

FCA RESEARCH OPTIONALITY PS24/9: SYNOPSIS AND ANALYSIS

The FCA has released its final rules on research optionality stemming from the UK Investment Research Review: PS24/9













<https://www.fca.org.uk/publication/policy/ps24-9.pdf>

This paper will provide a synopsis and analysis of the document as well as suggesting asset manager decision frameworks and potential operational considerations and solutions.

About: Frost Research Systems is a noted authority on research funding regulatory issues. The FrostRB platform is designed to help asset managers meet new UK & EU mandate-level research transparency and cross-subsidization requirements – across asset classes.

Note: This document and analysis do not constitute legal or investment advice. It is intended as a practical guide to asset managers decision-making and implementation frameworks.

High Level Overview versus MiFID II

		
Client Consent for Research Charge		
RPA Requirement		
CSAs Sufficient		
Fund-Level Research Disclosure*		
Research Benchmarking*		

* For Managers using client money for research

The final FCA rules appeared responsive to manager concerns about earlier versions and has softened the language around some of these issues. However, our analysis suggests that the changes are largely semantic, and the basic requirements remain largely unchanged - as our analysis will discuss.

The FCA is fully aware that the levels of client research transparency that are required in PS24/9 are completely achievable, as we will discuss.

While this will likely necessitate alterations in the research valuation and allocation processes of many managers, particularly those currently using P&L, the benefits of managers taking advantage of this research funding flexibility, far outweigh the risks and the cost of any short-term operational inconvenience.

Level of Budget Aggregation and Research Cost Allocation

- (5) the firm must set a budget for the purchase of research using joint payments:
 - (a) based on the expected amount needed for third-party research in respect of investment services rendered to its clients, and not linked to the expected volumes or values of transactions executed on behalf of clients; and
 - (b) at least annually, and at a level of aggregation that is:
 - (i) appropriate to its investment process, investment products, investment services, and clients; and
 - (ii) does not compromise its ability to meet the requirements of COBS 2.3B.25R(6) and (8).
- (6) the firm must allocate the costs of research purchased using joint payments fairly between clients;

The previous requirement for Strategy level budgeting has been replaced by the language highlighted above.

However, requirement (6) above, the fair allocation of research costs between clients, essentially means that a manager-wide research budget would not meet this standard unless the manager had only one fund. In practice, some means of attributing research costs to specific funds/strategies must take place.

Specific attribution is also implied in the following:

- 2.3B.27 G For the purposes of COBS 2.3B.25R(6), the firm should determine a cost allocation level appropriate to its business model. The specific cost of individual investment research items need not be discretely attributable to individual clients. The approach should be reasonable and its outcome fair across all clients, such that relative costs incurred are commensurate with relative benefits received. This includes:
- (1) across:
 - (a) clients with which the firm has different payment arrangements for the purchase of research;
 - (b) clients that are managed according to similar investment strategies; and
 - (c) different clients or groups of clients that benefit from the same research; or

Sub-section (c) above also clearly implies cross-subsidization control.

Benchmarking

The requirement for annual research benchmarking in PS24/7 has been replaced by this:

- (7) the firm must periodically, but at least annually:
 - (a) assess the value, quality and use of research purchased using joint payments and its contribution to the investment decision-making process; and
 - (b) ensure that the amount of research charges to clients is reasonable compared with those for comparable services; and

While there is no “benchmarking” requirement, per se, section (b) stipulates that research charges must be *compared to comparable services annually*. Certainly “benchmarking” would appear to meet that requirement. (In fact, we can’t think of any other way of doing this).

Client Consent

The clear intent of research payment optionality was to remove the MiFID II requirement of client consent for research charges. This is to be replaced by an obligation to inform the client in advance of what the research charge will be (at the product level).

The proposed “No Free Rider” guardrail in CP24/7, did not appear in PS24/9.

1. A “no free-rider guardrail”, requiring that a firm ensures that all relevant clients’ dealing commissions are used (i.e. individual clients would not be permitted to contract out of commission payments for research).

Whilst the general intention to replace client consent with the client being informed remains, one specific instance of client consent being required was mentioned on page 31 in the text of PS24/9 rather than in the rules section at the end of the document:

- **Client engagement on switching:** Our rules set out which research payment options are permissible. But firms also have contractual agreements, such as investment management agreements, with their clients. This change to regulation does not override any such existing agreements with clients. Consequently, firms would need to determine what contractual obligations they are under before starting to use this payment option, including what information they would need to communicate to clients, and whether they would have to obtain client consent. Where there is a retail client, firms would also need to consider the Consumer Duty (as covered in CP24/7 (2.33)).

From Page 16 in CP24/7

- 2.33 The Duty sets higher and clearer standards of consumer protection and is at the heart of the FCA’s shift to outcomes-based regulation. It requires firms to focus on acting to deliver good customer outcomes. Firms must act in good faith towards customers, avoid causing foreseeable harm to customers, and enable and support customers to pursue their financial objectives. Under the Duty, we expect firms to be able to identify, monitor, evidence through data, and stand behind the outcomes their customers experience. The Duty also sets requirements for firms in key areas including product and service governance and distribution, price and value, communications, and support. More information is available [here](#). Where the obligations of the Consumer Duty apply in relation to a firm’s business, products or services, the firm should ensure its policies and operational arrangements for bundled payments for third-party research and execution services provide an appropriate level of protection for retail customers, in accordance with the requirements of PRIN 12 and PRIN 2A. The relevant Consumer Duty considerations with regards to bundled payments for research and execution would include the price, value of, and communications which consumers receive about research. Even in the absence of deliberate exploitation, consumers’ ability to make good decisions can be impaired by various factors including weaker bargaining position, asymmetries of information, lack of understanding or behavioural biases.

