative/regulatory provisions with your answer where relevant.

7.1 Some buy-side respondents noted that the MiFID II unbundling rules have had a positive impact on the research market by optimising consumption of research and making the market more efficient. Some also noted that although they were now spending less on research, they did not believe that has had a negative impact on their clients. Some buy-side respondents expressed a strong preference not to be required to return to a bundled model in the UK, with numerous at the same time noting that it is important to be able to continue to access US research, which generally does require payment to be made on a bundled basis.

7.2 Respondents noted the following concerns as a result of MiFID II:

(a) The interaction with the US research market and difficulties in purchasing research from US providers when “hard dollar” payments are effectively forbidden in the US market due to its regulatory structure.

(b) The imposition of VAT on UK investment research.

7.3 Some respondents noted that the post-MiFID II reduction in research budgets has reduced the calibre of research analysts. This is disputed by some sell-side respondents, but there is a general consensus that the unbundling rules had led the buy-side to limit the number of research providers from whom they seek views, meaning that the breadth of views available to investors may have decreased.

7.4 Some respondents specifically identified the negative impact that the MiFID II reforms have had on the development of market consensus on specific stocks, as the buy-side only has access to research for which they pay. Furthermore, one industry body highlighted that some of its members suggest that investment houses keep their paid-for research deliberately “simple” to force companies to pay extra for additional information, such as analyst meetings and detailed models. Some members also observed that coverage by mainstream research providers has narrowed which has consequently limited the range of investments they make available to their own clients.

7.5 Some sell-side respondents noted that the UK requirements on corporate access are more stringent than elsewhere in the world, for both research providers and investors, which creates a significant administrative burden.

7.6 Some respondents noted that the post-MiFID II decrease in research spending and pricing approach of sell-side investment banks to the provision of research has not created the market conditions that MiFID II was intended to achieve of encouraging and rewarding high quality research while eliminating unnecessary costs. Artificially low pricing of research by sell-side investment banks was noted by a number of (non sell-side investment bank) respondents, as something that is contrary to the aims of MiFID II in terms of services being provided for a transparent and appropriate cost.

7.7 Some respondents noted that other regulatory factors have a greater impact on investment in the UK equity markets, with the accounting rules applicable to UK pension funds being specifically identified.

7.8 Some respondents noted that the UK financial promotion regime prevents research from being distributed to, and accessed by, retail investors.

7.9 Some respondents noted that following the implementation of MiFID II, rising costs have led to both sell-side and buy-side consolidation, to the benefit of larger institutions, which may in the
longer term lead to reduced competition and a decrease in the quality, and increase in the cost of research.

7.10 Some sell-side respondents noted that the distinction between independent and non-independent research in the FCA’s Conduct of Business Rules (COBS 12.2.21A) leads to unhelpful distinctions in published research as well as imposing limits on the interactions between issuers and “independent” analysts.

7.11 One sell-side respondent noted that the investment research disclosures required to be published under MAR can be difficult to apply and that the burden of producing the disclosures is not necessarily proportionate to the benefits that they provide.

7.12 Some sell-side respondents also noted that the 2018 IPO reforms included in COBS 11A regarding the provision of access by unconnected research analysts to companies undertaking an IPO made the London IPO timetable disadvantageous compared to other markets without any corresponding benefit and should be revised or repealed. Some independent research providers expressed the contrary view.

7.13 Some respondents expressed particular concern about the ability of UK managers to continue to access US research following the expiry of the US Securities and Exchange Commission’s MiFID II-related “no action” relief on 3 July 2023 and asked that this is addressed as a matter of urgency.

8. Have the UK 2022 revisions to the MiFID unbundling rules applicable to smaller quoted companies helped to facilitate investment research in relation to those companies?

(a) Have these revisions made it more likely that research firms will undertake research on smaller quoted companies?

(b) Is the £200 million market capitalisation threshold appropriate? If not, do you think that a size threshold is the most appropriate tool to incentivise research in smaller companies? If so, what should the level of the threshold be?

(c) For UK firms also operating in the EU, does divergence between UK/EU thresholds have an impact (for example affecting where they decide to do business)?

8.1 Respondents were in almost unanimous agreement that the 2022 UK revisions to the MiFID II unbundling rules would not help facilitate research on smaller companies and that adopting a market capitalisation threshold at any level was unhelpful and introduced unworkable complexity (both regarding assessing which companies are above or below the threshold and administering different payment processes). Numerous respondents made the point that the fundamental issues to address are that writing research on and trading securities of smaller companies is currently uneconomic.

8.2 Some respondents pointed out that research often covers more than one company in a specific sector, including on a comparative basis, so it may be difficult to apply thresholds that apply to one company but not another.

8.3 Several respondents also noted that divergence between UK and EU rules was unhelpful and gives rise to further significant complexity, including which may limit the distribution of research. Further, in the case of divergence, it was more likely that the more restrictive rules would be applied in all jurisdictions by entities with UK and EU operations. Respondents also noted that any further divergence would be disadvantageous, particularly if the EU reverts to bundling and/or raises the small cap MiFID II exemption to €10 billion.

8.4 Some respondents also noted that the 2022 measures effectively intended to exempt independent research providers’ research from the MiFID II inducement rules had not led to a greater take up of that research by asset managers. This was attributed to a reluctance by asset managers to amend complex systems that had already been put in place to comply with MiFID
II. It was also noted that asset managers were unlikely to renegotiate with their underlying clients regarding arrangements for payment for research in respect of piecemeal regulatory changes.

9. **What might be the impact of any changes on the proposed UK legislative and regulatory environment on the provision and quality of research, the management of conflicts and payment for the provision of research?**

9.1 Most respondents noted that the impact of any changes would depend on the nature of those changes. However, the following points were noted:

(a) Any further divergence of UK rules from the position in the US and the EU is unlikely to be helpful and unlikely to be implemented given complexity and risk.

(b) Differential treatment of research on specific issuers on the basis of thresholds based on market capitalisation (or other measures) is generally considered to be unworkable.

(c) Buy-side participants should be permitted to pay for research as they see fit (whether from their own resources, client monies or on a bundled basis) and as they agree with their underlying clients.

(d) The impact on the best execution rules of any reintroduction of rebundling would need to be considered.

(e) The existing inducement rules should be maintained to demonstrate a clear relationship between the provision of research services and value to investors (and research should not be considered a minor non-monetary benefit).

(f) Greater encouragement should be given to issuer-sponsored research, including regarding its distribution to retail investors and, potentially, by the agreement of a code of conduct relating to its production.

9.2 One respondent expressed doubt that any changes to the legal and regulatory regime could improve the position on sell-side research – “the horse has already bolted”.

9.3 One respondent flagged the regulatory and cost burdens on smaller asset managers as having an adverse effect on interest in, and the market for, smaller companies, given that smaller company expertise is often more of an interest of smaller scale managers and expressed the view that smaller asset managers are subject to a disproportionate regulatory burden.

9.4 One respondent noted that increasing the amount of investment research on smaller publicly traded companies will not guarantee increased investor interest and that other measures, for instance tax incentives and liquidity provision, would be a more productive area of focus.

