FINANCIAL CONDUCT AUTHORITY

Consultation Paper

CP26/28**

The UK AIFM Regime

July 2026

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We are asking for comments on this Consultation Paper (CP) and the discussion chapter on prudential reforms by 22 October 2026 and 18 September 2026 on the other discussion chapters.

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Chapter 1

Summary

Why we are consulting

1.1 UK asset managers oversee £1.8trn in alternative assets and manage £16.5trn overall, making the UK market the second largest in the world behind the United States.

1.2 Private markets, which include alternative investments, are growing, both in the UK and globally.

1.3 We are consulting on proposals to change the regulatory framework for alternative investment fund managers (AIFMs) in the UK. We want to protect consumers and safeguard market integrity while ensuring our rules are proportionate and support firms to enter, grow, compete, innovate and operate internationally. We aim to make requirements clearer and better aligned to firms' size and activities, with fewer requirements for smaller firms less likely to impact market integrity. We will remove overly prescriptive or redundant rules to cut administrative burden, while maintaining high standards where they matter and giving firms the flexibility to operate across borders within a regime aligned to international standards.

1.4 The growth in the sector has benefits for the investors and the broader economy, but it also means AIFMs and their funds are increasingly important to the financial system overall. It is critical that they are resilient and able to withstand market shocks without amplifying them. So, our rules should be proportionate to firms' size and relevant to their risks.

How this consultation complements the Treasury consultation on the AIFM Regulations

1.5 This CP accompanies the Treasury's parallel consultation on changes to UK legislation, noting that much of the current UK asset management framework is derived from EU law, including AIFMD. There are two main consequences of the Treasury's changes.

1.6 First, certain rule-making powers will be transferred to us, so we will be able to determine the size thresholds and categories of AIFM. We consulted on our broad approach in the Call for Input and detail our revised proposals here. Secondly, the changes require us to consider and incorporate appropriate provisions of the AIFMD Level 2 Regulation in our rules. Some of them relate to our rules set out in the FUND sourcebook. Given this, we have considered them alongside reforms to our rules and detailed the changes in the following chapters.

1.7 The Treasury's changes also concern the scope of the AIFM regime, and which types of entities are to be regulated as AIFMs. Several changes affect our rules and how we engage with firms.

1.8 The Treasury proposes to remove the AIFM registration regime except for Registered Venture Capital Funds (RVECAs) and Social Enterprise Funds (SEFs). Currently, some types of small AIFMs can become registered with us, and do not need to be authorised or comply with the minimum rules (Threshold Conditions) for authorisation. Unauthorised property fund managers and those internally managed AIFMs outside the proposed Treasury exemption (see paragraph 1.10 below) will need to become authorised by us under the new regime.

1.9 The Treasury is not proposing any form of grandfathering regime for registered AIFMs that will need to become authorised. We want to give firms time to do this before the implementation date envisaged in 2028, to engage with registered AIFMs, and to undertake the authorisation process in an efficient way. The Treasury will consider RVECAs and SEFs as part of a review of venture capital expected in 2028.

1.10 The Treasury proposes to exempt certain internally-managed closed-ended investment companies that are below the current thresholds (i.e., those currently eligible for registration) from the AIFM regime entirely. Above-threshold and externally-managed closed-ended investment funds must be authorised AIFMs. We propose a tailored approach to these above-threshold AIFMs to account for the unique structure and regulation of closed-ended investment companies (including investment trusts, Real Estate Investment Trusts (REITs) and Venture Capital Trusts (VCTs) that are listed in the UK).

1.11 The Treasury intends to clarify the legislative definition of an AIF. This should make it clearer when a firm is managing a fund that is an AIF and should be authorised as an AIFM and with the Part 4A permission for the regulated activity of managing an AIF.

1.12 The Treasury's consultation details its changes and rationale. An AIF is defined as a collective investment undertaking that raises capital from multiple investors with a view to investing it in accordance with a defined investment policy. The Treasury will clarify in law that raising capital can happen in the past, present, or future, and that a defined investment policy can be explicit in writing or implicit, for a fund to be an AIF. The legislation will now incorporate some elements of our existing Perimeter Guidance Manual (PERG 16) guidance.

1.13 These legal changes would not require us to change our rules. But we would expect firms managing collective investment schemes that meet the legal definition of an AIF to classify themselves accordingly and seek relevant Part 4A permissions. We consider these issues further in chapter 4 on residual CIS operators.

1.14 The Treasury proposes retaining the National Private Placement Regime (NPPR) for the marketing of AIFs in the UK. The legislation proposes to make limited changes so that the NPPR operates effectively.

Previous publications and stakeholder feedback

1.15 This CP builds on the Discussion Paper we published in 2023, DP23/2: Updating and improving the UK regime for asset management, as well as our Call for Input in 2025: Future regulation of alternative fund managers. The feedback to both informed our policy development for the new UK AIFM regime. Respondents saw a strong case for retaining but improving the existing framework.

Aligning with international standards

1.16 Global standard-setters, the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB) have recently published recommendations on valuations and fund liquidity. We are taking the opportunity to apply these and amend our regime. There are areas where we propose formalising best practice and making our expectations clearer. This should help firms operating globally.

The new sourcebook for AIFMs

1.17 We propose to create a new sourcebook, the Alternative Investment Funds sourcebook (ALTS) for managers of unauthorised funds. Like FUND, the ALTS chapters are thematic. But we have organised most chapters in a way that makes broad chronological sense, from classifying firms and funds, through organisational requirements to the stages of marketing a fund.

1.18 In future, most of the AIFM regime will be in FCA rules. We seek to get the regime right through ongoing extensive industry engagement and to have a period of stability in the rules. However, should we need to change or adapt the AIFM regime, the process for doing so will be quicker and nimbler than the current process that might require legislative changes.

Other relevant initiatives

Fund reporting for asset management entities (FRAME)

1.19 Alongside this CP, we have published a consultation paper on Fund Reporting for Asset Management Entities (FRAME - CP26/26: Fund Reporting for Asset Management Entities). We propose improved reporting requirements for fund managers. Better data will improve our ability to monitor firms' and market risks, and we have taken account of this while designing the new AIFM rules. We have also aligned some regulatory reporting with the data that firms share with investors.

1.20 AIFMD reporting requirements (Annex IV of the delegated regulation) currently mandate that AIFMs submit detailed, regular data on portfolio concentrations, risk profiles, liquidity, and leverage to national regulators. Full-scope firms have extensive reporting

requirements, covering hundreds of data fields. The Treasury will revoke the AIFMD reporting requirements and we will replace them with simplified, coherent reporting for all asset managers.

Prudential rules

1.21 Prudential requirements for AIFMs under the UK AIFMR regime are designed to ensure firms hold sufficient capital and liquidity to manage operational risks and potential professional negligence. Requirements vary based on whether the firm is a full-scope or small authorised UK AIFM. Aside from SEF and RVECA managers, small registered UK AIFMs have no prudential requirements and few other rules apply to them. As noted above, most registered firms will be brought into the authorised AIFM regime and will become subject to its rules.