The good news is that it is possible to meet the requirements of both of these sub-sections. (Client Engagement on Switching and Consumer Duty).

Both in the case of Consumer Duty, and in the case of managers potentially having to re-paper any IMAs in which they've undertaken to pay for research for P&L, being able to demonstrate the alignment of research budgets with specific investment strategies, and strategy research benchmarking, to prove that spending is reasonable will be critical.

Timing

PS24/9 was released on July 26 2024. The new rules apply from August 1, 2024, with the rules expanded to cover UCITS funds in the spring of 2025.

For managers currently using client money for research with UK clients, these new rules will apply almost immediately. Those managers should have already made ex-ante research cost disclosures (at the product level) but may not be in compliance with other aspects of the new regime in terms of an annual comparison of research costs (benchmarking) and a written Research Valuation Policy, amongst others.

New Final Rules

Analysis of New Final Rules at the end of the PS

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2.3B Inducements and research

Receiving third party research without it constituting an inducement

- 2.3B.3 R Third party *research* that is received by a *firm* providing *investment services* or *ancillary services* to *clients* will not be an inducement under *COBS 2.3A.5R*, *COBS 2.3A.15R* or *COBS 2.3A.16R* if it is received in return for ~~either~~ one of the following:
- (1) direct payments by the *firm* out of its own resources; ~~or~~
 - (2) payments from a separate *research* payment account controlled by the *firm*, provided that the *firm* meets the requirements in *COBS 2.3B.4R* relating to the operation of the account; or
 - (3) joint payments for third-party *research* and execution services, provided that the *firm* meets the requirements in *COBS 2.3B.25R* to *COBS 2.3B.33G* relating to the operation of such joint payments.

Analysis

Option 3 is essentially a CSA in the absence of the previous RPA requirement (Option 2).

While CSA structures are well-understood, changes in regional execution rates and evolving regulation, including augmenting CSA contracts to include ESG inputs and Fixed Income research expenses, should warrant a review of any existing CSA/Aggregation agreements.

Research for the purposes of research payment accounts and joint payments for research and execution services

- 2.3B.21 R A *firm* must only use monies in a *research* payment account established under COBS 2.3B.3R(2) to pay for *research* or to pay a rebate to *clients* in accordance with COBS 2.3B.8R(3)(a), and must use the separately identifiable *research* charge of joint payments for *research* and execution services under COBS 2.3B.3R(3) only to pay for *research*.

Analysis

This should be standard existing practice for existing CSAs/RPAs.

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- 2.3B.25 R The requirements referred to in COBS 2.3B.3R(3) for the operation of joint payments for third-party *research* and execution services are:
- (1) the *firm* must have a written policy on joint payments that:
 - (a) describes the *firm*'s approach to joint payments, and how the *firm* will ensure compliance with the requirements in COBS 2.3B.25R(2) to COBS 2.3B.33G; and
 - (b) specifies how the *firm*'s governance, decision-making and controls in respect of third-party *research* purchased using joint payments operate, including how these are maintained separately from those for trade execution;
 - (2) the *firm* must establish arrangements which stipulate the methodology for how the *research* costs will be calculated and identified separately within total charges for such joint payments;
 - (3) the *firm* must have a research provider payment allocation structure for the allocation of payments between different *research* providers, including:
 - (a) third-party providers of *research* and execution services; and
 - (b) *research* providers not engaged in execution services and not part of a financial services group that includes an *investment firm* which offers execution or brokerage services;

Analysis

This will require managers using client money for research to have a formal written Research Valuation/Allocation policy that describes the separation of research and execution payments.

Analysis – (continued)

The Research Policy must reference how client research charges are determined (at the product level) and explain how the firm's research valuation policy works. This must include how research payments are determined for both integrated investment bank research producers (with an execution capability), and research producers without execution capacity (IRPs).

Implementation Options

Frost has modules which can seamlessly create matrices between strategy/fund level research budgets and the research allocations to specific providers. This provides complete granular transparency to clients (and regulators), which are requirements referenced elsewhere in the draft rules.

This process treats research inputs from bank and non-bank research producers identically based on the manager's product set, portfolio construction and the methodology employed by the manager's investment professionals.

This allows managers to generate customized research valuation frameworks, which can also accommodate ESG inputs and research for non-equity asset classes including Fixed Income.

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- (5) the firm must set a budget for the purchase of research using joint payments:
 - (a) based on the expected amount needed for third-party research in respect of investment services rendered to its clients, and not linked to the expected volumes or values of transactions executed on behalf of clients; and
 - (b) at least annually, and at a level of aggregation that is:
 - (i) appropriate to its investment process, investment products, investment services, and clients; and
 - (ii) does not compromise its ability to meet the requirements of COBS 2.3B.25R(6) and (8).

Analysis

Section (5) is a research budgeting requirement that is completely independent from trading volumes. This is normal practice for managers using client money under MiFID II via CSA/RPA.

Analysis – (continued)

Sub-section (b) refers to the amount of research *required by the client* (who will be invested in specific funds/products) and aggregated appropriately *across clients who would benefit from the same research*. This introduces an inherent cross-subsidization control requirement whereby clients should not be paying for research services that are not used by the strategy in which they are invested – yet funds/strategies that use research services should pay fairly for them. This should be done annually.

- (6) the firm must allocate the costs of research purchased using joint payments fairly between clients;
- (7) the firm must periodically, but at least annually:
 - (a) assess the value, quality and use of research purchased using joint payments and its contribution to the investment decision-making process; and
 - (b) ensure that the amount of research charges to clients is reasonable compared with those for comparable services; and
- (8) the firm must disclose to its clients the items listed in COBS 2.3B.30R.