9.5 One investment bank highlighted that the impact of any changes would depend on the willingness of fund management companies to return to the model of charging fund investors for their research. This, however, the respondent argued, is a competitive point as much as anything else. Since the depth and scope of research will differ for different mandates, it should be up to the asset owners to decide whether to give their managers the tools they need to create the best conditions for outperformance.

9.6 The same respondent stated that it is unlikely that total spend on research will ever reach the levels pre-MiFID II but nevertheless the current model is uneconomic. The respondent also highlighted the absence of equity fund inflows – directly associated with the outsized weightings to bonds in pension funds – as the root cause for the low activity in UK capital markets.
10. Are there impediments (actual or perceived) to dialogue between UK listed or quoted companies and investment analysts that impinge the quality of research that should be considered and addressed?

10.1 Some respondents noted that issuers sometimes refused access to analysts who have (or are perceived to have) a negative view on the issuer and queried whether corporate governance codes could be amended to discourage such behaviour. However, some buy-side respondents noted that access to UK companies compares favourably to other jurisdictions.

10.2 Some respondents noted that the restrictions on interactions between analysts and companies and more generally on the flow of information in the process of an IPO were unhelpful, and negatively impacted the availability of quality of information provided on IPO candidates.

10.3 Some respondents highlighted the excessive amount of time that companies in specialist sectors can have to spend explaining their businesses to generalist analysts and that the absence of analysts with sufficient expertise in specific sectors was a concern.

10.4 One respondent observed that as research analysts are having to cover a large number of companies, they have less time to communicate with them which lowers the quality of their research.

11. Are there other impediments (actual or perceived) on the provision of research to investors – whether institutional or private – that should be considered and addressed?

11.1 A number of respondents noted that the current exemption for FICC research should be extended to include macroeconomic research, as it is difficult to differentiate between macroeconomic and specific research in a FICC context.

11.2 Some respondents flagged a perception that the current regulatory regime is aimed at directing retail investors towards investing only in larger cap stocks and collective investment undertakings.

11.3 The need for global consistency of regulation – to allow research to be produced and consumed readily across different markets – was highlighted by some respondents.

11.4 One respondent highlighted the need to facilitate access to data and the extraction of value from data, including through greater standardisation of formats.

11.5 One respondent noted that the MAR wall-crossing procedures created difficulties in communications among analysts, companies and investors, especially for investors in the US, whose compliance procedures made the wall-crossing process very difficult to implement.

11.6 Some respondents noted that the UK financial promotion regime and, potentially, the FCA’s consumer duty, inhibit the distribution of research to retail investors, potentially to their detriment.

12. What steps (legislative and non-legislative) could be taken to improve the provision and quality of research on UK listed and quoted companies?

12.1 Suggestions made by respondents can be broadly grouped as follows:

(a) Payment for/funding of research

(i) To give asset managers the flexibility to decide how to pay for research, including by permitting rebundling.
(ii) To require asset managers to disclose to their investors their annual research budgets, how they pay for research, what types of research they receive and from whom it is acquired, including a breakdown of spend attributed to "independent"/unconnected analysts. Disclosure should be specific to particular funds and accounts.

(iii) Investment banks and brokerage firms should be required to disclose the costs of their research functions to the regulator.

(iv) To introduce an industry "rate card" for research reports, to counteract the impact of the greater distribution networks of larger firms (and therefore significantly lower cost per recipient of a report).

(v) To establish a global standard for payment for research which does not disadvantage one market over another.

(vi) To provide UK asset managers with greater flexibility to acquire research from other countries in accordance with different regulatory regimes, especially the US.

(vii) To address the conflict of UK rules with other jurisdictions, especially the US and the EU, to promote greater global alignment.

(b) **Issuer-sponsored research**

(i) To encourage the production of more high quality issuer-sponsored research.

(ii) To agree a code of conduct for the production of issuer-sponsored research.

(iii) To address limitations that other jurisdictions (in particular the US) may place on the use of issuer-sponsored research.

(c) **Mandatory research**

To introduce a requirement for all UK publicly traded companies to have a minimum of three research firms providing coverage, potentially at the expense of the issuer or the exchange on which the company is traded or from stamp duty receipts.

(d) **Increase the production of research**

To increase the production of research, exploring mechanisms to strengthen the collaboration between universities and the capital markets ecosystem could be beneficial. This would help the UK make the most of its leading expertise in academia and support the scaling-up of companies in the UK.

(e) **Distribution of research**

(i) To encourage broader distribution of research, especially in connection with IPOs, by providing research providers with greater protection regarding liability for research.

(ii) To require that research that is issuer-funded is freely distributable and to permit research analysts only to charge for research that is not issuer-funded.

(iii) Require research connected to an IPO to be available for the same period to retail investors as it is for institutional investors.

(iv) Beyond IPOs, firms providing investment services to retail should be encouraged to provide them with as much insight as possible to support financial education and informed choices.
Retail participation is generally perceived as a source of untapped potential for further boosting investment in UK capital markets. Regulatory barriers to making investment research available to retail customers should be removed but education around the format of investment research might be needed.

Firms providing investment services to retail should be encouraged to provide them with as much insight as possible to support financial education and informed choices.

**Regulatory changes**

(i) To revise the definition of research for the purposes of MiFID II/COBS so that sales and trading commentary constitutes a minor non-monetary benefit and is not subject to the restrictions on payment for research, including to permit asset managers to receive such commentary from the US.

(ii) To exempt all FICC research from the inducement rules.

(iii) To permit corporate access payments to be bundled with research payments when the asset manager is paying from its own resources.

(iv) To remove the requirement on asset managers who are paying for research from their own resources to prove that they are selecting research and research providers effectively and efficiently.

(v) To review the basis on which “independent”/unconnected research analysts are required to be authorised by the Financial Conduct Authority.

(vi) To revisit the 2018 IPO research rules.

(vii) To remove the restrictions imposed by the financial promotion regime and forthcoming consumer duty on the distribution of research to retail investors.

(viii) To review the UK rules for corporate access, MAR and COBS and to make refinements to ease and enhance the quality of interactions between issuers and analysts.

(ix) To repeal the MAR wall-crossing regime, which acts as a barrier to dialogue among companies, analysts and investors.

(x) To remove the restrictions regarding the sale of research and trial periods, in particular the restriction on offering trial periods of research within 12 months following a prior trial or termination of an arrangement to provide research.

**Other**

(i) To clarify that UK research is exempt from VAT.

(ii) To require or encourage sell-side research to include sections that look beyond a 12 month horizon and to include specific ESG performance analysis sections.

(iii) To take measures to ensure that issuers provide fair access to sell-side analysts and for the Financial Reporting Council to set up a whistleblowing line to report inappropriate corporate conduct.

(iv) To review the restrictive practices within sell-side firms that put pressure on analysts as to what they can and cannot write.

(v) To create a centralised depositary of issuer disclosure reporting to provide more effective access to issuer information, including financial and ESG reporting.
APPENDIX 4

SUMMARY OF LAW AND REGULATION

In Part A of this Appendix, we have set out the key laws and regulations relating to investment research that are relevant in the context of this Review.

In Parts B and C, we have set out a short summary of the position in the US and EU respectively, which includes a description of the changes that are currently being proposed in relation to the EU regime.