1.22 This CP includes a discussion chapter on prudential considerations for AIFMs and other asset managers. We outline our thoughts on the current regime, in the wider context of reforms to the Prudential sourcebook for MiFID investment firms (MiFIDPRU). We suggest a new structure for prudential rules and possible ways to progress the reforms. At this stage, we welcome your feedback to inform a consultation on prudential rules later in 2026.

Remuneration

1.23 The AIFM regime requires firms to keep their remuneration policies and practices consistent with effective risk management. The rules are prescriptive and cover governance, the design and structure of remuneration, and disclosure to investors.

1.24 We are now able to create a single, simpler and more flexible code for asset managers, including medium-sized and large AIFMs, and some MiFID investment firms. We have published a consultation paper on the new remuneration code in parallel to this CP (CP26/27: Remuneration: Solo-regulated firms' rules reform).

Measuring success

1.25 There are several areas we will look at to assess whether our reforms are working.

1.26 Our changes could allow firms to stop lower-value compliance activities, allowing AIFMs to operate more efficiently, innovate by doing things differently, and compete while delivering our desired regulatory outcomes. We will want to monitor how firms have responded to the removal of prescription from parts of the regime by adapting their business models and changing their costs of compliance.

1.27 We want to reduce firm burdens through clearer rules and guidance. We will monitor the burden AIFMs' experience when interpreting our rules via supervisory intelligence, and the volumes of calls to our contact centre that indicate firms are finding it difficult to interpret rules (although this might increase during the initial familiarisation period).

1.28 We wish to reduce the risks of harm via changes in certain areas in which the regime will be tightened, such as in the registered population of firms. We want to reduce instances of firms mis-selling complex products to retail investors.

1.29 The effect of repealing certain requirements certain requirements can be hard to measure. We have tested our approach through a Discussion Paper, a Call for Input, engagement with impacted sectors, and considered different policy options. Continued engagement with industry and analysing the data will help us monitor outcomes. We are eager to hear from firms on how these reforms might affect their business and their compliance costs.

Next steps and timings

1.30 Send us your feedback on our consultation proposals and draft rules and on the discussion chapter on prudential reforms by 22 October 2026 using the contact details on the Contents page.

1.31 We seek feedback on the other discussion chapters by 18 September 2026. They cover:

- the depositary regime for unauthorised funds and related prime broker rules (chapters 14 and 15)
- removing the AIFM business restriction (chapter 17)

1.32 Once we have taken account of feedback to the discussion topics above, we will consult on our proposals and draft rules. In addition, the second consultation will cover reforms to the authorised AIF regimes (NURS, LTAF and QIS), to more clearly distinguish our rules between authorised and unauthorised funds, removing overlap and creating more consistency in authorised funds intended for retail investors.

1.33 We will consider all feedback, and subject to the responses, aim to publish a final policy statement and final Handbook rules in line with the Treasury's finalised Statutory Instrument (SI) in 2027.

1.34 We intend for the AIFM regime and asset management reporting regime to be implemented in 2028. There are certain areas where it might be possible to stop requiring firms to do certain things immediately when the final legislation and Policy Statement are published.

1.35 Pending feedback to this CP, and the Treasury's draft SI, we will consider where we can delete rules sooner than 2028 to realise the immediate benefits. We welcome feedback about the timeline and the time needed to implement different rules.

Chapter 2

Firm size thresholds

2.1 The current AIFM regime operates differently for firms based on the aggregate size of the AIFs that they manage. Firms below the thresholds are subject to fewer rules. The Treasury is planning to remove this legislative threshold and give us power to determine firm size thresholds within our own rules (excepting those firms detailed above in paragraphs 1.8 to 1.10). We want the regime for all AIFMs to be coherent but proportionate to firms' size.

2.2 This chapter shows our proposed approach to setting size thresholds for firms. The draft rules are set out in chapter 2 of the proposed ALTS sourcebook.

Feedback to the Call for Input

2.3 In the Call for Input, we explored moving to a 3-tier regime and changing to the simpler net asset value (NAV) calculation of size rather than leveraged assets under management. Respondents supported these changes.

2.4 We proposed thresholds of over £100m NAV for medium-sized firms and over £5bn NAV for large firms. We received consistent feedback that the small to medium-sized threshold was too low. Respondents argued that this is a reduction from the current €500m threshold for firms managing closed-ended, unleveraged AIFs. They felt that the medium-sized regime, while removing prescription compared with the current full-scope regime, would impose broader compliance requirements than smaller firms currently have.

2.5 In relation to the upper threshold, above which AIFMs are deemed large, most respondents agreed with the proposed level of £5bn. Some respondents argued that we should not have a large regime at all.

2.6 Respondents supported other aspects of our proposed approach including a more streamlined process for passing thresholds and removing prescription from firms that pass the small threshold.

Proposed firm size tiers and metrics

2.7 In response to feedback, we have reconsidered our approach.

2.8 We consider thresholds primarily enable us to apply rules in a proportionate way so that larger firms that might pose greater risks to market integrity are subject to standards to manage those risks.

2.9 We have decided to set the threshold for smaller AIFMs to transition to medium AIFMs at £750m NAV, rather than our initial proposal of £100m NAV. We think this strikes the

right balance between setting high standards and mitigating the risks posed by this population of firms. It should support firms as they grow within the small regime before transitioning to the larger regimes. While broadening the scope of the small regime, we want to ensure the rules are comprehensive but proportionate to firms at this scale.

2.10 Where we consider that rules are intended to mitigate market integrity risk, we plan to apply them proportionally to the risks that a firm creates. For example, as in the chapter on risk management, we propose setting only high-level risk management requirements for all managers of closed-ended unleveraged AIFs, reflecting the risks within this type of fund, and additional rules for leveraged funds. Elsewhere we apply investor disclosure rules based on investor types, as opposed to the AIFM's size, to ensure sufficient consumer protection.

2.11 We are consulting on an upper threshold of £5bn NAV, above which firms will be considered large AIFMs, reflecting our initial proposal in the Call for Input. Such firms, with a large potential market impact based on their size, pose sufficient risk to be subject to a more prescriptive regime, which sets high standards of governance and oversight.

2.12 Smaller firms might voluntarily decide to apply parts of the prescriptive rules for large firms without formally entering a different size classification. Small and medium-sized firms may notify us via a firm (SUP15) notification if they wish to formally elect to a stricter size standard and be supervised accordingly.

2.13 As proposed, we are moving away from a formulaic, leverage-based metric to determine a firm's size classification. We still expect firms using high levels of leverage to operate to appropriate standards, and those with leveraged funds to manage their risks. Our rules, particularly in risk management, reflect this. We also plan to collect data to enable us to monitor firms using leverage more effectively. Our approach is explained in chapter 5 on leverage and in the FRAME CP.

