

The AIMA logo consists of the letters 'AIMA' in a white, bold, sans-serif font, centered within a dark blue rectangular background.

AIMA

The full name of the organization, 'THE ALTERNATIVE INVESTMENT MANAGEMENT ASSOCIATION', is written in a white, all-caps, sans-serif font on a pink rectangular background.

THE ALTERNATIVE INVESTMENT  
MANAGEMENT ASSOCIATION

The background of the entire page is a photograph of several glowing Edison-style light bulbs hanging from above. The bulbs are in various stages of focus, with some in sharp focus and others blurred, creating a bokeh effect. The lighting is warm and golden, emanating from the bulbs themselves.

**GUIDE TO SOUND  
PRACTICES FOR  
PAYING FOR RESEARCH**

## Executive summary

AIMA is pleased to present the first edition of its Guide to Sound Practices for Paying for Research (the 'Guide'). The purpose of this Guide is to provide guidance to investment managers who purchase externally sourced equity or fixed income research on behalf of their client accounts. The Guide aims to clarify industry sound practice in relation to the payment for research and to help investment managers understand their role and responsibilities to their clients when using client assets to pay for research.

*"Investment managers must ... ensure they are acting in the best interests of their customers in how they acquire external research and manage the associated costs passed to clients."*

*FCA, Feedback statement on DP 14/3 - Discussion on the use of dealing commission regime (Feb. 2015) ('Feedback Statement 15/1')*

The Guide begins by examining the duties of an investment manager in relation to the payment for research out of client assets and setting out the basic payment methods. With that baseline set, the Guide moves on to define 'research' for purposes of the discussion in the rest of the text, before focussing on the details of the methods used to pay for research and how conflicts of interest that arise when paying for research with client assets may be managed. The Guide also explains what records should be kept by investment managers when using client commissions to purchase research. The final section of the Guide discusses the regulatory changes on the horizon in this space.

The Guide focuses on the basic principles underlying the regulation of the payment for research, which should be internationally applicable, but examines the regulatory regimes in the U.S. and the UK more thoroughly. Many of the action points set out at the end of each

section should remain relevant even for investment managers who operate outside the U.S. and the UK. However, this Guide does not discuss the specific regulatory requirements that will apply to investment managers in various jurisdictions outside the U.S. and the UK. Those requirements may conflict to a greater or lesser extent with what the principles set out in this Guide. Investment managers should comply with all applicable regulations in their respective home jurisdictions and the jurisdictions where they operate.

The Guide includes throughout, quotations from regulators that give insight into what regulators expect from investment managers in relation to the payment for research and what they are trying to achieve with their regulations in this area.

In order to assist readers in their understanding of this topic, the Guide includes a glossary at the start, which defines the abbreviations and key terms used throughout the Guide. The Guide also contains various useful appendices including: (i) a table that contains a timeline of the development of the rules regarding the use of research in the U.S., UK and EU, and (ii) excerpts of certain relevant legal provisions.

*"In the securities industry, soft dollars are a percentage of client trade commissions that brokerage firms credit back to money managers.... Since the managers' clients pay the entire commission, the manager is supposed to use the soft dollar credits to buy research services that help the manager make investment decisions for his or her clients."*

*SEC v Markusen, Cope and Archer Advisors LLC, Case No. 14-cv-3395 (Sept. 2014) ('Markusen')*

## Table of Contents

### Glossary

#### 1. Introduction

#### 2. Payment for research and the duties of the investment manager

2.1 Methods of paying for research

2.2 Investment managers' duties

2.3 Best execution

2.4 Conflicts of interest

2.5 Transparency

2.6 Regulation of an investment manager's duties when purchasing research in the UK and the U.S.

2.7 Action points

#### 3. What is research?

3.1 Eligible research

3.2 The UK regime

3.3 The U.S. regime

3.4 Sell-side material and MNPI

3.5 Expert networks

3.6 Corporate access

3.7 Action points

#### 4. Initial considerations for a cyber security programme

4.1 Bundled services

4.2 Commission sharing agreements

4.3 Broker vote

4.4 Manager pays directly

4.5 Action points

#### 5. Managing conflicts of interest

5.1 Policies and procedure

5.2 Assessment of broker arrangements and research received

5.3 Use of research and personal account dealing

5.4 Use of budgets

5.5 Ethical walls

5.6 Transparency/disclosure

5.7 Action points

#### 6. Recordkeeping

6.1 Overview

6.2 Policy on recordkeeping

6.3 Recording payments

6.4 Action points

#### 7. Regulatory change

7.1 EU

7.2 UK

7.3 U.S.

7.4 Action points

**APPENDIX A** - Timeline of the development of the rules regarding the use of research in the U.S., UK and EU

**APPENDIX B** - Excerpts of relevant legal provisions

**APPENDIX C** - Overview of other regulatory regimes

**APPENDIX D** - Comparison table of U.S. soft dollar regime vs UK dealing commission regime with regard to research

**APPENDIX E** - AIMA Working Group members

**APPENDIX F** - About AIMA

## AIMA members have exclusive access to a growing library of industry references:

### Due Diligence Questionnaires:

- Clearing Members
- Fund Administrators
- Hedge Fund Boards of Directors
- Hedge Fund Managers
- Individual Fund Directors
- Prime Brokers
- Vendor Cyber Security

### Guides and Guidance Notes:

- Fund Directors' Guide
- Guide to Liquid Alternative Funds
- Guide to Managed Accounts \*
- Implementing MiFID II \*
- Side Letter Guidance

### Guides to Sound Practice:

- Business Continuity Management
  - Cyber Security
  - Hedge Fund Administration ^
  - Hedge Fund Valuation
  - Investor Relations
  - Liquidity Risk Management \*
  - Market Abuse
  - Media Relations
  - Operational Risk Management
  - OTC Derivatives Clearing
  - Paying for Research
  - Selecting a Prime Broker
- \* *Forthcoming*      ^ *Update in progress*

Electronic copies of the titles listed above are available to AIMA member contacts via the AIMA website. The electronic copies are subject to a limited licence and are reserved for the use of AIMA members only. For further details on AIMA membership, please contact Fiona Treble ([ftreble@aima.org](mailto:ftreble@aima.org)), who will be able to assist you.

## About AIMA

AIMA, the Alternative Investment Management Association, is the global representative of the alternative investment industry, with more than 1,600 corporate members in over 50 countries. AIMA has an active influence in policy development and provides leadership in industry initiatives such as educational programmes and areas of sound practices. AIMA has developed long-term relationships with regulators worldwide and has built a close collaboration with many investors in alternative funds.

AIMA provides a vibrant global network for its members. Its primary membership is drawn from the alternative funds industry whose managers pursue a wide range of modern asset management strategies. AIMA's manager members collectively manage more than \$1.5 trillion in assets.

AIMA is committed to developing industry skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (CAIA) – the industry's first and only specialised educational standard for alternative investment specialists.

For further information, please visit AIMA's website, [www.aima.org](http://www.aima.org).



## Disclaimer

The Guide is not a substitute for specific advice, whether legal, regulatory, tax or other advice, nor for professional judgement. It does not seek to provide detailed advice or recommendations on the wider ranging corporate governance issues.