PART A: THE REGULATORY POSITION IN THE UK

1. We have set out below a summary of the main provisions of UK law and regulation that are relevant to investment research relating to equities. We have focussed, in particular, on those provisions that are relevant to our recommendations – i.e. in relation to:

   (a) the extent to which the UK legal and regulatory regime for investment research is clear and understandable;

   (b) the rules that are relevant to the provision of investment research to retail investors;

   (d) the rules relating to investment research in the context of IPOs; and

   (e) the rules relating to bundled payments.

The UK regulatory perimeter and how it applies to "investment research"

2. “Investment research”, as defined in the UK, means research or other information recommending or suggesting an investment strategy, explicitly or implicitly, concerning one or several financial instruments or the issuers of financial instruments, including any opinion as to the present or future value or price of such instruments, intended for distribution channels or for the public, and in relation to which the following conditions are met:

   (a) the research or information is labelled or described as investment research or in similar terms, or is otherwise presented as an objective or independent explanation of the matters contained in the recommendation; and

   (b) if the recommendation in question were made by an investment firm to a client, it would not constitute a “personal recommendation” – that is, broadly speaking, that the advice is not tailored to the circumstances of an individual investor.40

   This definition is derived from MiFID II and is therefore the same definition as found in EU law.

3. Both UK and EU law draw a distinction between investment research of the kind described in paragraph 2 above and “non-independent research”. Non-independent research means information which recommends or suggests an investment strategy concerning financial

40 The full definition of “personal recommendation” is a recommendation that:
   (a) is made to a person in his capacity as an investor or potential investor, or in his capacity as an agent for an investor or potential investor;
   (b) is presented as suitable for that person, or based on a consideration of the circumstances of that person;
   (c) is to take one of the following sets of steps: (i) to buy, sell, subscribe for, exchange, redeem, hold or underwrite a particular financial instrument; (ii) to exercise or not to exercise any right conferred by a particular financial instrument to buy, sell, subscribe for, exchange, or redeem a financial instrument; and
   (d) is not issued exclusively to the public.
instruments or issuers, but which does not come within the definition in paragraph 2 above – for example, because it is not presented as being objective or independent.

4. “Non-independent research” is regarded under both UK law and EU law as effectively being a form of marketing communication, and it must be clearly identified as such (so that, for example, investors will not think that the information is objective and independent). However, the FCA rules regarding the content of research are very similar, regardless of whether it is independent research or non-independent research.

**Investment research and the regulatory perimeter**

5. Investment research (as defined above) does not, in itself, amount to a “regulated activity” which would require authorisation from the FCA. However, the definition of investment research overlaps very substantially with the UK regulated activity of “advising on investments” (“regulated advice”) – which does require authorisation by the FCA.\(^\text{41}\)

6. Although there are some circumstances in which a research report might not also come within the definition of regulated advice (e.g. if it simply contains factual information and does not offer any views on the merits of buying, selling or holding the security in question), most of what currently constitutes investment research in the UK would also come within this definition of regulated advice. This means that it is difficult for non-authorised persons to provide investment research. (The definition of UK advice is further modified for FCA-authorised persons – see paragraph 10 below.)

7. The UK regime also includes a restrictions on persons issuing “financial promotions”.\(^\text{42}\) If an investment research report amounts to a financial promotion, a non-authorised person can only issue the research if (i) an exemption applies – for example, where the promotion would only be sent to certain types of more sophisticated investor;\(^\text{43}\) or (ii) the promotion has been formally approved by an authorised person.

8. The question of whether a research report also amounts to a financial promotion is not always clear. As noted above, non-independent research reports are regarded as being marketing communications, and so it is likely that they would be seen as financial promotions. However, it is less clear whether “independent” investment research (of the kind described in paragraph 2 above) will amount to a financial promotion. This is likely to be a question of fact, and will turn on whether the report either invites the recipient to engage in investment activity or seeks to persuade them to do so). A non-authorised person who wished to issue a research report would need to make a judgment call about whether or not a research report amounted to a financial promotion before it could issue it. If it does amount to a financial promotion, the research provider would either have to (i) limit its circulation to recipients who come within an exemption (which means it would not be possible to provide the report to most types of retail investor) or (ii) have it approved by an authorised person.

9. These factors, taken together, can mean that can be quite difficult for market participants to understand exactly where the regulatory perimeter is and what activities they can undertake in relation to investment research without FCA authorisation. A number of respondents to the Call for Evidence asked for additional guidance in relation to these issues.

\(^{41}\) For a person who is not authorised by the FCA, the definition of “advising on investments” is advising a person where the advice is:

(a) given to the person in his capacity as an investor or potential investor, or in his capacity as agent for an investor or a potential investor; and

(b) advice on the merits of his doing any of the following (whether as principal or agent)—

(i) buying, selling, subscribing for, exchanging, redeeming, holding or underwriting a particular investment which is a security, structured deposit or a relevant investment, or

(ii) exercising or not exercising any right conferred by such an investment to buy, sell, subscribe for, exchange or redeem such an investment.

\(^{42}\) A financial promotion is an invitation or inducement to engage in “investment activity” (which would include buying or selling listed securities).

\(^{43}\) The exemptions are set out in the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (‘FPO’).
10. There are additional complexities that arise even for firms that are within the regulatory perimeter – arising out of the fact that the definition of regulated advice differs according to the regulatory status of the person giving the advice:

(a) If the person is authorised but the **only** regulated activity they have permission for is “advising on investments”, the definition of regulated advice in footnote 41 applies. If that person produces investment advice which does not amount to a “personal recommendation”, they will be subject to the FCA rules relating to the provision of advice.44

(b) However, if the person is authorised to do any regulated activity other than (or in addition to) “advising on investments”, the definition of regulated advice is modified so that it only covers the provision of personal recommendations. Advice that offers views on the merits of a financial instrument, but which is not personalised to the recipient of the advice, is not regulated advice – and therefore any FCA rules relating to advice do not apply to it.45

11. This approach has now left investment research in the position in which it is likely to amount to a regulated activity if carried out by an non-authorised person or a person who is only authorised to give advice, but would not be a regulated activity if carried out by a person who is authorised by the FCA to do something other than advising. This has left the UK in a position where the regulatory perimeter can be difficult to determine.

12. The complexity of the UK position is in contrast to that in the EU, under which there is a clear distinction between investment research and regulated advice, and where there is no separate concept of financial promotions. However, one of the consequences of the EU’s approach is that it is likely to be easier for a non-authorised person in the EU to undertake and distribute investment research. One of the benefits of where the UK perimeter is currently set is that UK research providers are usually authorised and have to produce their research in accordance with the UK’s regulatory requirements.

**The FCA rules relating to research**

13. Where a UK authorised person produces investment research or non-independent research, it must comply with a number of requirements under the FCA rules, which include the following.

**The Principles for Business**

14. All FCA-authorised firms are required to comply with the high-level Principles for Business when they are carrying on regulated business. The obligations include:

(a) Principle 6 (Customers’ interests): A firm must pay due regard to the interests of its customers and treat them fairly.

(b) Principle 7 (Communications with clients): A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading.