Calculating a firm's size

2.14 A firm must aggregate the NAV of all AIFs that it manages to determine its size (whether it is a small, medium or large AIFM). We propose requiring it to count CIS and non-CIS AIFs, and any residual (non-AIF, non-UCITS) CIS, in the assets it manages so that the calculation reflects its true size. Firms should compare their aggregated assets against the size thresholds and classify themselves accordingly.

2.15 A firm will be required to calculate and determine its size whenever there is a material change to the value of its business which may impact its AIFM classification, and whenever there is a significant change in the value of assets being managed by the firm. A material change is a defined term in regulation and refers to a non-exhaustive list of events that a firm must respond to.

2.16 While a significant change in value is not a defined term, firms should exercise good judgement in deciding when a change in investments might cause a change in the firm's size. An open-ended fund must be valued at least once a month or at such lesser frequency as permitted under the valuation rules.

2.17 To calculate its size, a firm will need to identify all the AIFs it manages and any residual CISs it operates. All the assets and liabilities will then need to be valued in accordance with the valuation rules. The firm will need to calculate the mean NAV for each AIF averaged over the most recent quarter of a calendar year and aggregate the values. The firm will then be able to determine whether it is a small, medium or large AIFM. If a firm's size classification changes, then it will be required to notify us via a SUP15 firm material change notification form.

2.18 When a firm increases beyond a size threshold, it will have 6 months after the date of notification to comply with any new obligations that apply to its new size classification. If a depositary is required, as when a firm moves from small to medium or large category, firms will have 12 months from the date of notification to comply with the depositary requirement. CASS 6 custody rules would continue to apply while a firm appoints a depositary. Our intention is to moderate some of the 'cliff-edge' effects that firms have pointed to in the current regime when passing a threshold and immediately needing to comply with new rules.

2.19 If a firm increases size classification more than once in a calendar year due to changes in its assets, then the 6-month period for general compliance and the 12-month period to appoint a depositary, if relevant, begin from the start of the next calendar year. Our intention is to moderate the potential for volatility in the value of a firm's assets requiring firms to comply rapidly with different rules.

Notifying us when firms cross a threshold

2.20 When a firm crosses a threshold, whether to a larger or smaller size category, it will not have to apply for any change in authorisation status, permissions or requirements. Instead, we expect firms to notify us that they have crossed the threshold. This should remove the current burden of pursuing a Variation of Permissions or Requirements when crossing a threshold and reducing the cliff-edge effects of doing so.

2.21 We propose that firms notify us of their change in size classification using a firm SUP 15 material change form. In addition, we propose to collect regular data on firms' size via periodic reporting to us as detailed in the FRAME CP.

2.22 Firms must notify us if they wish to voluntarily elect a higher AIFM classification and we will supervise the firm accordingly against the relevant rules. Firms can only elect to change size classification once per calendar year, including if they wish to elect to go back down to a lower classification. The Financial Services Register will show a firm's permission to manage an AIF but not its size classification at any given time. So, changes in a firm's size will not entail a change in its information on the FCA Register.

How rules will work for firms of different size

2.23 We have aimed to write rules for medium and large AIFMs that build on our expectations of all firms, rather than setting different fundamental expectations for smaller and larger ones. The rules we have proposed for small AIFMs are those we consider essential for firms of any size. Our rules for medium and large firms build on these, making our fundamental expectations consistent across firms of all sizes. Small firms can use those rules that do not apply to them but apply to medium-sized firms as broad principles to serve as guidance. Similarly, medium-sized firms can use the rules for larger firms to serve as guidance.

2.24 We have aimed to calibrate the rules so that they reflect our supervisory expectations of firms of different size. The rules for large AIFMs set standards equivalent to the current full-scope regime, with modifications reflecting our experience of areas within the rules that we consider are unnecessary or do not work well.

2.25 Small firms do not need to appoint a depositary for each AIF they manage (although they must comply with CASS 6 custody rules), but medium-sized firms must. The process of selecting and appointing a depositary for the first time may be lengthy, especially if it involves re-registering custody assets in the name of the depositary or its appointed custodian. As noted above, we propose to allow small AIFMs crossing the threshold an extended period of up to a year from the point at which they become medium AIFMs, to complete this process. We set out our initial thinking on the depositary requirements in chapter 14.

Consultation questions

Question 1: **Do you agree with our proposed size calculation, i.e. the aggregate NAV of all CIS and non-CIS AIFs and non-AIF CIS, managed by the AIFM?**

Question 2: **Do our proposals for firms moving between thresholds, including SUP15 notifications and a delayed application of new rules, remove the cliff edge effects in the current regime?**

Chapter 3

Residual CIS operators

3.1 Operating a collective investment scheme (CIS) has always been a regulated activity under the modern regulatory system. When AIFMD was implemented, the new definition of an AIF overlapped with, but did not replace, the existing definition of a CIS in FSMA. Although many CISs are also AIFs, this legal overlap created the possibility that some types of unregulated scheme would be neither AIFs nor UCITS – we refer to them as a 'residual CIS' and to the firms operating them as 'residual CIS operators'.

3.2 The previous regulatory framework applying to a residual CIS operator was retained following the implementation of AIFMD.

Definition of an AIF and re-categorisation of funds

3.3 The complexity of the differing definitions of CIS and AIF has resulted in some CIS that should, in our view, be categorised as AIFs instead being categorised by firms as CISs only. Operators of CISs that are not AIFs do not have to comply with the same regulatory requirements as AIFMs, resulting in less transparency, with risks to market integrity and investor protection.

3.4 The Treasury is currently consulting on amending the AIF definition in legislation, to clarify grey areas that have led to different interpretations of the definition of an AIF. If the definition of an AIF changes as proposed, some current CISs will fall within the revised AIF definition and will be required by law to be re-categorised as AIFs.

3.5 In this situation, the re-categorised fund would be treated as a new AIF under management for a firm with the existing permission of managing an AIF, and the firm will be required to notify us and the investors in the fund. If the new AIF is managed by a residual CIS operator that does not have the Part 4A permission of managing an AIF, the firm will need to apply to us for that permission and notify investors in the fund.

3.6 It is firms' responsibility to determine which regulated activities they are carrying on and need Part 4A permission for, and to take the necessary steps to engage with us. However, we may proactively engage with residual CIS operators to understand how they will be affected if the Treasury changes the definition of an AIF as consulted on, and how those firms will respond to the changed regulatory landscape. It is likely that the Treasury will allow reasonable time for firms that are affected by the changes to take the necessary steps under transitional arrangements.

The residual CIS operator regime

3.7 We need to consider what constitutes a proportionate regime for residual CIS operators that will not be AIFMs in the future regime. If, as we think likely, a number of CISs will be reclassified as AIFs in future, those that remain within the residual CIS definition are

less likely to have the typical characteristics of a pooled investment vehicle. They may include, for example, carried interest vehicles linked to private capital investments, vehicles with a single investor, joint venture arrangements, or arrangements to enable interests in a specific, pre-determined asset to be held efficiently by multiple persons. Consequently, there may not be any ongoing investment management activity taking place in relation to some of these vehicles.

