BlackRock

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Wholesale Markets Sector Team
Financial Conduct Authority
12 Endeavour Square
London
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Submitted via email to: cp24-7@fca.org.uk

RE: CP24/7: Payment Optionality for Investment Research

BlackRock[1] is pleased to have the opportunity to respond to CP24/7: Payment Optionality for Investment Research.

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

This consultation paper raises important issues, and we will continue to contribute to the thinking of the Financial Conduct Authority (FCA) on any matters that may assist in the final outcome.

Yours faithfully,

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[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

Executive summary

BlackRock welcomes the FCA's work to progress the Investment Research Review's recommendations. We are supportive of payment optionality and allowing bundled payments for research and execution services. We also welcome the flexibility this will afford investment managers in choosing a payment model that is optimal for their firm and investors.

In responding to the FCA's consultation, we are focused on ensuring that our investment process continues to allow us to access as wide a range of external insights as possible. This is key to enabling our investment teams to build resilient portfolios in line with clients' performance expectations. We have consistently called for the ability to obtain research from major sell-side providers, specialist and independent research providers. We are also continuing to invest in new sources of investment insights for example, alternative data as well as harnessing tools such as machine learning and artificial intelligence to improve our investment processes.

MiFID II brought about the need to have a robust and transparent process for valuing external research. This is particularly important for cross-border investment managers such as BlackRock which source research under a number of different regulatory regimes and have a need to ensure research costs are being accurately allocated.

The UK market has witnessed a welcome focus on transparency on costs. Any changes to charging structures will need to be brought to the attention of our clients. As such, we welcome the optionality in the proposals as any decision to move to a bundled charging model must involve transparency around the impact of any changes.

We recognise the impetus behind measures aimed at improving analysts' coverage of small and medium sized issuers including increasing activity and liquidity in the UK's equity capital markets. We similarly recognise that there is also an opportunity to improve economic incentives for brokers to arrange corporate access, which we appreciate that the FCA will revisit at a later date, and for research providers to extend their coverage. The FCA's proposals could play a role in helping the UK to build the investment case for smaller enterprises and establish a continuous pipeline of firms needing investment for providers to bring to market and investors to choose from.

We welcome the confirmation that short-term trading commentary is an acceptable minor non-monetary benefit and may be received by a UK firm for free, without breaching the inducements rules. We also welcome the consideration given to the proposals' alignment with other jurisdictions, particularly the EU and the US. We agree that it is important for UK asset managers to be able to obtain research from global sources without impediments to remain globally competitive.

To maximise the opportunity to apply a more internationally consistent payment model and genuine alternative to the more complex Research Payment Accounts (RPA), we would encourage the FCA to permit a more flexible approach to operating within the guardrails that it is proposing to introduce. We already adhere to a number of the guardrails suggested in the consultation paper and support most of the proposals. However, we believe the current proposal for firms to disclose the most significant research providers to be particularly onerous. A more proportionate approach would promote international harmonisation, increase operational efficiencies and potentially reduce costs throughout the research value chain to the benefit of investors.

Please note that we have contributed to the Investment Association's response to the consultation paper and are broadly supportive of its position.

Responses to questions

This response is intended to highlight those areas where we believe that particular attention by the regulators is warranted. We welcome the opportunity to comment on the issues raised by this consultation paper and will continue to work with the industry and the regulators on this matter and other topics.

Q2. Would you be likely to take advantage of the proposed new payment option?

We are assessing the impact of the new payment option and welcome the regulatory flexibility to pursue other research payment models. It is worth noting that any transition to a new payment model would also require time and resource to implement.

Q3. Do you have any views on key indicators that could act as success measures for the outcomes we are looking to achieve?

We would recommend that the FCA measures the success of its proposals in terms of an increase in research coverage over a longer time horizon to better reflect sustained value to clients and performance. More broadly, it is important to note that research costs may vary year on year depending on market dynamics and the needs of investors. We would encourage the FCA to clarify whether it expects that overall budgets and spend for broker research would need to go up in order to drive improved coverage.

Q8. Are there any features of the proposed payment option and associated guardrails that would positively or negatively impact its take-up by firms?

We recognise the intent behind the FCA's proposed guardrails and the desire to maintain consumer protection. We would encourage the FCA to adopt a more proportionate framework that allows investment managers to be more flexible in how they operate within the proposed guardrails and enables them to determine policies on issues such as disclosures in keeping with the needs of their firms and clients. This should extend to investment managers being able to set the level at which these policies would apply. Doing so would also maximise the interoperability between the UK, EU, and US regimes.

We would suggest that the FCA prioritises useful disclosures and reevaluates the proposal requiring firms to disclose the most significant research providers. The list of providers will likely change on a regular basis resulting in investors receiving a snapshot view and be of limited use. We believe that adopting a more proportionate approach towards disclosures would help ensure that clients are provided with more meaningful information while increasing the attractiveness of the new payment model for investment managers.

Q11. Are there any further comments you wish us to consider while finalising these proposals?

With an appreciation that the FCA will examine corporate access at a later date, we would suggest that the FCA considers incorporating corporate access into the new research payment model and extending optionality. Doing so could reduce operational complexity for firms and complement improved research coverage. Higher corporate access payments could also incentivise brokers to offer a higher volume of corporate engagements and provide investment managers with greater opportunities to reach small and medium sized issuers. This would align with market regulation and incentives in the US market, further promoting interoperability between the regimes.

Conclusion

We are supportive of the implementation of payment optionality and allowing bundled payments for research and execution services. It is important that the new payment option remains flexible and internationally aligned to help ensure that the longer-term aim of increased research coverage is realised.

We welcome the opportunity to comment on the topics raised by this consultation paper and will continue to contribute to the thinking of the industry and the regulators.