(c) Principle 8 (Conflicts of interest): A firm must manage conflicts of interest fairly, both between itself and its customers and between a customer and another client.

15. From 31 July 2023, a new Principle 12 will be added, which requires firms to act to deliver good outcomes for retail customers. This change has been made as part of the FCA’s consumer duty initiative, and it is complemented by more detailed rules in PRIN 2A. The new rules include

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44 It should be noted that there are not many FCA rules that relate to the provision of advice but which do not apply to personal recommendations. However, there are some rules (e.g. regarding disclosures) that do apply in that situation.

45 Although the FCA rules relating to advice would not apply in this situation, there are FCA rules relating separately to investment research that would apply to it in most cases.
elements such as requiring firms to take additional steps to deliver price and value for retail customers and to support customer understanding for retail customers.

Communications with clients

16. The FCA’s Conduct of Business sourcebook ("COBS 4") contains detailed rules that apply to authorised persons when they are either communicating with their clients or issuing financial promotions.

17. The COBS 4 rules relating to the content of communications include obligations on the firm to ensure that the communication:

   (a) is fair, clear and not misleading;

   (b) (1) is likely to be understood by, its target audience, (2) is accurate and gives a fair and prominent indication of relevant risks; and (3) does not disguise, diminish or obscure important items, statements or warnings; and

   (c) complies with certain specific requirements regarding information on past or future performance and on comparisons with other instruments.

18. The wording of the COBS 4 rules is largely the same regardless of what kind of client receives the research report. However, the way in which those rules are applied can differ according to the nature of the recipient.

Illustration of the complexity of the application of the rules

19. One key point to note is that the exact application of the FCA rules can vary depending on the regulatory status of the research provider, as a result of the complex inter-relationship of the UK definition of "regulated activities", the MiFID-derived rules and other FCA rules.

20. By way of example, one of the key provisions of COBS 4 is that an authorised person must ensure that a communication or a financial promotion is fair, clear and not misleading (the "FCNM rule").

21. The precise application of the FCNM rule is complicated, and it depends on the nature of the firm in question:

   (a) Authorised persons which do MiFID business are likely to be subject to the FCNM rule in any event.

   (b) For authorised persons which do not do MiFID business:

      (i) If the investment research also amounts to regulated advice, the FCNM rule will apply.

      (ii) If the investment research does not amount to regulated advice, but does amount to a financial promotion (e.g. if it is marketing material that does not contain advice) it could be subject to the FCNM rule but it would also be open to the firm to disapply this rule by relying on exemptions for "excluded communications" or "non-retail communications".

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46 COBS 4.2.1R(1).
47 This category would include a firm that has permission from the FCA to do the regulated activity of "advising on investments" but does not, as a matter of fact, give personal recommendations. A regulated investment research firm that does not do personal recommendations could come within this category.
48 The definition of “excluded communication” includes a financial promotion that would benefit from an exemption in the FPO if it were communicated by a non-authorised person.
49 A “non-retail communication” is a financial promotion and: (a) is made only to recipient who the firm reasonably believes are professional clients or eligible counterparties; or (b) may reasonably be regarded as directed only at recipients who are professional clients or eligible counterparties.
If the firm can disapply the FCNM rule, it could still potentially be subject to Principle 7. However, even the application of the Principles depends on exactly what activities the authorised person is doing:

(i) Insofar as the investment research amounts to the regulated activity of “advising on investments”, the Principles for Business apply – including Principle 7.

(ii) If the investment research does not amount to “advising on investments” in its own right but is nevertheless regarded as being “carried on in connection with” a regulated activity or “held out as being for the purposes of” a regulated activity, the Principles apply. This would be a question of fact.

(iii) If the authorised person is doing investment research as a stand-alone service (i.e. not connected with any regulated activity), Principle 7 does not apply and arguably the firm would have no obligation to ensure that the communication is FCNM. (In practice, this situation is unlikely to arise, but it is possible under the current rules.)

22. The paragraph illustrates the complexity of some of the research-related rules and the fact that some of the distinctions used under the current rules can be difficult to rationalise. Most of the complexity appears to arise from the way in which new legislation and rules, at both the domestic and EU level, have been introduced over time and have ended up overlaying each other or interacting in increasingly complicated ways. Now that the UK is not required to follow the EU rules, there is an opportunity to rationalise and/or simplify these rules.

Rules relating to IPOs

23. The production of research in connection with the IPO, or listing, of a specific company is common in the UK. “Connected research” is usually published in advance of, and separately from, the IPO “roadshow” as a means of helping inform potential investors about the relevant company. It is also possible for analysts who are not connected with the financial institutions mandated on the IPO to publish research in respect of the relevant company – which is known as “unconnected” IPO research.

24. In relation to “connected research”, the relevant FCA rules\(^50\) apply both to independent research and non-independent research:

(a) Before an FCA authorised person can publish connected research in connection with a company’s IPO, the company must first publish a prospectus or registration document and must provide unconnected analysts (i.e. analysts that are not connected analysts) with access to the company’s management.

(b) The access given to unconnected analysts must be either: (i) on equal terms at the same time as connected analysts;\(^51\) or (ii) after the connected analysts, in which case the connected research cannot be published until at least seven days after publication of the prospectus or registration document.

(c) Unconnected analysts must receive identical information on the company to that given to the connected analysts, and the access to the company that is provided to unconnected analysts must not be on a more restricted basis than would apply to connected analysts.

(d) In addition, the rules limit the ability of an analyst who will produce connected “independent” research on an IPO to interact with a prospective IPO client of the analyst’s firm prior to that firm being mandated on the IPO.\(^52\)

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\(^{50}\) COBS 11A.1.4B to COBS 11A.1.4F.

\(^{51}\) Publication of connected research is permitted one day after publication of the prospectus or registration document.

\(^{52}\) COBS 12.2.21A.
25. In most IPOs, the parties choose to give unconnected analysts access after the connected analysts – i.e. option (ii) in paragraph 24(b) above. This, in practice, results in an extension to the IPO timetable of at least a week, and it may also result in the initial public announcement of the proposed IPO and a formal disclosure document (i.e. the company’s registration document) being published earlier than may otherwise have been the case.

Conflicts of Interest

26. An authorised person must take steps to manage the conflicts of interest that could arise in the production of “independent” investment research and non-independent research.

27. In addition, persons who produce or disseminate investment recommendations or other information recommending or suggesting an investment strategy are required, amongst other things, to disclose their interests or indicate conflicts of interest concerning the financial instruments to which that information relates.

The UK rules relating to payments for research

28. In the past, the UK regulators have allowed investment research to be paid for using bundled payments – i.e. where the buy-side firm pays a broker an additional amount over and above the actual cost of executing the transaction and the broker uses that money to fund investment research, which is provided to the buy-side firm. For many years in advance of MiFID II, the UK regulators took steps to restrict such practices.

29. The current rules relating to payments for investment research are largely derived from the MiFID II changes, which came into effect in the UK (and the EU) in 2018, and which prohibit bundled payments in most situations.

30. Under the current UK rules, payments for investment research are dealt with as part of a broader set of rules relating to the payment or receipt of “inducements”. Authorised persons are generally prohibited from receiving “inducements” from third parties in connection with the provision of an investment service for a client unless certain criteria are met.