3.8 The application of our rules needs to reflect the degree of risk that regulated activities pose to market integrity and consumer protection. Where residual CIS operation is being carried out primarily as an administrative activity, without risk management or portfolio management taking place, and where the vehicle is not marketed or made available to retail investors, the risks are likely to be relatively low. It might be disproportionate to apply enhanced rules to all firms operating such vehicles, or to fund operators that are acting on behalf of an AIFM.

3.9 Our proposals in this CP are presented on the basis that some residual CISs are being, or may in future be, operated as vehicles that pose similar risks to AIFs. We want to gather more information about the scope and activities of residual CIS operators so that we can analyse the risks they pose. We may modify the proposed scope of the application of our rules to residual CIS operators in the light of this analysis.

Regulatory reporting requirements

3.10 Currently, a residual CIS operator is not required to provide regulatory reporting on, for example, the scale of the CIS business it operates, the type of investors in a scheme, or details of the scheme's exposure to asset classes. This lack of information impedes our regulatory oversight of CISs that are managed by these firms.

3.11 We think it is important that we have visibility of the whole of the market, including residual CIS operators, for market integrity purposes. Receiving basic datasets from this population of firms would allow us to monitor the market and wider potential systemic risk. Therefore, as set out in the FRAME CP on proposed regulatory reporting requirements for asset managers, we are proposing that residual CIS operators should submit a limited set of data to us.

3.12 This data would include the number of residual CIS they operate, the gross notional value of their funds, as well as the purpose of each of the investment vehicles, such as a carried interest vehicle. The operator would then be required to report periodically, typically annually, on any changes to that information.

Operating conditions

3.13 Residual CIS operators are subject to rules and guidance in SYSC and COBS that govern their scheme management activities. Many rules that apply to AIFs apply only as guidance to CIS. We will consider whether operating conditions are right for some or all CIS operators. We welcome views on whether any changes are needed.

Disclosure requirements

3.14 A residual CIS operator is prohibited from accepting retail investors in the fund unless it has taken reasonable steps to offer and provide fund documents on request. An unregulated CIS is categorised as a non-mass market investment (NMMI), and its promotion to retail investors is only permitted in compliance with financial promotion rules or within the exemptions of the Financial Promotions Order.

3.15 Rules in COBS 18.5, COBS 18.5A and COBS 16.3 apply disclosure requirements to residual CIS operators and to AIFMs when they deal with investors. The requirements concern pre-contractual information for prospective investors and ongoing periodic statements for investors who are retail clients. We intend to retain some of these rules, in an updated and streamlined form, as part of the new ALTS sourcebook. They will apply to any residual CIS that is promoted to, or accepts investment from, a retail investor.

3.16 We consider that, where a residual CIS may involve raising of capital from investors, it is appropriate to ensure adequate consumer protection by requiring pre-contractual disclosures and annual information relating to the CIS. So, we propose to extend all the rules in chapters 9 and 10 of ALTS, as they relate to either professional investors or retail investors in an AIF, to certain kinds of residual CIS.

3.17 We will define the types of residual CIS to which this enhanced disclosure requirement does not apply. They include an excluded entity – any vehicle that is exempted by law from the definition of an AIF, e.g. an employee participation scheme. We also propose to disapply the requirement from any other residual CIS that meets our proposed Glossary definitions of a carried interest vehicle, a joint venture vehicle, or a single investor vehicle.

3.18 Any residual CIS that does not fall within one or more of these exemptions will be in scope of the investor disclosure rules described above. Details are set out in chapters 9 and 10 of this CP.

Consultation questions

Question 3: **Do you foresee any challenges and practical issues because of the Treasury's clarification of the definition of an AIF, and the potential for some non-AIF CISs to be reclassified as AIFs?**

Question 4: **Do you think that the SYSC and COBS rules that currently serve as guidance should be applied as rules to residual CIS operators? Please explain why or why not. Are there any other rules that you think we should consider applying to residual CIS operators?**

Question 5: **Do you have any comments on our proposal to apply enhanced investor disclosure requirements to some categories of residual CIS?**

Chapter 4

Valuation

4.1 This chapter sets out our planned approach to rules on valuation. These are important because many AIFs invest in assets that are not straightforward to value. The proposed rules are like the existing AIFMD rules on valuation. They set out expectations for AIFMs of all sizes. They introduce valuation rules for firms that are currently small authorised AIFMs and not subject to valuation rules, reflecting our baseline expectations of all firms. The rules provide proportionality for current full-scope firms that will become small or medium-sized.

4.2 The rules reflect our experience supervising AIFMs, including the guidance we issued in 2025 after a multi-firm review. The rules are also fully aligned with the recently published IOSCO standards on valuation. Our draft rules are set out in chapter 6 of the proposed ALTS sourcebook.

Box 1: Supervisory findings
(Private market valuation practices multi-firm review)

In March 2025 we published findings from a multi-firm supervisory review of private market valuation practices. The review assessed the robustness of firms' valuation processes and governance. It found that robust valuation processes were those that could show evidence of independence, expertise, transparency and consistency.

We saw examples of good practice including:

- high quality of reporting to investors
- documentation of valuations
- the use of third-party valuation advisers to introduce additional independence and expertise
- established valuation methodologies being applied consistently

We also identified areas where firms should improve including:

- more comprehensively identifying and documenting valuation related conflicts (not only fees and remuneration, but also conflicts linked to marketing, secured borrowing, asset transfers, redemptions and subscriptions, and incentives relating to uplifts and volatility)
- ensuring sufficient independence in valuation decision making and committee voting membership
- implementing defined processes (with events and thresholds) for ad hoc valuations during market or asset specific events

Proposed approach to rules on valuation

4.3 Reliable and objective valuation is important to protect investor interests. It helps us achieve our statutory objective of securing protection for consumers. AIFMs hold a wide range of assets and can use different methodologies to value them. Many assets held by AIFs are straightforward to value using market prices. But others are harder to value. Although we require firms to use appropriate valuation methodologies and exercise judgement around inputs, our rules do not set detailed requirements on which methodologies they must use. Rather, they set procedural requirements around the basis and standard of valuation we expect AIFMs to adhere to.

4.4 We want all AIFMs to value assets properly and in good faith. We want them to carry out valuations impartially and with due skill, care and diligence. We want AIFMs to manage the conflicts of interest associated with valuations. We want to see robust governance around valuations.

4.5 In line with our findings in the supervisory review, we propose to require firms to keep records of their decision-making processes, and to consider when to undertake ad hoc valuations, during market or asset-specific events, if they have evidence that the current valuation no longer represents the asset's fair value.

Independent valuers

4.6 We have received feedback that the function of external valuers is not working well in the UK market. We note that the Treasury proposes to remove statutory provisions relating to external valuers, including strict liability for valuations. This means that there will no longer be legal obligations placed on a firm that acts as the external valuer of all the assets and liabilities of an AIF and produces the NAV.

