FCA
Cost Benefit Analysis Panel

Consultation Paper title	**The UK AIFM Regime**
Summary of intervention	The consultation paper sets out proposed reforms to the AIFMD framework to improve its calibration to current market structure and risk. It introduces a more proportionate regime based on firm size and risk profile, while strengthening oversight of smaller firms.
Feedback date of issue	28/05/26
CBA Panel reference number	CBAP-0020

CBA Panel advice

Main recommendations

- **Strengthen the articulation of the economic rationale and causal chain underpinning the intervention.** The CBA explains that the AIFMD framework is no longer well calibrated to current market structure and risk, but it is less clear whether the intervention is intended to correct market failures or address inefficiencies in the existing regulatory regime. The analysis would benefit from clarifying this and setting out more clearly how the proposed changes address the identified issues. At present, elements of the analysis rely on assumed relationships, for example that greater flexibility will lead to cost savings without materially increasing risk, which makes it difficult to assess the plausibility of the expected benefits.

- **Improve the credibility of the evidence underpinning the analysis**. The reliance on cost estimates from the 2012 AIFMD implementation is reasonable as a practical method of proceeding, but the results of firm engagement undertaken to validate these assumptions had not been shared with the Panel at the time of review, which limits the ability to assess how far the estimated costs are realistic. It would however be preferable to have observed data on the cost impact of the 2012 implementation, rather than having to rely on extrapolation from survey evidence gathered more than a decade ago. The approach of seeking evidence from firms during the consultation process to develop the understanding of expected benefits is reasonable, particularly given the diversity of business models in the sector.

- **Strengthen the assessment of behavioural responses, distributional effects, and potential unintended consequences.** The analysis would benefit from a more developed treatment of how firms are likely to respond to the proposed changes and the implications for costs, benefits, and risks. The CBA largely assumes limited behavioural change beyond mechanical reclassification, despite the central role of behavioural responses. It also acknowledges the potential for regulatory arbitrage around thresholds but concludes that this is unlikely without substantial supporting evidence. More broadly, there is limited discussion of how different types of firms may respond, including smaller firms becoming authorised, and how this affects outcomes over time. There is also limited consideration of implications for international competitiveness and firm location decisions. More explicit treatment of these issues, particularly where uncertainty is material, would strengthen the overall assessment.

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Summary

Category	CBA Panel comments
The market	The market definition appears uncontroversial, as it is largely determined by the regulatory framework. However, there may be a risk that firms affected by increased regulation could shift into less regulated activities, with potential implications for the level of consumer protection.
Problem and rationale for intervention	The rationale for intervention would benefit from clearer articulation. While the CBA explains that the framework is no longer well aligned with market developments and risk, it is not always clear what the underlying basis for intervention is and how the proposals address this. In particular, there is some ambiguity as to whether the issues identified reflect market failures or a misalignment of the existing regulatory framework (i.e., regulatory failure), and the implications of this for the case for intervention are not fully developed. In addition, the description of harms is largely qualitative, and while this is acknowledged, there is limited use of quantified evidence or illustrative examples to indicate the scale of harm or whether it is preventable through the intervention. Providing illustrative examples or benchmarks of harm could help to strengthen the evidential basis and support the assessment of the intervention.
Proposed intervention and alternative options	The link between the proposed changes and the underlying rationale is not always fully developed, which makes it difficult to assess how the intervention improves on the existing framework. There is limited explanation of how specific elements of the Handbook have been selected for inclusion within the scope of the proposals, and how these relate to the harms identified. More generally, the assessment of alternative options could be strengthened. While different design choices within the regime are considered, there is limited discussion of broader non-regulatory alternatives, such as supervisory or enforcement approaches. In addition, the basis for key design choices, such as the starting point for the calibration of thresholds, is not clearly explained. There is also limited discussion of how the proposed approach compares to other jurisdictions.
Assessment of costs and benefits	**Baseline and counterfactual**. The baseline and counterfactual are set out clearly. However, the analysis implicitly assumes that the current level of misalignment in the regulatory framework persists under the baseline. It may also be relevant to consider whether conditions could worsen over time in the absence of intervention.
	Evidence and data. The use of additional data available to the FCA, such as regulatory returns, is a strength. The use of 2012 cost estimates, adjusted for inflation, is reasonable in principle. However, expected improvements in compliance efficiency over time, including through process improvements, RegTech and AI, could bias cost

	estimates if not fully accounted for. In general, it would be preferable to have observed data on the cost impact of the 2012 implementation, rather than having to rely on extrapolation from survey evidence gathered more than a decade ago. It is difficult to assess how robust these estimates are without the results of firm engagement undertaken to validate these assumptions, which were not included in the version of the CBA shared with the Panel for review.
	Assumptions. Assumptions around firm behaviour, including responses to changes in regulatory requirements and thresholds, appear optimistic. In particular, while uncertainty in firm responses and the potential for regulatory arbitrage are acknowledged, the analysis relies on assumptions that are not clearly grounded in evidence, and at times reflect a more narrative-driven approach.
	Economic analysis. The break-even figure would benefit from clearer contextualisation, in particular how the assumed cost savings would arise in practice. While the analysis assumes that firms will realise savings from increased flexibility, it is not clear under what conditions these would be achieved, particularly given the potentially high costs associated with changing systems and processes, and the possibility that firms may not adjust behaviour to realise relatively modest savings. This raises questions about the extent to which these savings are likely to be realised in practice.
Risk and uncertainty	The treatment of risk and uncertainty is well set out. However, the uncertainties identified elsewhere in the analysis, in particular around the realisation of cost savings and the potential for increased compliance, could be more explicitly reflected here.
Wider economic impacts	No comments.