31. Where the authorised person gives advice or provides portfolio management services, the rules are even more restrictive. Such a firm must not accept and retain any fees, commission, monetary benefits or non-monetary benefits which are paid by a third party in relation to the provision of the relevant services to the firm’s client – but this rule does not apply to:

(a) “acceptable minor non-monetary benefits”; or
(b) third party research received in accordance with COBS 2.3B.

Acceptable minor non-monetary benefits

32. The FCA rules includes a list of what is considered to be an acceptable minor non-monetary benefit. Following the implementation of the MiFID II changes, certain limited types of investment research were included on this list – including, for example, connected research in connection with an IPO and research provided as part of a short-term trial of a research provider’s research service. However, for the firm to be able to accept the benefit of this research, the benefit would also have to satisfy certain conditions.

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53 COBS 2.3A.5R. The criteria, which are set out in COBS 2.3A.6R, include that the benefit (a) is designed to enhance the quality of the relevant service to the client; (b) does not impair compliance with the firm’s duty to act honestly, fairly and professionally in the best interests of the client and (c) is disclosed to the client prior to the provision of the service.

54 COBS 2.3A.15R. Where the firm provides advice, this rule applies in relation to the firm’s business of advising or any other related service.

55 The conditions, which are contained in COBS 2.3A.19R are that the benefit is: (i) disclosed to the client in advance; (ii) capable of enhancing the quality of service provided to the client; (iii) of a scale and nature that it could not be judged to impair the firm’s compliance with its duty to act honestly, fairly and professionally in the best interests of the client; and (iv) reasonable, proportionate and of a scale that is unlikely to influence the firm’s behaviour in any way that is detrimental to the interests of the relevant client.
33. In March 2022, the FCA made a number of revisions to its rules (the Post-MiFID Revisions), to reflect reviews it had undertaken of the impact of the MiFID II changes. As part of the Post-MiFID Revisions, the list of acceptable minor non-monetary benefits was expanded to include:

(a) **Research on small companies** – i.e. research on listed or unlisted companies with a market capitalisation below £200m, provided that it is offered on a rebundled basis or provided for free;

(b) **Research on FICC instruments** - third party research that is received by a firm providing investment services or ancillary services to clients where it relates to fixed income, currency or commodity instruments;

(c) **Independent research** – i.e. research received from a research provider where the research provider is not engaged in execution services and is not part of a financial services group that includes an investment firm that offers execution or brokerage services; and

(d) **Openly available research** – i.e. written material that is made openly available from a third party to any firm wishing to receive it or to the general public.

For the firm to be able to receive any of these benefits, however, the benefit would still have to satisfy the criteria set out in footnote 64.

**Payments for third party research under COBS 2.3B**

34. COBS 2.3B provides that third party research that is received by a firm providing investment services or ancillary services will not be an inducement under will not be regarded as an inducement under either of the rules specified in paragraphs 30 and 31 above if it is received in return for either of the following:

(a) direct payments by the firm out of its own resources; or

(b) payments from a separate “research payment account” (RPA) controlled by the firm and which complies with the FCA rules regarding RPAs. These rules include that the firm has to set an annual budget for research (in advance) and agree specific research charges with its clients.

35. The responses to our Call for Evidence indicated that RPAs are rarely used, as they are complex and operationally challenging to implement. As a result, most buy-side firms that acquire investment research pay for it from their own resources instead.

36. In addition to the rules affecting the ability of buy-side firms to receive third party research, the UK imposes restrictions on authorised persons that provide execution services to buy-side firms (including asset managers): such firms must, essentially, price and supply their execution services separately from any research services that they provide.

**Best execution**

37. Firms which execute orders for their clients are subject to an obligation to take all sufficient steps to obtain, when executing orders, the best possible result for their clients. This is known as "best execution".

38. When the UK has permitted bundled payments in the past, it has always maintained that firms still need to provide best execution – but firms have always not always found it easy to reconcile the concepts of bundled payments and best execution, since the amount actually being paid under bundled payments is more than would strictly be required to execute the transaction in question.
PART B: US LAW AND PRACTICE IN RELATION TO PAYMENTS FOR INVESTMENT RESEARCH

1. The US takes a different approach to the UK (and, currently the EU) in relation to payments for investment research.

2. Bundled payments (also known as "soft dollar" payments) are permitted in the US for the payment of research, and they are used extensively.

3. The current US regime dates from the discontinuation of fixed commissions for securities trading in 1975. When commissions were fixed, brokers provided research as a means of competing for trading business. There was a concern that the introduction of competitive commission rates could jeopardise the availability of research unless it was acknowledged that the amount of a commission paid could also reflect the provision of research. As a result, the ability to acquire research on a bundled basis was preserved in a statutory "safe harbor" included in the US Securities Exchange Act.

4. It is commonplace for investment advisers to enter into Commission Sharing Arrangements, under which an adviser can direct trades to one broker for execution, but use the soft dollar commissions on that trade to pay for research from another provider.

5. Investment advisers are required to comply with some disclosure requirements in respect of the use of bundled payments, but these are relatively limited in scope.

6. The use of bundled payments for investment research is also embedded in the US Investment Advisers Act of 1940, which regulates and generally requires the registration of investment advisers in the US.

7. Most producers of investment research in the US are broker-dealers that are not regulated under the Advisers Act and are instead subject to a separate regulatory regime under the Securities Exchange Act. These firms rely on section 202(a)(11)(C) of the Advisers Act, which exempts from registration under the Act any broker or dealer who provides investment advice (e.g. research) solely incidental to the conduct of his business as a broker or dealer and who receives "no special compensation" for that advice.

8. The US position is that payment for research through bundled commission payments and Commission Sharing Agreements do not amount to "special compensation", meaning that a broker that provides research can continue to receive soft commission payments without triggering a registration requirement under the Advisers Act. However, the payment for research on a "direct" (e.g. "unbundled") basis would be regarded as "special compensation".

9. Following the implementation of MiFID II, this became a potential problem for EU and UK firms that are required to unbundle the costs of execution and research and pay for the latter separately, given that direct payments relating only to research could be regarded as "special compensation" under the Advisers Act - thus potentially triggering the application of the Advisers Act for a US broker that provided research on this basis. In 2017, the US Securities and Exchange Commission issued a "no-action" relief under which it stated that it did not intend to enforce this rule against US broker-dealers who accept hard dollar payments from asset managers that were subject to the MiFID II requirements. However, the no-action relief expired on 3 July 2023.
PART C: EU LAW AND PRACTICE IN RELATION TO PAYMENTS FOR INVESTMENT RESEARCH

1. Currently, the EU and UK broadly take the same MiFID II standard approach to payments for investment research. In particular, the rules preventing the use of bundled payments are currently the same as those of the UK (as the UK is still following the rules from having implemented MiFID II). However, it appears, based on the latest Listing Act proposals (summarised further below), that the EU is in the process of moving away from the MiFID II standard.

2. In 2021, the EU first amended its unbundling rules, as part of a more general effort to help the recovery from the COVID-19 crisis which forced companies to rely more heavily on debt, weakening their funding structures. The EU amended its unbundling rules allowing firms to bundle costs for research and execution with respect to small and mid-cap issuers whose market capitalisation did not exceed EUR 1 billion.57 (The market cap figure used by the EU was considerably higher than the £200 million used by the UK in its own amendments to the MiFID II rules – see paragraph 33 of Part A, above).

