

FCA (Asset Management and Funds Policy Team)  
HM Treasury (Asset Management Unit)

By email

28 May 2025

Dear Sir/Madam,

**FCA Practitioner Panel response to HM Treasury's Consultation on Regulations for Alternative Investment Fund Managers and the FCA's Call for Input on Future Regulation of Alternative Investment Managers**

The UK's Financial Conduct Authority (FCA) Practitioner Panel (the Panel) is a statutory Panel created by the FCA with the key remit of representing the interests of practitioners of larger firms, and providing input to the FCA from the industry in order to help it in meeting its statutory and operational objectives in an effective manner. Further details of the Panel are available on its website at <https://www.fca-pp.org.uk/>.

Although the UK's Alternative Investment Fund Manager Rules (AIFMRs) generally work well, the Panel supports HMT's and FCA's proposals to make the regime more graduated, proportionate and flexible. This will promote competitiveness by making the UK an even more attractive jurisdiction for alternative investment fund managers (AIFMs). As the Government seeks to improve pensions returns, bolster UK investment and support the sustainable transition this has never been more important.

**The Framework**

In terms of the overall framework, the Panel agrees with moving to the proposed three tier approach. Instead of the current approach under which certain small 'sub-threshold' alternative investment funds (AIFs) and AIFMs effectively sit outside the FCA's regulatory purview, an inclusive regime that applies the AIFMRs proportionately according to *size of firm* and *fund strategy* better serves both consumer protection and competitiveness goals.

The Panel has the following observations on the three-tier approach:

- The Professional Investor Starting Point: While it is appropriate to reduce burdens for small and medium firms, this should also be the *starting point* for large firms. Unauthorised AIFs are intended for professional investors knowledgeable and expert enough to understand the investment strategy and negotiate terms. Subject to fundamental investor and systemic risk safeguards, professional investors and AIFs should be free to negotiate investment strategies on the terms they want. There should be full disclosure and informed consent but there is less need to impose prescriptive requirements that are more suitable for retail investors. This is the approach taken in other global finance centres, such as the US<sup>1</sup> and Switzerland. So, in addition to the *size of firm* and the *fund strategy*, the third filter when recalibrating the AIFMRs is that the *investor type is professional*.

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<sup>1</sup> This is especially the case since the US SEC Private Fund Advisor Rules were struck out by the Courts on 5 June 2024.

We are pleased to see that some specific changes have already been proposed which seek to do this (see below). As the AIFMR review progresses, we would encourage HMT and the FCA to reconsider fundamentally and broadly which requirements remain appropriate for professional investors, not least as large parts of the AIFMR were originally derived from the retail UCITS regime. This approach should identify even more opportunities to remove prescriptive burdens from large firms too and contribute even more significantly to the UK's global competitiveness.

- Proportionality: Applying core requirements to small firms and principles-based requirements to medium firms is appropriate. The Panel commends the FCA for differentiating these categories and allowing firms in them more latitude as to how to meet the requirements but also notes the importance of reducing burdens for large firms too.
- Transition Arrangements: For growing firms, appropriate transition arrangements must be adopted otherwise competitiveness benefits may be lost if firms adopt the next tier's rules in anticipation. For example, before moving to the next category: i) a firm should have exceeded the threshold for a reasonably lengthy period (say 6 months); and ii) then, a sufficient transition period should be allowed (at least 12 months) for the firm to revise its systems and processes.

The Panel agrees that Investment Trusts occupy a unique position given their listed nature and ability to attract retail investment. As such, further consideration of the scope of what should or should not apply to these vehicles is necessary as they are likely to be aimed at a wider target market than professionals. The Panel accepts the areas highlighted for review in the Call for Input.

## **Specific Changes**

This framework will work optimally if it is underpinned by the cumulative benefits of the specific changes proposed by HMT and the FCA. As set out above, the goal should be to remove, reduce or target obligations for *all* firms - including large firms - given that unauthorised AIFs are intended for professional investors. This should be calibrated by reference to global standards without compromising fundamental investor or systemic risk safeguards. The Panel notes the following:

- AIFM Business Restrictions: FCA's proposal to expand the scope of regulated activities that an AIFM can undertake is insightful, as it may result in financial services groups being able to maintain one regulated entity in future, as opposed to a MiFID firm and a management company with a significant reduction in regulatory and governance burdens.
- Remuneration: We support the FCA's/HMT's recent proportionate approach to remuneration (such as removing the bankers' bonus cap) and agree that a review simplifying the regime for AIFMs and aligning it to global norms would be beneficial and attract the best talent to the UK industry. We also note that AIF/AIFM specific quantitative remuneration *disclosures* are resource intensive to prepare but not investment decision-useful information. As, such we would welcome a review of the remuneration disclosure requirements.
- Depositories: It would be beneficial to have the option as to whether to appoint a depository for 'non-custodial' assets or for certain oversight processes for AIFs sold only to professional investors. To illustrate this, a depository is not absolutely necessary for a fund with a low number of real estate investments and dispensing with it would lead to cost savings.
- Private Equity Notifications: The Panel supports the FCA's proposal to remove these requirements, as we are also of the view that the control notifications and

asset stripping restrictions are inappropriate for private markets and fetter commercial freedoms.

- Regulatory Reporting: FCA already receives extensive information on fund holdings, trading, exposures, liquidity, leverage, risk profile and stress testing etc. and the Panel's view is that the volume of data reported should not be expanded. If any changes are required (perhaps to address specific systemic risk concerns), they should be targeted. Effort should also be made to reduce existing reporting requirements where possible. For example, by strategy as some required data is inappropriate for real asset funds and the frequency of reporting could also be reduced for such funds.

In addition, although now included in the UK securitisation rules, the prescriptive nature of the due diligence that AIFMs must undertake before being able to buy a securitisation is inappropriate for a professional AIF. We would appreciate the FCA considering this further as part of its on-going exercise to review the UK securitisation framework.

### **Interoperability**

The EU also recently reviewed its Alternative Investment Fund Managers Directive ('EU AIFMD') and is currently adopting changes. In the Panel's view, some of these changes go beyond what would be appropriate for professional UK AIFs in the context of global standards. For example, the EU's prescribed loan origination fund regime and further prescriptive requirements on the use of liquidity management tools.

Given this divergence, we commend the approach that the UK's changes should not prevent 'inter-operability', i.e. a UK AIFM voluntarily complying with more prescriptive standards if required for cross-border marketing including in the EU or, simply, to meet client investor preferences.

We look forward to further engagement with HMT and the FCA as these proposals develop.

Yours faithfully,

[signed]

Matt Hammerstein  
Chair, FCA Practitioner Panel