Analysis

Section (6) essentially requires fund or strategy level research budgets. It is impossible to fairly allocate research costs between clients on a pro-rata client AUM basis across multiple strategies unless all of the managers' clients are invested equally in all of their funds. In addition, the research requirements of different equity strategies vary enormously - as do the research products they use.

Section (7)(a) requires a research valuation process. (7)(b) introduces a benchmarking requirement. From an asset owner perspective, this means comparing the fund or strategy's aggregate research budget to those of similar funds strategies. Asset owners don't care about how much managers pay certain banks in aggregate, or for certain research products or categories. (Only research producers care). The practical reality is that the same research service may be of varying value to different funds depending upon their portfolio construction and fund objectives.

And, while the strict benchmarking requirement has been removed, the necessity of comparing research payments renders it the most obvious solution.

Implementation Options

Research Budgeting

Based on work done in conjunction with CFA UK, the CFA Institute and Stanford University, Frost has research valuation frameworks that can quantitatively determine top-line fund/strategy research budgets based on “research intensity” amongst other factors.

Fair Allocation of Research Costs Between Clients

Strategy/Fund-Level research budgets are central to the fair allocation of research costs to clients, as each client is exposed to specific strategies with unique research requirements. This is a natural by-product of the Frost process.

Cross-Subsidization Solutions

While different funds/strategies have unique requirements, many also use common research services. Frost modules fairly allocate common research service costs between the fund/strategies that use them, allowing managers to conclusively demonstrate to regulators/clients that cross-subsidization is managed. Simultaneously, this also allows investment teams to share research freely across the manager, yet still allocate research costs fairly to the end client.

Research Benchmarking

In conjunction with a major TCA provider, Frost has Research Strategy Benchmarks that fulfil the proposed FCA requirement, and help managers demonstrate that their (fund/strategy) research budgets are reasonable versus the peer group of equivalent strategies. The Frost DB database has thousands of funds in dozens of equity categories.

This suite of solutions allows the FrostRB process to meet the US Council of Institutional Investors/CFA Institute/Healthy Markets research transparency Best Practices



Research/ESG via P&L or Client Money

- How do we compare to our peers
- *and managers using client money?*
- Are our strategy budgets competitive?
- Crucial data for internal budgeting.



Are managers giving their investment teams the opportunity to be globally competitive?

Global	US	Europe	UK	EM	Asia	Sectors
Global Equities	US Equities	Emerging Europe	All Companies	CEE	Asia Equities	Biotech
Global Large Cap	US Large Cap	Equity Income	Smaller Companies	EM Asia	AsianEx-Japan	Commodities
Global Small Cap	US Mid-Cap	Europe ex-UK	Equity Income	EM Small Cap	China	Consumer Cyclical
Global Mid Cap	US Small Cap	France	Direct Property	Global GEMS	China Small Cap	Consumer Staples
Global Growth	US Large Cap Growth	Germany	Value	Latam	Equity Income	Energy
Global Value	US Large Cap Value	Italy	Growth	MENA	Hong Kong	ESG/SRI
Global Financials	US Value	Netherlands			India	Financials
Global Equity Income	US Growth	Nordics			Indonesia	Healthcare
	US Small Cap Growth	Pan-Europe			Japan	Industrials
	US Small Cap Value	Spain			Japan Small Cap	Media
	US Core	Switzerland			Korea	Precious Metals

* Indicative Categories

- 2.3B.26 R If the amount of *research* charges to *clients* exceeds the budget set out under COBS 2.3B.25R(5), or the budget is increased, the *firm's* policy must set out:
- (1) the relevant actions to be taken in such circumstances; and
 - (2) the information to be disclosed to *clients*.

Analysis

This requires an ex-ante research budget at the product or strategy level. Policies and communications related to exceeding budgets should be specified in the Research Valuation Policy.

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- 2.3B.27 G For the purposes of COBS 2.3B.25R(6), the *firm* should determine a cost allocation level appropriate to its business model. The specific cost of individual investment *research* items need not be discretely attributable to individual *clients*. The approach should be reasonable and its outcome fair across all *clients*, such that relative costs incurred are commensurate with relative benefits received. This includes:
- (1) across:
 - (a) *clients* with which the *firm* has different payment arrangements for the purchase of *research*;
 - (b) *clients* that are managed according to similar investment strategies; and
 - (c) different *clients* or groups of *clients* that benefit from the same *research*; or
 - (2) across other allocation levels provided that these are appropriate to a *firm's* investment process, *investment* products, *investment* services, and *clients*.

Analysis

Section (2.3B.27) brings together many of the previous provisions.

As well as fair research cost allocation across clients, managers should be able to demonstrate the relationship between research cost and *relative* benefits received (*between funds/strategies*). This will be a challenge for many existing MiFID II research valuation methodologies.