4.7 We want to enable AIFMs to use independent third-party valuers to value either specific assets or the entire portfolio. Because there will no longer be statutory requirements around external valuers, we propose that AIFMs only appoint an independent valuer if it meets certain criteria. These include that the valuer has the knowledge, skills and experience to value the relevant assets, sufficient personnel and technical resources, and can act independently of the AIFM. This reflects the current requirement in article 73 of the Level 2 Regulation for external valuers to provide professional guarantees around these matters.

Proportionality

4.8 In our multi-firm review, we found that firms had different levels of independence in their valuation processes. Our rules reflect our expectations for all AIFMs, that valuations must be carried out impartially and with proper management of conflicts of interest.

4.9 The current rules require functional independence. In our experience, a fully autonomous valuation function that has all the necessary skills to come to independent

judgements on valuations across a wide range of assets is rarely seen outside the largest AIFMs. Smaller AIFMs achieve independence in different ways. We propose to set clear and realistic standards that achieve our objectives. So, for small and medium AIFMs, the rules would require all appropriate steps to manage and mitigate the risks of conflicts affecting a fund's investors, even where there is not a fully independent valuation function within the organisation.

4.10 We have also shared our expectations on the level of detail that we expect to see in valuation policies and procedures from firms of different sizes. We have set expectations for the largest firms in line with the current AIFMD-derived rules. For medium-sized firms, we have reduced the detailed rules that they must comply with. For small firms, we set out only the principle that they must have valuation policies and procedures and must regularly review them. Small and medium firms may consider the more detailed rules as guidance, but they do not have to comply with detailed provisions, which may not be relevant or proportionate to their business.

Small AIFMs

4.11 We propose to apply valuation rules to all AIFMs. This reflects that investors in AIFs managed by AIFMs of any size are entitled to expect basic standards. Under the current rules, small authorised AIFMs are not subject to any specific rules around valuation. We have found that, while most such firms adhere to good standards that often go well beyond the baseline we propose in our new rules, some firms fail to meet basic standards. This can lead to consumer harm. Under the current regime, where we see practices that fall below basic standards, we challenge firms on how they comply with wider principles around systems and controls, and how they meet our threshold conditions.

4.12 The rules we propose for small AIFMs reflect the standards we already apply when authorising and supervising them. We expect most small firms already comply with the rules, but it may be helpful to articulate our expectations so that firms understand what they should be doing. This will also mean that, as firms grow, they can understand how our expectations change for larger firms, rather than suddenly becoming subject to detailed and prescriptive requirements.

Alignment with IOSCO standards

4.13 We have made some minor changes to the rules to reflect the recently published IOSCO standards on valuation. The current rules say that valuations must be done on a fair and appropriate basis. We retain this principle but also clarify that we expect AIF investments to be valued at their fair value. This means the amount for which they could be exchanged (or, in the case of liabilities, transferred or settled) between knowledgeable willing parties in an arm's length transaction.

4.14 Similar definitions of fair value are used elsewhere in regulation (for example, for insurance firms).We consider that this wording meets the policy intention here. It is also aligned with the IFRS accounting definition of fair value: the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Consultation questions

Question 6: **Should AIFMs only appoint an independent valuer subject to certain conditions? If so, do you agree with the conditions that we have proposed?**

Question 7: **Do the baseline rules we propose represent an appropriate standard to set for all AIFMs?**

Chapter 5

Leverage calculations

5.1 This chapter details how we intend to address the risks associated with leverage in the reformed regime. It outlines how we plan to remove complexity from the current regime and to address leverage risks.

5.2 We consider the risks emerging from leverage primarily in relation to our market integrity objective: ensuring orderly functioning markets and mitigating systemic risks that might spill over from disorderly market behaviour or opaque risks. It is also important that investors understand the risks of their investments and how leverage can exacerbate liquidity mismatches, potentially making it difficult for them to redeem their investments.

5.3 Our draft rules in ALTS 2 define the classification of funds including those that are leveraged. ALTS 5 and 7 detail our proposed risk management and liquidity rules to different types of funds. The FRAME CP contains details about the type of information that we propose to receive in relation to leveraged funds.

Leverage in the current regime

5.4 Many AIFMs use leverage for different purposes in relation to their AIFs. Firms might borrow in various ways or use derivatives for investment purposes, to seek to amplify or create a different profile for their fund's returns. Firms might also use derivatives to manage their portfolios efficiently and for risk management, including managing currency and interest rate risks associated with their investments.

5.5 The AIFM regime defines the use of leverage as 'any method by which the exposure of an AIF is increased, whether through borrowing of cash or securities, or leverage embedded in derivative positions or by any other means.' We intend to retain the current Handbook definition of leverage.

Leverage for investment purposes and the hedging exemption

5.6 We recognise that funds can use derivatives to hedge out risks that are not part of their core investment strategies. We do not view this as a fund incurring a magnitude of counterparty risk via derivatives compared with a fund using derivatives for investment purposes. An example of a fund using derivatives to hedge out risks is a fund that has GBP share classes, buys USD assets and swaps these back to its base currency. The same is true of a floating-rate fund buying fixed-rate bonds and swapping them back to floating rate. Funds that use derivatives only for hedging would be classified as 'unleveraged' for our risk management and liquidity risk management rules, as we describe in the following two chapters.

5.7 Conversely, we consider a fund seeking to profit from the differential between fixed-rate bonds and the swap rate to be using derivatives for investment purposes, and incurring leverage risk. Likewise, if funds borrow to invest, then they are not using leverage for risk hedging purposes. In either instance, the fund must apply the relevant risk management and liquidity risk management rules for leveraged AIFs.

5.8 We considered introducing a de minimis amount of leverage for investment purposes into our risk management rules and then scaling the requirements depending on whether the AIF's leverage exceeded that threshold. As detailed below, we propose to remove leverage calculations to simplify the regime. Introducing a de minimis level would require us to re-introduce a leverage calculation and threshold and would make the regime unnecessarily complex. Furthermore, we believe the rules reflect the way that a well-managed firm should manage its risks. We welcome feedback on these options and others that respondents might propose.

Risk management in relation to leverage

5.9 All firms that use leverage should understand and manage those risks. The current regime imposes such rules on all AIFMs, and not solely those that are leveraged or that exceed a leverage threshold. The next chapter looks at how we propose to tailor risk management rules to different types of AIF, including funds that use leverage.

Leverage calculations

5.10 The current regime has two mandatory calculations, serving different purposes, for firms that use leverage. The commitment method requires an AIFM to calculate a fund's leverage by measuring its total exposure relative to its NAV, accounting for netting and hedging. It converts derivative positions into equivalent underlying asset exposures to determine total risk, focusing on market exposure rather than just borrowed cash.

5.11 The commitment method is currently used to determine which AIFMs are deemed 'substantially leveraged' and should be subject to additional regulatory reporting. The reporting fields are detailed in Annex IV of the current rules. The rules classify an AIFM as "substantially leveraged" if its exposures, according to the commitment method, are three times the value of its NAV.

