

FCA View: Broker Vote “Inherently Flawed”

Financial Conduct Authority



Discussion Paper

DP14/3

Discussion on the use of dealing commission regime:

Feedback on our thematic supervisory review and policy debate on the market for research

July 2014



3.19 We found that broker vote processes often lacked detail in recording what the fund manager was valuing when voting for a particular research provider. A 'vote' did not typically represent a specific monetary amount; instead it represented a percentage of the CSA balance. This meant that a broker could provide the same research in two periods and receive the same amount of votes, but be paid a different amount because trading volume had varied.

Valuation through the 'broker vote'

4.28 From our discussions, the 'broker vote' remains the primary means of seeking to 'value' and allocate dealing commission payment for research goods and services received by investment managers. While there are a few examples of better processes, from our conversations with stakeholders, as well as our supervisory review, we believe there are some inherent flaws in the broker vote as a means of 'valuing' research goods and services and ensuring appropriate levels of payment are made to providers. Shortcomings include:

4.29 The broker vote remains primarily a form of relative ranking tool. Most investment managers do not appear to centrally track what research they have actually received and consumed, to analyse it in the way that the brokers do to assess 'client profitability' (see below). There is little