Implementation Options

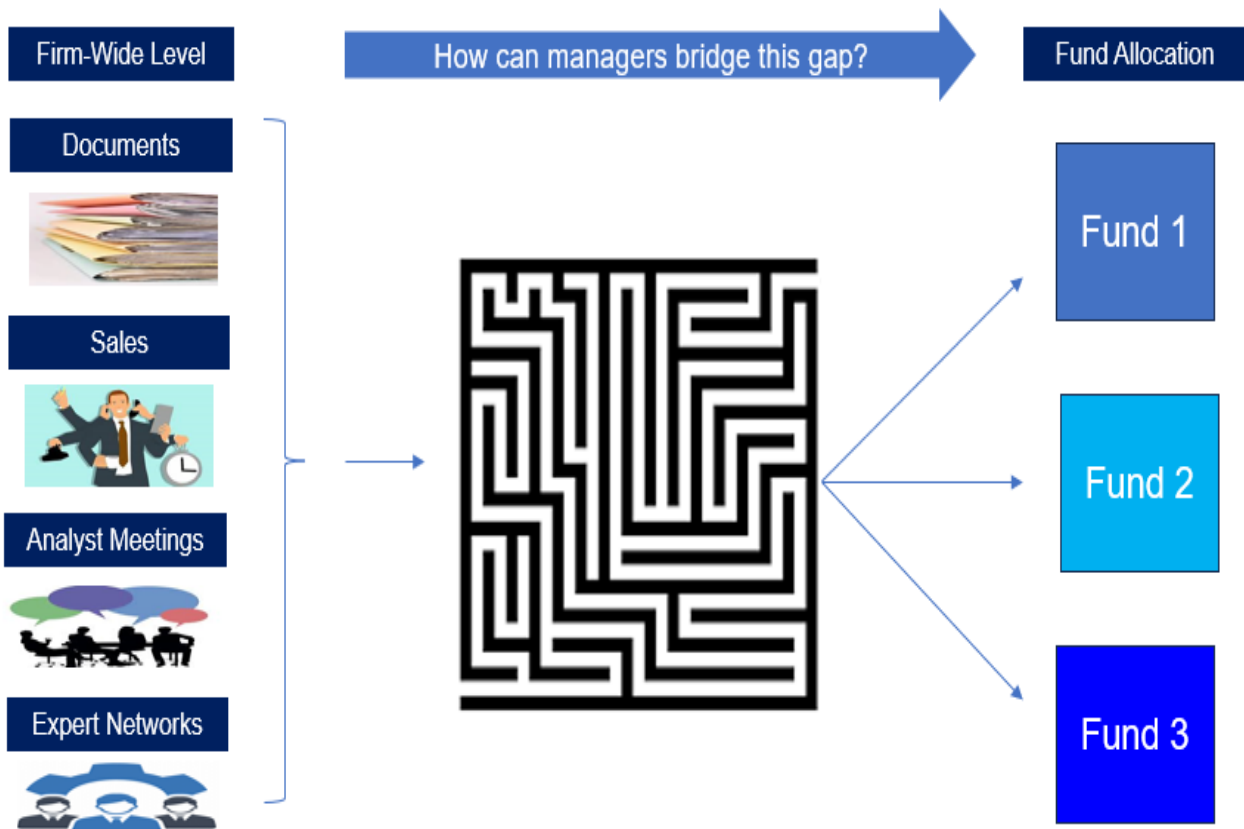
Frost research budgeting solutions can easily accommodate this requirement via the fund/strategy level “Research Intensity” framework which inherently allocates research budgets (cost) based on fund/strategy research requirements (benefits received). This works in conjunction with the Cross-Subsidization solutions mentioned in the previous section.

Common Implementation Challenges

There are two common challenges cited by managers as they consider implementation options.

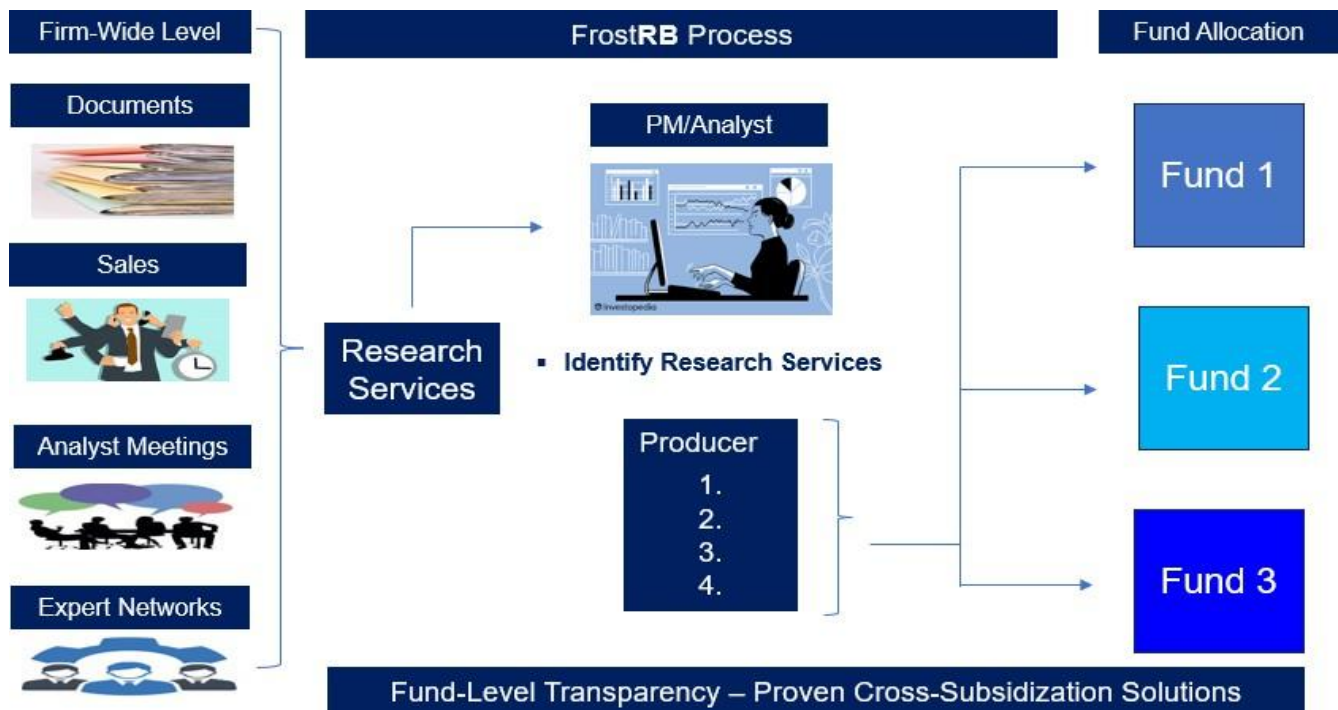
The first is the common practice of counting and valuing documents and interactions at the firm level, which is not sufficient to meet the FCA’s new requirements on multiple levels.