3. Despite this change, according to the European Commission, the decline of investment research has continued.58

The Listing Act proposals

4. As announced by the European Commission in December 2022,59 the EU has proposed measures to further develop the EU’s Capital Markets Union (CMU) and make EU capital markets more attractive. A key objective of the CMU is ensuring the access of companies, including small and mid-cap companies (SMEs), to public market financing. The measures proposed by the EU include simplifying the listing and post-listing requirements to attract more EU companies to the EU public markets and in particular to facilitate access to capital for small and mid-cap companies. The proposed measures are collectively referred to as the “Listing Act proposals”.

5. The Council of the EU has agreed a negotiating mandate as part of the Listing Act proposals to amend MiFID II to revitalise the market for investment research and to ensure sufficient research coverage of companies in particular SMEs.60 The EU also intends to bring SMEs greater visibility and prospects of attracting potential investors.

6. The European Commission’s view61 of the unbundling rules is that whilst they have met some MiFID II objectives (including to better manage conflicts of interest, limit the over-production of research on very liquid shares and improve transparency of the costs associated to the provision of research), they may have also led to less availability of research, especially in respect of SMEs.

7. To increase research coverage, the Listing Act includes a proposal for a directive amending MiFID II which will include the following measures:

(a) Client disclosure in relation to the charges attributable to research and execution services and whether the firm applies a separate or joint payment for the execution services and the provision of third-party research. Clients should also receive annual information on those payments and the charges attributable to research and execution.

(b) To further support the coverage of small and medium capital company by investment research, research material paid fully or partially by issuers should be labelled as “issuer-
paid sponsored research”. To ensure an adequate level of objectivity and independence of such research material, such material should be produced in compliance with a proposed EU code of conduct which will be consulted on and established by ESMA through draft regulatory technical standards (RTS). The proposed EU code of conduct will specify procedures and measures for effective identification, prevention and disclosure of conflicts of interest. In establishing the code of conduct, ESMA shall take into account the content and parameters of codes of conduct which have been established at EU national level in particular where such codes have been widely endorsed and adhered to. ESMA is required to submit the RTS in relation to the EU code of conduct to the European Commission within 18 months of the date of entry into force of the directive. The EU code of conduct will be made available on the website of ESMA and will be assessed on a regular basis (and at least every 5 years).

(c) Investment firms that produce or distribute issuer-sponsored research within EU Member States must have in place organisational arrangements to ensure that such research is produced in compliance with the EU code of conduct developed by ESMA.

(d) Research that is labelled as issuer-sponsored research shall indicate on its front page in a clear and prominent way that it has been produced in accordance with the EU code of conduct. Any other research material fully or partially paid by the issuer and distributed by an investment firm but not produced in compliance with the EU code of conduct shall be labelled as a marketing communication.
APPENDIX 5

LIST OF NON-CONFIDENTIAL RESPONDENTS (INCLUDING ORAL SUBMISSIONS)

We are grateful for the submissions to the Call for Evidence received from the individuals and organisations listed below together with the input we have had from a broad range of market participants through bilateral discussion and roundtables including those listed below:

- Association of British Insurers (ABI)
- Abrdn plc
- Association for Financial Markets in Europe (AFME)
- Alternative Investment Management Association (AIMA)
- AlphaValue
- Arete Research
- Aviva Investors
- Bank of America Corporation
- Barclays Bank UK PLC
- Bernstein Autonomous LLP
- BlackRock, Inc.
- Bloomberg L.P.
- BNP Paribas
- Capital Group
- Confederation of British Industry (CBI)
- Cboe Global Markets
- Citibank UK
- City of London Corporation
- Deutsche Bank AG
- Edison Group
- Equity Development
- Ernst & Young Global Limited (EY)
- European Association of Independent Research Providers (EuroIRP)
- Evenlode Investment Management Limited
- Eversheds Sutherland
- Federated Hermes Limited
- Frost Consulting Limited
- The Goldman Sachs Group, Inc.
- Hardman & Co
- Herald Investment Management Limited
- HSBC UK Bank plc
- Idea-Driven Equities Analyses company (the IDEA!)
- The Institute of Chartered Accountants in England and Wales (ICAEW)
- Integrity Research Associates, LLC
- Invesco UK
- The Investment Association
- Investor Forum
- Investor Relations Society
- Liberum Capital Limited
- Liquidnet Europe Limited
- Liontrust Asset Management PLC
- Longspur Capital Limited
- London Stock Exchange Group (LSEG)
- Martin Allen
- Managed Funds Association (MFA)
- Morgan Stanley & Co. International PLC
New Financial LLP
New Street Research LLP
Norges Bank Investment Management
Noventiq Holdings PLC
Numis Corporation PLC
Odgers Berndtson
Panmure Gordon (UK) Limited
Parkwalk Advisors Limited
Peel Hunt LLP
Personal Investment Management and Financial Advice Association (PIMFA)
Pensions and Lifetime Savings Association (PLSA)
Pollinate International Limited
PrimaryBid Limited
Quoted Companies Alliance (QCA)
Research Tree
Rothschild
Royal London Asset Management
Schroders PLC
Stockhub Limited
Substantive Research Limited
Syncona Limited
T. Bailey Asset Management Limited
Trinity Western University
UBS Group AG
UK Equity Markets Association (UKEMA)
UK Finance
University of Michigan Law School
# Appendix 6

## Examples of International Research Schemes

This table provides further details about examples of international research schemes. We have indicated below where these schemes remain in use or have been discontinued based on publicly available information which might not be current.