5.12 Under the current regime, firms with leveraged AIFs must also calculate their leverage using the gross method. Under AIFMD, gross leverage is defined as the ratio between an AIF's total exposure and its NAV, calculated by summing the absolute values of all long and short positions. It measures the total volume of assets managed, including those derived from borrowing or derivatives. The gross method is a simpler calculation than the commitment method. The result must be disclosed to the funds' investors for comparability between funds. The disclosure requirement applies not only to substantially leveraged AIFMs but to all leveraged AIFMs.

5.13 Firms have told us that the calculations are complex and don't always accurately represent a firm's leverage and the risks it might pose to markets and consumers. We agree these measures are complicated, burdensome to calculate, open to interpretation, and useful only at a very high level, as they attempt to 'add up' different types of leverage. We propose no longer asking managers to calculate these values.

Disclosing leverage to investors

5.14 The rationale for disclosing leverage to investors is to help them better understand the risks of their particular investment. Leverage is used differently in different AIF structures, asset classes and strategies, ranging from high-frequency derivative usage in hedge funds to debt-financed acquisitions in private equity. Investors are unable to directly compare the use of leverage within one AIF with another AIF, simply based on the gross calculation.

5.15 Therefore, we do not think that a 'one-size-fits-all' leverage calculation is helpful to investors, as the leverage risk is not comparable across different strategies. So, we propose removing the gross calculation method and instead propose requiring firms to disclose the quantum of their leverage to investors using a method or methods that are best suited to their fund and investment strategy. Disclosure must be clear, fair and not misleading for investors. As detailed in the AIFM disclosure rules in chapter 11 firms must disclose, in the pre-investment information they make available to investors, how they use (or intend to use) leverage for an AIF

Reporting leverage to us

5.16 The commitment method is currently used to compare firms' levered assets to a 'substantially leveraged' threshold to determine whether full-scope firms should submit more information to us about their risks under Annex IV reporting. Beyond the complexity of doing the calculation, and questions about the accuracy of the results, the associated rules add unnecessary complexity to the regime.

5.17 We considered adjusting the substantially leveraged threshold for all AIFMs, or having different leverage thresholds for firms managing different types of AIF. There are various arguments for setting the leverage threshold at different levels of leveraged assets or ratios for hedge funds and for illiquid funds, to better reflect their risks to markets. But requiring some firms and not others to report their risks can appear arbitrary. Whether firms, individually or in aggregate, might pose risks to markets can depend on a range of factors and not solely the scale of their leveraged assets – for instance, the size of a firm's positions compared to the market it operates in.

5.18 We think that all leveraged firms should report relatively simple and streamlined data to us, to allow us to apply calculations to monitor systemic risk within AIFs, AIFMs and across the market. Therefore, we propose to remove the commitment method calculation and the substantially leveraged threshold to reduce complexity for firms

and improve our ability to monitor leverage risks, as we are already required to do by the AIFMR legislation. The parallel FRAME CP details the reporting requirements.

Consultation questions

Question 8: **Should we remove the gross and/or commitment method calculations or would you prefer the regime to retain an adjusted version of the calculations?**

Question 9: **Does a hedging exemption for closed-ended AIFs that use leverage only for hedging purposes work well to tailor our risk management and liquidity rules? If so, how should hedging be defined?**

Question 10: **Should we allow AIFs to undertake a de minimis level of leverage (for investment purposes)? If so, how should the de minimis level be calculated? What is the appropriate threshold?**

Question 11: **Can you foresee any benefits or challenges in allowing firms to disclose to a fund's investors a leverage method that is best suited to the AIF?**

Chapter 6

Risk management

6.1 This chapter explains our approach to revising the rules on risk management: how we plan to apply them proportionately to firms of different sizes, and to tailor them to firms managing different types of AIF.

6.2 Risk management is a core requirement for AIFMs. Good risk management helps not only to protect investors in AIFs, but also to reduce the risk that the AIFM's activities contribute to system-wide risk, particularly given the role of these firms in core sterling markets such as the gilt cash and repo markets.

6.3 We want a clearer, more proportionate and more effective regime for AIFMs. Our aim is to set rules that support sound risk management in the interests of investors, appropriate independent oversight of portfolio risk-taking, and for firms to identify and manage risks to market integrity. We want to remove unnecessary complexity, better tailor the rules to firms' size and activities, and maintain a framework that is consistent with international standards while supporting growth and competition.

6.4 Our draft rules are set out in chapter 5 of the proposed ALTS sourcebook.

Call for input

6.5 We described in our Call for Input that the current AIFMD-derived rules were developed for a broad and diverse population of firms, but parts of the framework appear to have been designed with more liquid, leveraged and trading-oriented fund strategies in mind. This does not work well with the activities of many AIFMs, particularly those managing private equity, real assets and other portfolios where the risks are largely idiosyncratic to individual investments.

Feedback to the Call for Input

6.6 Respondents supported an activity-specific and tiered regime for risk management. Many stressed that the rules do not work for funds that invest in real estate and private equity. They also asked for flexibility on governance structures for smaller firms, for proportionality to be built into the rules, and for us to avoid duplicating requirements elsewhere.

Our response to the feedback

6.7 We agree with respondents that the regime should be more proportionate and better tailored to firms' activities. Based on the existing distinction for categories of AIFM, we are proposing a framework that differentiates between managers of closed-ended, unleveraged AIFs; closed-ended leveraged AIFs; and open-ended AIFs. We are also setting different requirements for firms of different size, where the obligations are more detailed and specific as firms get larger.

6.8 Because of our overarching approach to the use of leverage described in the previous chapter, we have built proportionality into the rules rather than set out a different framework for firms that are highly leveraged.

6.9 Our proposed reforms seek to distinguish more clearly between baseline standards of risk management that should apply to all AIFMs, and additional governance and systems and controls requirements that are appropriate for firms managing open-ended or closed-ended leveraged AIFs.

Our proposed approach

6.10 AIFMs should identify the material risks in their AIFs, manage those risks and apply appropriate diligence in selecting investments. Firms managing AIFs whose business models create a greater potential for harm, for example through leverage, liquidity mismatch or wider market footprint, should be subject to more detailed rules on governance, oversight, risk limits and risk measurement.

6.11 We consider that our rules are compatible with those in other jurisdictions and should not create unnecessary dual compliance for firms operating across borders. We also set standards in line with IOSCO's international standards for the regulation of hedge funds.

Baseline requirements

6.12 When selecting investments, all AIFMs should carry out a level of research and due diligence that matches the type of investment. They should have sufficient knowledge and a reasonable understanding of each investment.

6.13 We think these requirements are appropriate for all firms. They set a minimum standard that reflects what investors should expect of an AIFM managing assets on their behalf, while avoiding unnecessary detail for firms whose activities do not justify a more prescriptive regime. For AIFMs that manage only closed-ended unleveraged AIFs, these are the only risk management rules that will apply.