ALLOCATING RESEARCH PRODUCTS AT THE FUND LEVEL



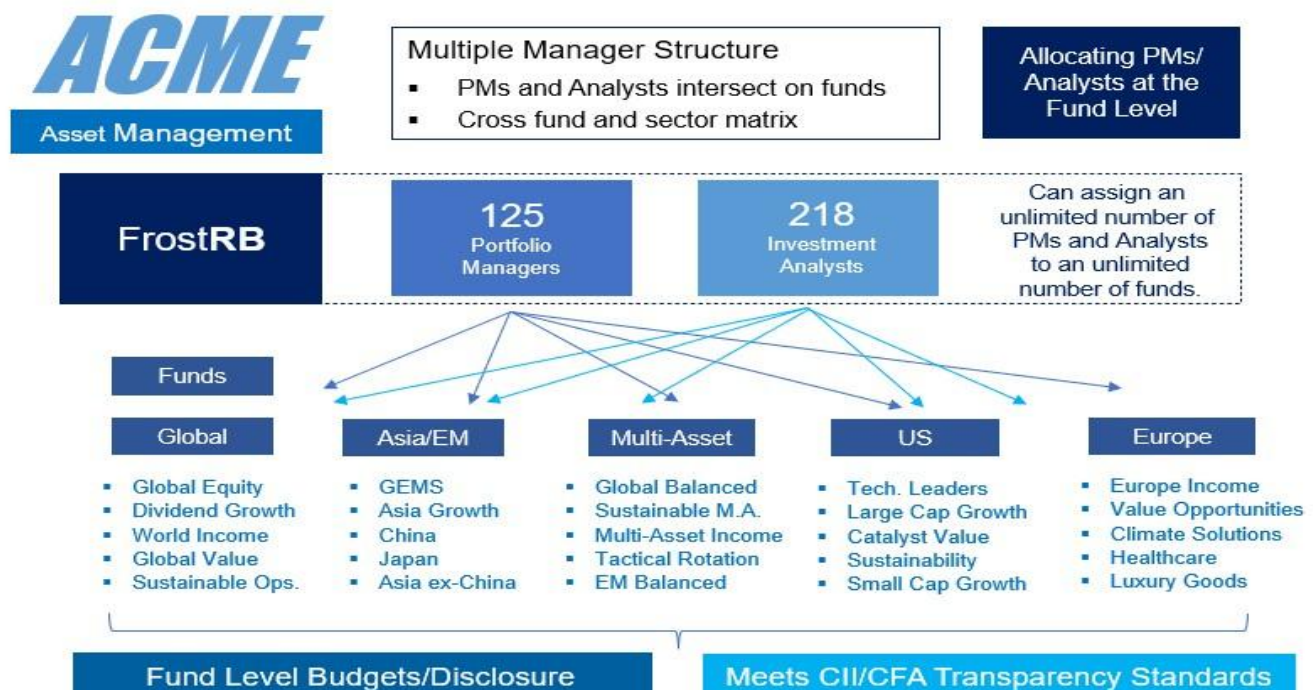
Managers using these firm-level quantitative approaches frequently have no means of disaggregating and allocating the data outputs from the firm level to the fund level - let alone the fair and transparent fashion that PS24/9 requires.

Frost processes effectively act as “Middleware” by aggregating and fairly allocating these research costs at the fund level.



This allows even the most complex managers, in which large numbers of PMs and analysts have input to multiple funds, to achieve the required fund-level granularity without increasing the time required from PMs/Analysts in the existing research valuation process.

MANAGING FUND-LEVEL DISCLOSURE & CROSS-SUBSIDIZATION



- 2.3B.30** **R** For the purposes of COBS 2.3B.25R(8), the firm must disclose to relevant clients:
- (1) the firm's use of joint payments for research, including, where relevant, how the use of joint payments is combined with the use of other payments permitted under COBS 2.3B.3R;
 - (2) the key features of the firm's policy on joint payments in COBS 2.3B.25R(1), or the policy itself, having regard to the information needs of its clients. This information must be communicated to them in a way which is clear, fair and not misleading;
 - (3) the expected annual costs to the client, provided as part of ex ante disclosures on costs and charges, and based on the most appropriate of either:
 - (a) the budget-setting and cost allocation procedures set out in COBS 2.3B.25R(5), COBS 2.3B.25R(6) and COBS 2.3B.27G; or
 - (b) the actual costs for prior annual periods disclosed under COBS 2.3B.30(5);

Analysis

Section (2.3B.30) Sub-Sections (1) and (2) are elements of the manager's Research Valuation Policy. In practice, regarding (1), it will be difficult to run multiple payment processes (Client Money and P&L) in the same investment product. Hence the importance using Frost's Successful Transition Playbook (referenced at the end of the document) to persuade *all clients* in a strategy to accept manager research charges. Frost has a risk mitigation framework to deal with any client objections.