<table>
<thead>
<tr>
<th>Operator</th>
<th>Objectives</th>
<th>Scope</th>
<th>Type of reports covered</th>
<th>Who provides the report/period of coverage/number of reports?</th>
<th>Key contract terms</th>
<th>Fee structure</th>
<th>Distribution</th>
<th>Anything other than research offered?</th>
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<td><strong>Australia</strong></td>
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<td>ASX</td>
<td>The ASX Equity Research Scheme (which is still operating in Australia) was launched in 2012 with the aim of supporting the production of high-quality, independent research on under-covered small-cap ASX-listed companies. It initially ran for a 24-month trial period and has been extended year on year. It currently supports research on over 100 ASX-listed companies per year.</td>
<td>Listed companies who qualify for the scheme must meet the following conditions:</td>
<td>Three different types of report are provided for companies with different sizes of market capitalisation:</td>
<td>Research reports are provided by specific participating research providers who bid to take part each year. These are ASX participants providing high-quality equity research in the course of their business. The different types of reports offered are as follows:</td>
<td>Coverage period: Minimum duration of 1 year contract between the research provider and the listed company. Research providers are allocated to companies by ASX.</td>
<td>Funding is provided by ASX to the research houses (an initial A$1 million was provided in 2013 and A$2 million was provided in 2014. In 2012 ASX estimated that a fully operational scheme would cost up to A$10 million per year).</td>
<td>To receive copies of research reports generated under the scheme, users must register their details on an online form. Company snapshot is available to the market including retail on the ASX website. Retail reports are distributed through the research provider’s existing retail distribution channels. Institutional Reports are distributed through the research provider’s existing institutional distribution channels.</td>
<td>N/A</td>
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<td></td>
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<td>- outside of the S&amp;P/ASX 300 index;</td>
<td>- Company snapshot: Content is limited to factual data with no analysis or commentary. This applies to listed companies of A$50 million or below market capitalisation (eligibility is re-assessed at the end of each subsequent quarter.</td>
<td>- Retail report: A standard retail research report for retail clients. Content includes analysis and commentary and may/may not include a recommendation. Provided for companies with a market cap of</td>
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<td>- Market cap between A$30 million and A$1 billion;</td>
<td>- Retail report: Provided by an ASX market participant with an established retail research function and an adequate number of experienced analysts. Appropriately licensed with a retail client base and</td>
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<td>- Less than 3 Australia-based analysts covering them at present.</td>
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Operator | Objectives | Scope | Type of reports covered | Who provides the report/period of coverage/number of reports? | Key contract terms | Fee structure | Distribution | Anything other than research offered?
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<p>| Switzerland | SIX | SIX launched the <strong>Stage Programme</strong> in 2016 to help small and medium-sized listed companies on the Swiss stock exchange to improve their research coverage in the market and achieve a more accurate valuation. The specific aim is for issuers to increase their presence in the market. To ensure that the interests of the various parties are taken into account, a SIX advisory body – the Research Commission – was established. We understand that the Stage Programme is still currently running. | Offered to all small and medium-sized companies to help boost their presence in the market and achieve an appropriate valuation. Issuers can select between four types of services depending on the requirements of the listed company: “Light”, “Standard”, “Premium” and “Deluxe”. Light offers an information, education and network provision to help the company shape its public presence. Standard includes the following information as a minimum: a factsheet setting out a description of business activity including key figures: sales, EBIT, net profit (no estimates) and performance. The research reports are provided by Baader Helvea, UBS, Zurcher Kantonalbank. All services from standard onwards include a factsheet. The standard service includes a research report from one bank; the premium service includes a research report from two banks and the deluxe version includes a research report from three banks. Factsheets are provided by Finanz and Wirtschaft. See Key contract terms in the adjacent column for the period of coverage. | A one-year contractual term applies to the “Light” Stage offering with a two year minimum for all other Stage offerings. SIX acts as a link between the company and the research partners to maintain independence. Mandates are allocated to participating banks on a random basis. Stage offers a modular set-up with different services at different prices, depending on what issuers are willing to pay for the research. | A one-year contractual term applies to the “Light” Stage offering with a two year minimum for all other Stage offerings. SIX acts as a link between the company and the research partners to maintain independence. Mandates are allocated to participating banks on a random basis. Stage offers a modular set-up with different services at different prices, depending on what issuers are willing to pay for the research. | The company is free to use the factsheet and upload it to its webpage. The distribution and marketing of the research report are the responsibility of the bank that drew up the report and that distributes the research report through its conventional channels. A copy of each research report is provided to the company for internal use. | Depending on the service level selected users can benefit from personal support from the Issuer Relations Team at SIX. In addition, users will get access to investor conferences and access to a network of financial experts and investors. |</p>
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<td>Malaysia</td>
<td>Bursa Malaysia announced a research scheme called Bursa RISE (Bursa Research Incentive Scheme) on 28 March 2022 to bridge the gap for stocks that are fundamentally sound but lack research coverage. RISE complements and supports the PLC Transformation Programme running until 2025 which has the objective of encouraging PLCs to be more transparent in their performance allowing investors better insight to facilitate informed investment decisions. We understand that Bursa RISE is still currently running.</td>
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**Operator Objectives Scope**

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- **Malaysia**

**Bursa Malaysia**

- **Bursa Malaysia screens for suitable companies that meet the minimum requirements of:**
  - (i) being under-researched (have fewer than two research analysts’ coverage),
  - (ii) having below market velocity, and
  - (iii) having sound fundamentals.

- **The scheme is aimed at improving the corporate profile, visibility and accessibility of participating PLCs through research coverage and marketing activities. Each of the 60 selected listed companies receives a maximum of two research reports by two separate research houses.**

- **Research reports are provided by pre-selected licensed research houses available on the exchange’s website. In total 60 PLCs that met the screening criteria were onboarded to be covered by no more than two research houses each.**

- **Eligible listed companies must meet the selection criteria to participate in the scheme. A maximum of two research providers will provide research reports for the company.**

- **Bursa RISE provides approximately RM25,000 per listed company per annum to incentivise research houses to write research reports on the listed companies.**

- **The research reports produced under the Bursa RISE are widely available on the Bursa Malaysia website.**