6.14 In response to our 2023 Discussion Paper, we had feedback that we should not set overly prescriptive rules around investment due diligence. So, we have decided not to bring across the detailed provisions around due diligence when investing in assets of limited liquidity that are in article 19 of the Level 2 Regulation. We consider these set an unnecessary level of prescription that is not necessary for us to advance our objectives in this area.

Additional rules for firms managing AIFs other than closed-ended, unleveraged AIFs

6.15 For firms that manage AIFs other than closed-ended, unleveraged AIFs, we propose to require the AIFM to establish and maintain a risk management function. We also propose rules requiring that function to be hierarchically and functionally independent from the portfolio management function, subject to proportionality for small firms, and to have

systems, processes and controls that enable it to identify, measure and monitor material risks in relation to each AIF it manages. The function must also have authority to take such action as is necessary or appropriate to manage risks.

6.16 We consider these requirements necessary where the nature of the AIF means that risks are more likely to warrant a distinct second-line function. This includes open-ended AIFs and other AIFs whose structure or activities mean that independent challenge is more important. For small firms, we think a degree of proportionality remains appropriate. For medium-sized and large firms, we think more formal separation is justified.

Medium firms

6.17 For medium firms and above, except those only managing closed-ended, unleveraged AIFs, we propose additional requirements. These include: full functional and hierarchical separation of risk management from portfolio management; a documented risk management policy; a requirement to manage conflicts of interest associated with the independent performance of the risk management function; rules on setting risk limits in relation to material risks; and a requirement to review periodically the risk management function and its policy, systems, processes and controls.

6.18 The proposed risk management policy would need to explain how the AIFM identifies and monitors risks to each AIF, how it will comply with the rules, how it safeguards the independence of the risk management function, and when and how that function will act to manage risks. We think these are the core elements a medium or large firm should articulate. The rules preserve the core discipline of the current regime but in a shorter and more direct form.

Large firms

6.19 For large firms, we propose to retain a more detailed set of requirements that replicate the substantive standards of the Level 2 Regulation, while simplifying wording where possible. These include rules requiring the risk management function to monitor compliance with risk limits, address risks outside those limits, and report regularly to senior management and the governing body on risks to AIFs and on the effectiveness of risk management processes and controls. We also propose a minimum annual review requirement, with additional review where there has been a material change to the AIFM or the AIF.

6.20 For these firms, we also propose more detailed conditions for achieving functional and hierarchical separation (ensuring the risk management function is independent of other functions and has directive power over them in certain circumstances), including restrictions on supervision, and safeguards to manage conflicts of interest. These include requirements that decisions are based on reliable data, that the function is subject to independent review, that it is represented with sufficient authority in governance, and that conflicting duties are properly segregated. We also propose to retain requirements on internal audit or external review and on the operation of risk committees.

6.21 We think this approach strikes the right balance. For the largest firms, a more detailed governance framework remains justified. For smaller and less complex firms, we do not think that it is proportionate to expect them to comply with such detailed requirements, although they might choose to do so. Firms complying with the current risk management rules should already meet the standards required by the new regime.

Risks to market integrity and financial stability

6.22 The current regime alludes to market integrity and financial stability risks but is not always clear about our expectations of firms. So, we have set out the most important areas of risks to market integrity or financial stability that we think firms should consider:

- The use of leverage – we want firms to consider whether their use of leverage could, in adverse circumstances, force them to close out positions rapidly, and to monitor and manage this risk.
- Concentration of positions – we want firms to assess if their activities involve them taking concentrated positions in issues, issuers or markets. Where a market is relatively small, even a small firm could become a significant part of it. We have seen several instances where a market is disrupted because an investor has taken positions that represent a significant share of it. We expect firms to understand, monitor and manage the risks associated with taking large positions in a market.
- Use of models and other automated activities – some investment strategies rely on models or other forms of automated trading. We want firms to identify, monitor and manage the risks associated with such activities. Increasing use of models driven by artificial intelligence could increase the risk to market integrity if models do not behave as expected or can act faster than they can be controlled. We expect firms using these investment strategies to consider the risks.

Consultation questions

Question 12: **Should all AIFMs be subject to baseline standards, with additional requirements applying according to the type of AIF managed and the size of the firm? If not, what alternative approach would you suggest?**

Question 13: **Should firms managing only closed-ended, unleveraged AIFs be subject only to baseline risk management requirements? If not, what alternative approach would better reflect the risks posed by those firms?**

Question 14: **Should the largest firms should remain subject to a more detailed framework that preserves the substantive standards of the current regime, while simplifying the drafting where possible? If not, why not?**

Chapter 7

Liquidity risk management

7.1 In recent years, international standard-setting bodies have paid attention to effective liquidity risk management by fund managers. We have worked with IOSCO and the FSB to develop these new international standards and reviewed our existing liquidity risk management rules.

7.2 Under the existing AIFMD regime, a full-scope UK AIFM must keep the investment strategy, liquidity profile and redemption policy of each AIF it manages consistent, regardless of whether the AIF is authorised. This principle underscores the importance of liquidity risk management as a core responsibility of an AIFM, allowing investors to redeem in line with the terms on which they chose to invest and the AIFM to meet its obligations to its counterparties.

7.3 We consider that the existing liquidity risk management rules for AIFMs are broadly consistent with the IOSCO and FSB recommendations. Where AIFMs are not managing retail-focused authorised funds (i.e, managing unauthorised AIFs), they should have greater flexibility to decide the processes and procedures appropriate for the AIFs they manage.

7.4 With this in mind, we propose targeted changes to the liquidity framework AIFMs operate in, meaning new simplified rules for small UK AIFMs, reduced prescription for those current full-scope AIFMs that will move into the small UK AIFM category, and rules equivalent to the current full-scope regime for medium and large UK AIFMs. Our draft rules are set out in chapter 7 of the proposed ALTS sourcebook.

Call for Input

7.5 Our Call for Input did not detail our thinking on liquidity risk management. However, we did say that we were considering whether to disapply the requirements in FUND 3.6 (Liquidity) where a listed closed-ended investment fund uses an insignificant amount of leverage. The liquidity rules currently apply to an AIFM of a leveraged closed-ended AIF and an open-ended AIF regardless of whether the AIF has any degree of leverage.

7.6 We said that listed closed-ended investment funds do not present liquidity risk caused by investor redemptions. So, where these firms have an insignificant level of leverage, the liquidity risk should be sufficiently low that disapplying these rules would not have a material impact on investors' or market confidence.

Feedback

7.7 In response, respondents believed there is a significant difference in risk profile between AIFs investing primarily in illiquid assets and those with exposure to more liquid assets. Respondents felt that the current regime's 'one-size fits-all' approach creates a disproportionate compliance burden for many AIFMs, given that requirements were originally designed with more liquid assets in mind.

7.8 Respondents therefore supported a more proportionate regulatory framework, especially for firms with AIFs focused on long-term, closed-ended, illiquid strategies. However, they also noted that, while proportionality is positive, size alone should not be the only factor that determines the liquidity risk management requirements that apply to an AIFM, and we must also consider adequately protecting consumers in our rules.