Sub-Section (3) relates to the annual ex-ante disclosure of fund/strategy-level research budgets. CP24/7 proposed that managers would have to use both methods (a) and (b) to set budgets which would require them to disclose the (presumably fund or product level) budget for the previous period. PS24/9 gives managers the option of using either.

Implementation Options

The decision of which of the two methods to determine research budgets will be critical. There are a myriad of reasons not to base future budgets on those of the most recent prior period, in part because many P&L managers do not have them, as many were operating at the firm level.

Frost's forward looking research budgeting frameworks are designed to generate the required level of research valuation/reporting granularity whilst also taking into account the budgets of similar strategies (benchmarking). Given the large differentials in research spending between US managers (client money) and UK/EU managers (P&L), the benchmarks are far more relevant than the historic periods in constructing strategy research budgets that ensure the manager's investment teams are globally competitive.

- (4) the most significant of the items in (a) and (b), at a level of aggregation appropriate to the firm's investment processes, investment products, investment services and clients:
 - (a) benefits and services received from research providers (measured by total amounts paid); and
 - (b) types of research providers from which such services are purchased;
- (5) the total costs incurred by the client, disclosed on an annual basis, reflecting the total payments made for research purchased using joint payments over that period, and provided as part of ex post reporting on costs and charges; and
- (6) where relevant, the disclosures set out in COBS 2.3B.26R(2).

Analysis

This is an obligation to report research spending seemingly at the product/client level on an aggregated basis as to the types of research producers paid. The most obvious distinction will be between research producers with execution capacity and those without (IRPs).

There is also a requirement for ex-post reporting of research spend, again at the client level. (This should ideally be equivalent to the ex-ante research spending number).

Implementation Options

FrostRB's fund/strategy budgeting process will generate these reports (and many more) as a matter of course.

- 2.3B.31 R For the purposes of the disclosures in COBS 2.3B.25R(8), firms must make the disclosures in:
- (1) COBS 2.3B.30R(1) to (4) before providing an investment service or ancillary service, and thereafter upon request, and at least annually;
 - (2) COBS 2.3B.30R(5) as part of the firm's costs and charges disclosures, separately identifying joint payment research charges in such disclosures; and
 - (3) COBS 2.3B.30R(6) as soon as reasonably practicable, and in any case in the firm's next periodic disclosure to clients on costs and charges.

Analysis

Sub-Section (1) requires that any managers switching from P&L back to client money will have to make the required disclosures in advance of making that transition.

Sub-Sections (2) and (3) require managers to report research costs to clients (based on their investments/products) as a) part of their regular client reporting and b) at the firm's next periodic disclosure to clients, if not sooner.

Implementation Options

FrostRB's process will easily enable managers to meet these requirements.

2.3B.32 **G** For the purposes of disclosing the types of *research* providers from which services are purchased under COBS 2.3B.30R(4)(b), a firm may provide a breakdown (measured by total amounts paid) according to the *research* provider types specified in COBS 2.3B.25R(3).

2.3B.33 **G** For the purposes of ensuring that *research* charges to clients are reasonable under COBS 2.3B.25R(7)(b), a firm may benchmark prices paid for *research* services purchased using joint payments against relevant comparators.

Analysis

2.3B.32 confirms that the spending split between research producers with equity execution capacity and those without it, would be sufficient to meet the FCA PS24/9 requirements.

2.3B.33 acknowledges that, even though there is not strict benchmarking requirement, that the FCA views benchmarking as a sensible way to proceed to meet the requirement that managers must demonstrate that research charges are "reasonable".

Implementation Options

As aforementioned the Frost Processes:

- Will easily and automatically allow managers to calculate spending by research provider category, down to the fund level.
- Include the world's largest database of Research Strategy Spending Benchmarks developed in conjunction with our TCA partner.

Broader Commercial Context

PS24/9 is an opportunity for managers selling investment products to UK clients to re-position themselves to a more sustainable long-term business model.

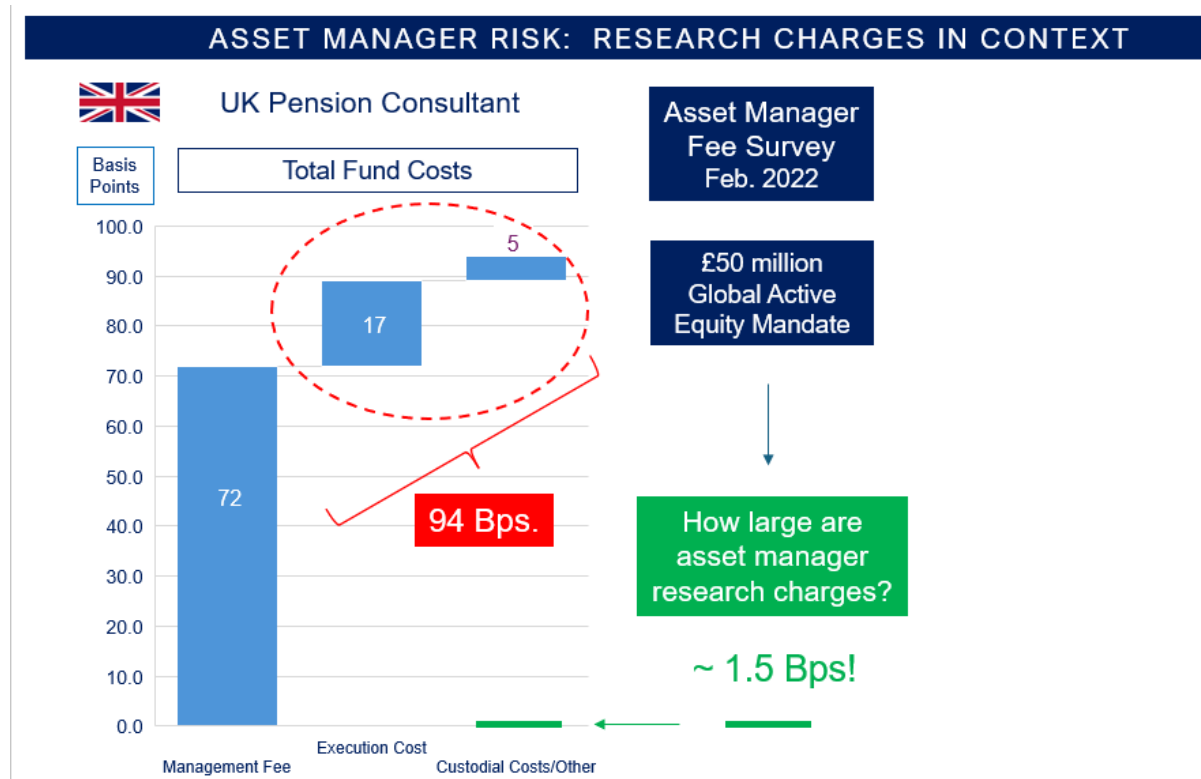
There are three key elements to this:

