

FINAL EU LISTING ACT RESEARCH TEXT SUMMARY AND ANALYSIS

The European Commission recently released its final draft on research optionality stemming from the EU Listing Act due for adoption and implementation by June 6, 2026.

<https://bit.ly/3ZZLlnA>

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.

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.

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After due consideration, the Commission concluded that the requirements on quality as set out in the draft Delegated Directive and that will apply to all research, irrespective of how investment firms pay for execution and research services, should constitute the sufficient safeguards to ensure the appropriate quality of research.

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- (4) The flexibility given to investment firms as regards the method of payment should not interfere with the obligation of those firms to act honestly, fairly and professionally in accordance with the best interest of their clients. Therefore, those investment firms should be required to assess the quality of research that they consume or provide to ensure that the research provided by a third party to them is of quality and can be used to contribute to a better investment decision, thus bringing an added-value for the end-investor.

Analysis:

This clause uniquely requires robust research valuation processes to apply regardless of the research payment method. (Previously, most research regulation was aimed at only managers using client money for research). Value added for the end client.

Article 1

Amendments to Delegated directive (EU) 2017/593

Delegated directive (EU) 2017/593 is amended as follows:

- (1) Article 13 is amended as follows:
 - (a) paragraph 1 is replaced by the following:

‘1. Member States shall ensure that investment firms that operate a separate research payment account as referred to in Article 24(9a), point (d)(ii), of Directive 2014/65/EU, meet the following conditions relating to the operation of the account:

 - (a) the research payment account is funded by a specific research charge to the client;

Analysis:

This requires managers using client money for research to determine the research charge for each client. By definition, this will necessitate strategy or fund-level research budgets.

- (b) as part of establishing a research payment account and agreeing the research charge with their clients, investment firms set and regularly assess a research budget as an internal administrative measure;
- (b) the following paragraph 1a is inserted:

‘1a. Member States shall ensure that investment firms that make use of a research payment account as referred to in paragraph 1 provide the following information to their clients:

 - (a) before providing investment services to their clients, information about the budgeted amount for research and the amount of the estimated research charge for each client;
 - (b) annual information on the total costs that the investment firm has incurred for third party research.’;

Analysis:

This is a clear requirement that managers using client money for research must determine and communicate the research charge for each client *in advance*. By definition, this requires strategy or fund-level research budgets.

‘2. Member States shall ensure that investment firms that choose to pay separately for execution services and research and that operate a research payment account as referred to in paragraph 1, shall provide, upon request of their clients or of competent authorities all of the following:

- (a) a list of the providers paid from that research payment account;
- (b) the total amount those providers were paid over a specified period;
- (c) the benefits and services received by the investment firm from those providers;
- (d) how the total amount spent from the research payment account compares to the budget set by the investment firm for that period, noting any rebate or carry-over if residual funds remain in the account.

Analysis:

This requires managers to make substantial ex-post research disclosures if queried by clients or regulators. It also mandates disclosure of the specific research services that were received.

For the purposes of paragraph 1, point (a), Member States shall ensure that the estimated research charge is:

- (a) only based on a research budget set by the investment firm for the third-party research necessary for the provision of investment services to the clients of that investment firm;
- (b) not linked to the volume or value of transactions executed on behalf of the clients.

Analysis:

This requires the unbundling of research and execution payments.

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5. Member States shall ensure that investment firms that choose to pay separately for execution services and research and operate a separate research payment account as referred to in paragraph 1 agree with their clients, in their management agreement or general terms of business, the research charge as budgeted by the investment firm and the frequency with which the specific research charge will be deducted from the resources of the client over the year.

Member States shall ensure that investment firms only increase their research budget after they have provided their clients with clear information about such intended increases.

Member States shall ensure that investment firms have a process to refund any surplus in the research payment account at the end of a period to their clients or to offset it against the research budget and charge calculated for the following period.