- **Companies requiring investor relations assistance or PR training can request these services under the scheme.**
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<td>Tel Aviv Stock Exchange (TASE)</td>
<td>TASE’s equity research programme was introduced in 2016 to improve research coverage on and to encourage local and foreign investor awareness of high tech companies, investment technology and biomedical companies by removing the knowledge barrier for prospective investors through improved research provision. Around 130 technology and biomedical companies were listed on the TASE, either exclusively or dually. We understand that the programme ended once its aims of improving research provision for investment technology and biomedical companies were fulfilled. The key aim of the programme was to promote the proper pricing of high-tech companies and increase their liquidity.</td>
<td>The programme covered listed technology and biomedical companies. The research reports consisted of two types of market analysis: (1) Independent analysis on individual technology and biomedical companies which included the publication of at least four analyses each year in Hebrew and English, following disclosure of the company’s financial statements. The initial analysis and those following the publication of the company’s annual reports aimed to be comprehensive. Updates to the analysis were published after the disclosure of material events. (2) In addition to these reports, TASE will fund industry analysis of sub-sectors included in the technology and biomed sectors, as follows: - In the Biomed sector, 3 subsectors: biotechnology, medical devices and investments in life science. - In technology, 8 subsectors: IT services, software and Internet, electronics and optics, defence, communications equipment, semiconductors, clean-</td>
<td>Edison (provider of issuer-sponsored research) and Frost &amp; Sullivan (US market research provider) produce the research reports.</td>
<td>Eligible companies signed a two-year agreement as a minimum with the research provider, during which time they were unable to leave the program to ensure independence. The terms of the program were governed by the agreement signed between participating research providers, TASE and the Israel Securities Agency (a government agency).</td>
<td>Eligible companies were required to pay for the analysis while the TASE and the Chief Scientist at the Ministry of Economy contribute a proportion of the cost for small and medium-sized enterprises.</td>
<td>Edison and Frost &amp; Sullivan distributed the research globally via email and social media distribution lists as well as making it available on global professional and internet information platforms. Access to the research was free and unrestricted to all users. Publishing the analysis in English and the global distribution aimed to facilitate the exposure of participating companies to international investors seeking to invest in Israeli high-tech companies.</td>
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<td>Spain</td>
<td>Bolsas y Mercados Españoles (BME), the Spanish stock exchange and the Spanish Institute of Financial Analysts (IEAF)</td>
<td>The Lighthouse scheme introduced in 2018 is a venture between the BME and IEAF aimed at the secondary equity market to provide independent research coverage on small and micro-cap companies. Lighthouse was created after BME found that 60 listed small and mid-sized companies did not have any analyst coverage at all. The intention behind the scheme is for securities to become more liquid and trade closer to their fundamental value by the provision of in-depth, technical, quality research. The programme also monitors the level of research coverage of the Spanish equity capital market and recommends actions to assist where improvement is needed. Lighthouse is controlled by the Comisión de Servicios de Análisis (Analysis Services Committee) which reports to the Board of the IEAF. The Committee’s main mandate is to monitor the stocks to be covered by the programme to ensure that they are orphan stocks and that Lighthouse restricts its coverage to “orphan stocks” i.e. stocks listed in the secondary market on the BME that are not covered by sell-side equity research. Once a stock is subject to sell-side research, Lighthouse stops its coverage. This will occur when the company is followed on a regular basis including publication of a yearly update report, of a report on all quarterly results, of reports triggered by significant events or events with an important impact on the stock, and the keeping of updated financial projections with the publication of reports when there is an alteration in these. Lighthouse has been publicly recognised by the European Commission when it received a European Commission “European Small &amp; Mid Cap Award” in Financial projections: Lighthouse follows a classic fundamental analysis methodology based on in-depth knowledge of the businesses evaluated and good modelling with financial projections. No recommendation or valuation: For Lighthouse the value of research, particularly for small caps rests in the financial projections and not in the valuation or the recommendation. The report will not issue recommendations or value or publish target prices. Technical quality: Lighthouse intends for its product to be useful to the market and therefore technical quality of the research is key. Financial analysts from IEAF provide independent analysis of eligible companies without conflicts of interest. Lighthouse intends to provide a fully independent analysis of eligible companies in the Lighthouse scheme. Companies in the Lighthouse Scheme must comply with Lighthouse’s Code of Conduct. Lighthouse funds the independent research coverage of eligible companies.</td>
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<td>Lighthouse never competes with the market. We understand that the scheme is still in existence.</td>
<td>The “Special Mention” category. The orphan stock rate of the Spanish market has decreased from 40% to 30% since 2018 and the liquidity of covered stocks has grown more than that of their uncovered peers and the market as a whole.</td>
<td>Financial analysis of a company’s financial reports.</td>
<td>There is no mandatory allocation of an independent investment research analyst on the markets regulated by the EU - i.e. Prime Standard and General Standard. However, the Scale segment requires issuers of shares and certificates representing shares to have financial analysis (research reports) prepared by a Deutsche Börse Capital Market Partner (a “DBCM Partner”) of their choice (this can include banks but also law firms).</td>
<td>Under Scale terms and conditions, there is a requirement for listed companies to have research reports on financial prepared by a DBCM Partner of their choice. A DBCM Partner is any industry player – e.g. a bank or a law firm – who has received a kitemark from Deutsche Börse to become a DBCM Partner.</td>
<td>The issuer pays for the research report on its financial reports.</td>
<td>An issuer must publish the research report on its website and keep it there for at least 24 months.</td>
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Germany

Deutsche Börse

Scale is Deutsche Börse’s segment for small and medium-sized companies which offers issuers access to investors and an efficient equity financing option. As an Open Market segment, it is an alternative to the General and Prime Standard segments regulated by the EU and is intended specifically for small-cap growth companies. We understand that Scale is still in existence.

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<td>Singapore</td>
<td>SGX (discontinued as of 2016)</td>
<td>SGX Equity Research Insights (SERI) comprised two modules; the Structured Module (which aimed to provide investors with information on companies that have little or no research coverage) and the Sector Module (provided research reports in sectors where specialised industry knowledge is critical in the analysis of companies).</td>
<td>The Structured Module was open to all SGX-listed companies. The Sector Module was open to companies in specific sectors (e.g. energy, offshore and marine).</td>
<td>A menu of options to include Structured Module research was targeted at providing information on companies. The Sector Module provided research reports in specific sectors where specialised industry knowledge is critical. Research produced under SERI did not have 'buy' or 'sell' recommendations, apparently because some companies were unhappy about paying to get a 'sell' recommendation. This was controversial but SGX defended the decision by saying that the aim was to encourage investors to thoroughly read and understand research.</td>
<td>SGX appointed the research providers and managed the scheme. The fact that the research providers were preselected by SGX was seen as beneficial in ensuring that research was sufficiently independent (as opposed to it being purely funded and chosen by issuers). Standard &amp; Poor's was appointed research provider for the Structured Module and DnB Nor Markets was appointed for the Sector Module.</td>
<td>In 2009 (when the scheme began), there was an annual fee of $12,000 for each participating company. The Monetary Authority of Singapore and SGX jointly provided subsidies for smaller cap companies: $22,000 for companies with market cap below $100 million and $31,000 for companies with market cap between $100 million and $300 million.</td>
<td>In 2009 (when the scheme began), there was an annual fee of $12,000 for each participating company. The Monetary Authority of Singapore and SGX jointly provided subsidies for smaller cap companies: $22,000 for companies with market cap below $100 million and $31,000 for companies with market cap between $100 million and $300 million.</td>
<td>SGX has since pursued other means of promoting research, e.g. introducing three new grants through the Grant for Equity Market Singapore (GEMS) scheme (valid until 31 December 2023): Listing Grant: supports potential issuers to list in Singapore by funding part of their listing-related expenses. Research Talent Development Grant: contributes to the salaries of eligible Singapore citizens / permanent residents hired by financial institutions with equity research capabilities and independent research.</td>
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<td>EBRD</td>
<td>Dedicated research programme in support of the development of small and medium-sized enterprises listed on stock exchanges in the following countries where the EBRD invests: Bulgaria, Croatia, North Macedonia, Romania, Serbia and Slovenia. The programme is aligned with the objectives of the European Commission’s Action Plan on Building a Capital Markets Union which specifically mentions improving access to finance, including risk capital, notably for SMEs as one of the five priority areas. The initial 20 SME companies included in the programme met the SME growth market issuers criteria stipulated in MiFID II. Additional selection conditions included regular reporting in English, sizeable free float and not having established research coverage.</td>
<td>The programme SMEs enter into MoUs with partner exchanges to receive two-year research coverage free of charge.</td>
<td>Wood &amp; Co (an investment bank specializing in emerging markets headquartered in Prague with offices in London, Milan, Warsaw and Bucharest) independently provides research coverage for the participating companies. At least 5 reports per company produced during the project period.</td>
<td>Fully funded by the Taiwan Business-EBRD Technical Cooperation Fund</td>
<td>The research produced is publicly available on the Listed SME Research Hub website and investors.</td>
<td>providers based in Singapore. Research initiatives Grant: supports initiatives that will catalyse public market activities in Singapore and boost the development of Singapore’s equity research ecosystem, e.g. new format of equity research or innovative ways to distribute it.</td>
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**European Bank for Reconstruction and Development (EBRD) SME equity research programme**
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<td>programme is a Listed SME Research Hub for 20 SMEs across the jurisdictions listed above which qualify for the scheme. Following the successful launch of the programme, it was expanded to cover the markets of Estonia, Latvia and Lithuania in partnership with Nasdaq Baltics and we understand it is continuing today.</td>
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