1. Regulatory Considerations – The need to meet PS24/9 requirements.
2. Commercial/Competitive Implications – The desirability of creating client “buy-in” for the changed research funding mechanism. Longer-term, client expectations and the actions of competitors may be a more important “carrot” than the “stick” of FCA regulations.
3. Manager Sustainability Considerations – This goes well beyond short-term manager profitability. Removing the significant market risks from Research/ESG budgets will be a critical factor in terms of ensuring and maintaining the competitive position of managers currently using P&L for research.

Note: In 2022 both equities and bonds produced negative returns in the same year for the first time since 1969. The average UK manager suffered AUM down ~ 20% which translated into pre-tax profit declines of 65 – 75%. It is the pre-tax profit line that must fund research and ESG budgets for P&L managers.

Analysis

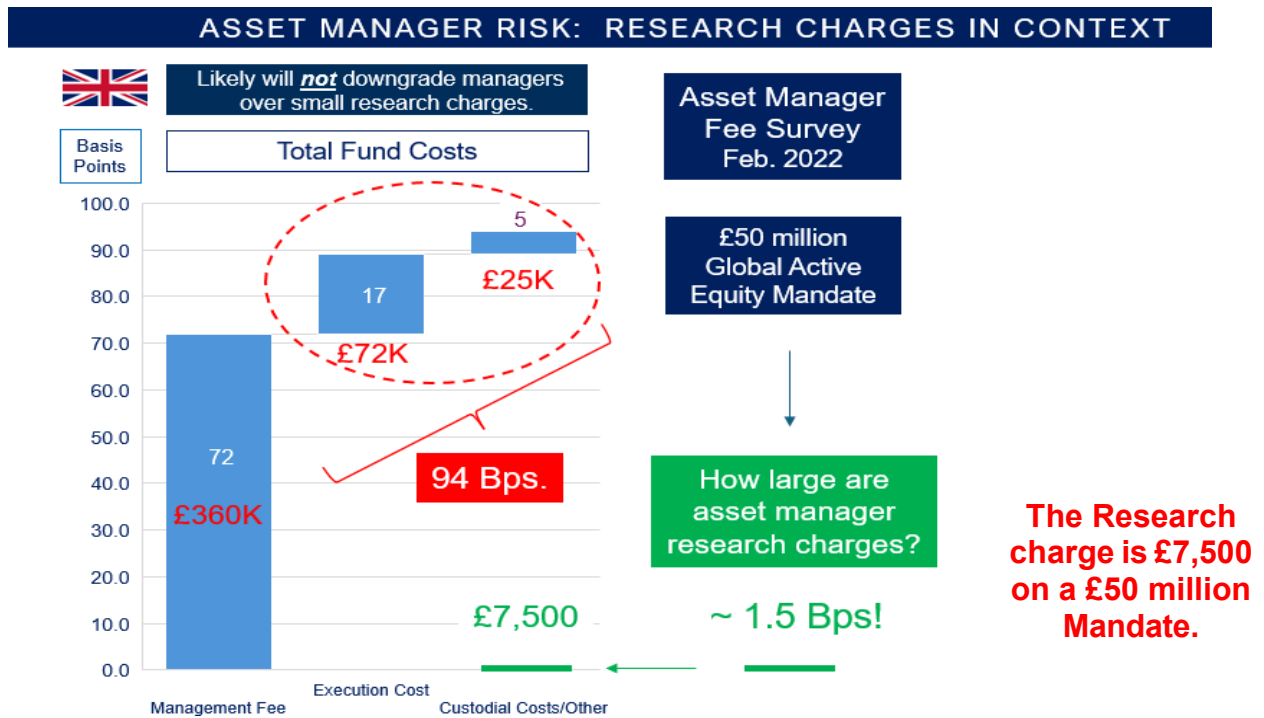
In the chart below from the database of a major UK Pension Consultant we have the fund charges for a £50 million global equity mandate broken into component parts (94 Bps).