Analysis:

This requires managers to inform clients of any (client-level) research budget increases. If research spending exceeds the initial ex-ante client-level disclosure there must be a mechanism to refund the excess spending or apply it to a forthcoming period.

Member States shall ensure that the allocation of the research budget to purchase third party research is subject to the investment firm's controls and senior management oversight that are deemed objectively appropriate to ensure that the research budget is managed and used in the best interests of the investment firm's clients. Member States shall ensure that those controls include a clear audit trail of payments made to research providers and of how the amounts paid were determined with reference to the quality criteria referred to in paragraph 10, first subparagraph. Member States shall ensure that investment firms do not use the research budget and research payment account to fund internal research.

Analysis:

This requires:

- Senior management oversight of the research budgeting process
- A methodology for determining research payments to research suppliers.

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Article 2
Transposition

Member States shall adopt and publish, by 5 June 2026 at the latest, the laws, regulations and administrative provisions necessary to comply with this Directive. They shall forthwith communicate to the Commission the text of those provisions.

They shall apply those provisions from 6 June 2026.

Analysis:

This confirms that EU National Regulators should have these standards in place by June 6, 2026.

Interaction with Other National/Regional Regulatory Regimes

In addition to the EU research rules above, for many global managers, the most relevant national regulations will be

USA

The Securities Exchange Act of 1934 and further interpretation ...

<https://www.sec.gov/files/rules/interp/34-23170.pdf>

...in addition, to research transparency recommendations made to the SEC by the (US) Council of Institutional Investors, the CFA Institute and the Healthy Markets Association via the following two letters:

CII/CFA Letters to the SEC:

July 2019: <https://bit.ly/3Ltqmv8>

March 2023: <https://bit.ly/4bmkqeI>

UK

The two principal standards are

PS24/9: <https://www.fca.org.uk/publication/policy/ps24-9.pdf>

which applies to (previously MiFID II) segregated mandates and





PS24/5: <https://www.fca.org.uk/publication/policy/ps25-4.pdf>

which applies to UK UCITs mandates/retail funds.

While there are minor variations in the detail of these regulations the two overarching themes are:

- Client-level/mandate research budget disclosure
- Cross subsidization control

High-Level Summary

INTERNATIONAL PERSPECTIVE				
	 MIFID II	 EU Listing Act	 PS 24/9 PS 25/4	 CII/ CFA Inst.
Client Consent for Research Charge	Yes	No	No	No
Prior Disclosure of Client Research Charge	Yes	Yes	Yes	Recommended
Research Payment Account (RPA)	Yes	No	No	No
Cross-Subsidization Solution	Yes	Implied	Yes	Recommended
Research Benchmarking	No	Implied	Yes	Recommended
Gold Standard: Compliant Everywhere				

There are some notable differences between the UK Policy Statements, particularly PS25/4's emphasis on explicit cross subsidization control:

Policy Statement
PS25/4

UCITs

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"The value of research might differ between funds given that not all research contributes to investment decisions to the same extent"

Analysis: The same research service may be of different value to different funds.

"The cost of research should be allocated fairly between funds."

"Fund managers are required to evaluate the charges to each fund in relation to fund performance and benefits received"