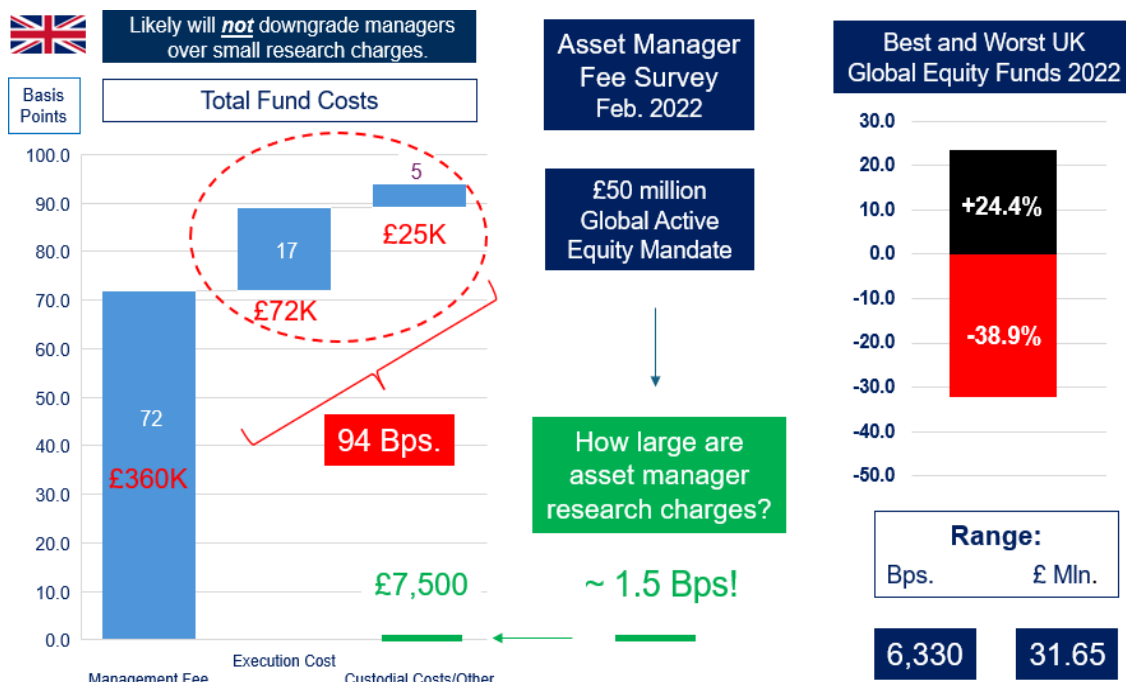
Key Points:

The Research charge is very small - and not sufficient for pension consultants to downgrade recommended managers. The Research charge is a small fraction of the execution charge universally paid by asset owners in addition to the management fee - *and without complaint*.

Converting basis point charges into sterling amounts created additional perspective:



What about performance?



In 2022 the best global fund run by a UK manager was up 24% and the worst down nearly 40%. This is a performance range of more than 6,000 basis points.

Key Question: Would you as an asset owner be willing to pay a £7,500 research charge on a £50 million mandate to increase the probability that your manager comes toward the upper end of a ~ £32 million performance range?

Sources of Cost and Return in the Portfolio: This 60% performance differential in the example, does not stem from poor execution or the choice of Custodial Bank. It stems from the investment decisions made by these two managers - which are most heavily influenced by research. If asset owners want to cut costs, research is the wrong place to start.

Academic Backing:

In a paper we co-authored with Stanford (below), we argued that asset managers and asset owners should collaborate on research budgets.

Why? Because both parties want the asset manager's investment product to achieve its targeted return.

Stanford Paper: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3209952

Pros and Cons of Moving Back to Client Money for Research

RETURN TO RESEARCH VIA CLIENT MONEY (ASSET MANAGERS)

Risk	Impact	Duration
Client Risk	Med./Low	Short-Term
Earnings Risk	Very Low	Short-Term
Operational Change	Low/Medium	Short-Term

Benefit	Impact	Duration
Profitability	Medium	Long-Term
Competitiveness	High	Long-Term
Inv. Team Retention	High	Long-Term
Inv. Performance	Medium	Long-Term
Inv. Culture	High	Long-Term
Global Op. Model	Medium	Short/Long Term
Franchise Value	High	Long-Term

From the perspective of senior management/executive committees of asset managers some of the risks and opportunities of moving back to client money for research are listed above.

To date, much of the industry commentary has focused on perceived client risk related to re-introducing very small research charges. Because P&L managers had no regulatory obligation to report changes in research spending to clients, it is quite possible that multiple UK asset owner/client groups may significantly overestimate the level of research charges that PS 24/9 will allow.

Key Observations:

1. Client risk, which is almost universally cited, is significantly exaggerated in our experience (having moved multiple managers back to client money from P&L with extremely limited client reaction (of any type).
2. The risks on the left are transitory and short-term.
3. The benefits on the right are long-term and compound which can have a material impact on the medium-term franchise value of the asset manager.

Key Question for the Asset Manager CEO

Which of these two research funding methods, a) manager P&L or b) client money, maximizes the probability that our firm will be able to generate competitive returns for our clients and shareholders over the long term – regardless of market conditions?

We believe the answer to that question is very clear.

Frost Solutions



**Successful
Transition
Playbook**

- Fund-Level Research Budgets.
- Align research budgets with investment mandates.
- Strategy Research Benchmarking.
- Client Communication/Risk Mitigation Strategies.

Frost has effectively used this playbook to affect the transition of multiple managers with very limited client impact.

P&L TO CLIENT MONEY: SUCCESSFUL TRANSITION PLAYBOOK

Step One: Holistic, Firm-Wide Approach

AGME

Asset Management

Frost works with:

Management Team - Overall Commercial Strategy

Investment Teams – Strategy Budgets/Configuration
Assignment of Investment Professionals

Client Service Team – Client Communication Strategies
Risk Mitigation Strategies
Research Spend Benchmarking

Admin. Team – FrostRB System Implementation

Trading Team – Research Payment Mechanism

ESG/Stewardship Team – ESG input fund attribution



FUTUREPROOF



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