Analysis: Fund-Level Research Attribution Required

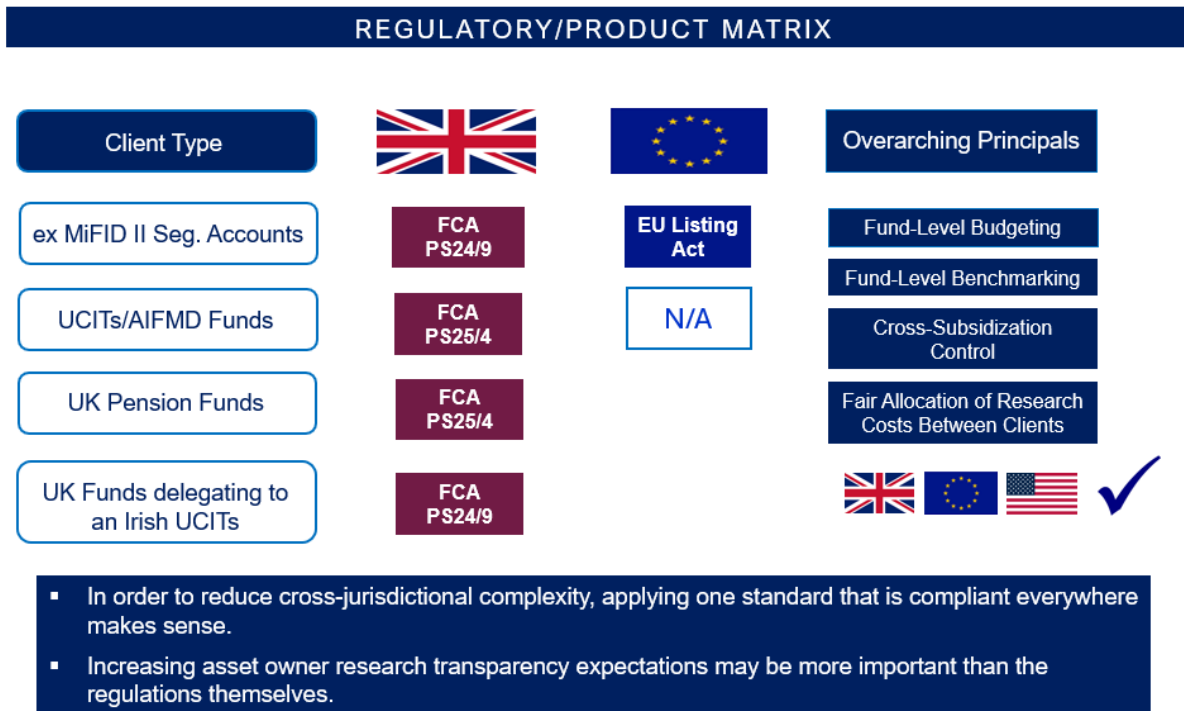
"and benchmark with comparable services provided to unit holders."

Benchmark research charges vs. similar funds.

"Asset managers should prevent one fund from subsidizing another fund."

Cross-Subsidization Control Required

Interaction of UK and EU Regulations:



As the graphic above suggests, if managers can meet the most conservative standard (PS25/4) they will be compliant everywhere.

It's also interesting to note the convergence between UK/EU rules and the US CII/ CFA Institute research transparency recommendations to the SEC:



Emerging Global Research Transparency Standards?



Global Transmission Mechanisms

Many US managers that are currently funding research via P&L for UK/EU clients but continuing to charge US asset owners, plan to revert to a client-funded model in Europe.

In order to do so they will have to establish strategy/mandate level research budgets to meet the new UK/EU rules.

Some of these managers plan to pro-actively introduce this level of research transparency to US clients as a competitive advantage. While this level of transparency is not required by US regulation, it has been recommended by the CII/CFA Institute.

Consequently, the driving force behind the globalization of research transparency standards is not just regulation – but asset owner expectations.

EU UCITs Funds

The UK was the only country in the (then) EU which applied MiFID II standards to UCITs funds. In the rest of the EU, UCITs funds were out of scope.

From a practical perspective, many managers ran EU UCITs funds to MiFID II standards as the vast majority of them were operating both types of funds and did not want to run separate research valuation/payment processes.

Similar to the US, the critical consideration for EU UCITs funds is client research transparency expectations, rather than the regulation itself. As many asset owners have managers that will meet the new mandate-level UK/EU research transparency rules via segregated mandates, it is likely that they would hold out similar transparency expectations for their UCITs managers.

Further Frost Resources:

<https://www.frostresearchsystems.com/post-mifid-publications>

Frost Research
Systems

124 City Road,
London, EC1V 2NP

www.frostresearchsystems.com www.frostrb.com info@frostresearchsystems.com

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