7.9 Respondents were generally in favour of disapplying liquidity risk management rules for some closed-ended investment funds on the basis that these are listed on exchanges, trade like other listed investments and do not have redemption risk.

Our response

7.10 We share industry stakeholders' view that we should deliver proportionality through the new regime, but we believe that flexibility in the existing rules allows AIFMs to design liquidity risk management systems that are appropriate for the funds they manage.

7.11 We do not propose to place substantially different requirements on firms depending on whether an AIF's portfolio is predominantly liquid or illiquid, as we consider that this could make the regime overly complex. Most AIFs will hold assets with a broad range of liquidity profiles. However, we agree that firm size alone should not determine the rules which an AIFM should follow.

7.12 We propose that an AIF using leverage for investment purposes, as described in chapter 5 on leverage calculations, should be treated as leveraged under our liquidity rules. We do not propose to introduce leverage thresholds, including a de minimis level, before a fund is deemed leveraged. Instead, we propose to introduce a hedging exemption for closed-ended funds. These vehicles have no redemption risk due to liquidity mismatches, nor any margin risk due to the use of derivatives for investment purposes and therefore would not be subject to our liquidity rules. The liquidity risk management rules would apply equally to listed closed-ended investment funds as to other closed-ended AIFs where leverage is used for investment purposes.

The current rules and why change is needed

7.13 Currently the liquidity risk management rules apply only to full-scope UK AIFMs, which must have an appropriate liquidity management system and procedures, monitor liquidity risks and conduct stress tests.

7.14 In general, we believe the existing full-scope regime provides for a high standard of liquidity risk management, complemented by the relevant COLL rules when an AIFM manages an authorised AIF. As such, we do not consider that wholesale reform of the liquidity risk management rules is warranted for firms that are currently full-scope UK AIFMs.

7.15 In December 2025, we consulted on revised rules and new guidance to enhance the liquidity risk management framework for UCITS schemes and non-UCITS retail schemes (NURS) as retail-focused funds. We will publish a separate Policy Statement and final rules for these funds. As mentioned in CP 25/38, in coming months we also intend to

consult on proposals for NURS invested in inherently illiquid assets, such as real estate, to have minimum notice periods.

7.16 The rules in FUND 3.6 and Articles 46 to 49 of the Level 2 Regulation do not apply to a small authorised UK AIFM. Nevertheless, we expect them to give due consideration to the liquidity risks of the AIFs they manage. For example, under the threshold conditions for authorisation, a small authorised UK AIFM's business model must be suitable for the regulated activity it carries on. We believe that these existing obligations naturally extend to how the firm approaches the liquidity risk management of its AIFs.

7.17 However, our previous supervisory work has found room for improvement among the small authorised AIFM population. Although the smaller NAV of these firms means that risks to market integrity are reduced, they are not absent. Poor liquidity risk management practices could have a material – albeit localised – market impact, for example, where a firm holds large positions in specific asset classes. Poor liquidity management practices also pose consumer protection risks, regardless of the size of the firm, as the absence of a robust liquidity risk management system can leave remaining investors with an increasingly illiquid portfolio.

Our proposed approach

Baseline requirements

7.18 We propose that no liquidity risk management rules will apply when an AIFM is managing an unleveraged closed-ended AIF, including those which use derivatives to manage risk and benefit from the hedging exemption. However, the baseline risk management rules, outlined in in chapter 6, would apply and the AIFM would be required to act in line with our principles including, where applicable, the Consumer Duty. That is because the AIF would not face redemption pressures, nor should there be a risk of substantial non-redemption pressures arising from obligations to counterparties. Excluding unleveraged closed-ended AIFs from the liquidity risk management rules would maintain the scope of the current rules in FUND 3.6.3.

7.19 Although the AIFM of an unleveraged closed-ended AIF will not face redemption or non-redemption pressures during the fund's life, there will still be risks that the AIFM needs to account for. For example, a closed-ended fund that has a defined life and which promises to return cash to investors at the end of its term. In this case we do not consider that the fund has a redemption policy that the AIFM needs to comply with, however, the AIFM should nevertheless consider any commitment to investors when designing the fund, including the length of its lifecycle, and monitor it as part of its risk management exercise. In other cases such as listed closed-ended funds trading on a market, the AIFM would need to take account of relevant company law when undertaking a wind-down. However, we would value any feedback on whether there are risks unique to the wind down of closed-ended AIFs, such as private equity vehicles, which should be explicitly addressed in our rules.

Small AIFMs

7.20 We propose that small AIFMs of open-ended AIFs be required to:

a. ensure, when manufacturing the AIF, that its redemption policy is consistent with its intended investment strategy

b. ensure on an ongoing basis that the AIF's investment strategy and liquidity profile remain consistent with the redemption policy and any other obligations of the AIF.

7.21 So, we propose to clarify that the existing core principle regarding consistency between redemption policy, investment strategy and liquidity profile applies both at the design stage and on an ongoing basis.

7.22 We do not propose to specify the redemption terms which AIFMs of unauthorised AIFs must set for these funds, since we believe that the nature of these funds often demands negotiation between the AIFM and investors. However, we do propose new guidance on when we would consider that the investment strategy, liquidity profile and redemption policy of the AIF are not aligned. For example, we would not consider there to be alignment if 50% of the value of scheme property is invested in inherently illiquid assets but redemptions are not subject to either a notice period or alternative means of restricting the liquidity provided to investors.

7.23 We propose that a small AIFM of an open-ended AIF or a leveraged closed-ended AIF must have a framework of liquidity risk management systems, processes and controls which are appropriate to the AIF's size, investment strategy, liquidity profile and investor base. For open-ended AIFs, the AIFM must have the liquidity management tools which it deems necessary to manage an AIF's liquidity.

7.24 An AIFM will have the flexibility to implement the systems, processes and controls which correspond to an AIF's unique characteristics. We consider that these new explicit requirements should not represent a significant burden for most existing small authorised AIFMs.

7.25 We also propose that a small AIFM of an open-ended AIF or a leveraged closed-ended AIF should be required to conduct liquidity stress tests at least annually. We consider that stress testing is a critical means of assessing and monitoring the liquidity risk of an AIF under normal and exceptional liquidity conditions. However, we do not propose to apply the full detail on stress testing currently in the Level 2 Regulation to small AIFMs.

7.26 Lastly, we propose that the guidance on good liquidity risk management practices and the stress testing guidelines, which we consulted on in December 2025 (CP 25/38), should apply to small AIFMs. These guidelines reflect the key themes in IOSCO's recommendations on liquidity risk management and the core messages that we have communicated to industry in recent years through 'Dear CEO' letters, our Regulatory Priority Reports, and multi-firm reviews.

Medium and large firms

7.27 Medium and large UK AIFMs would be subject to the same rules as small UK AIFMs, plus those rules reflecting their greater potential to incur risks to market integrity or financial stability. Those additional rules are in line with the rules which apply currently to a full-scope UK AIFM and are summarised below. With liquidity risk management so crucial to market integrity and investor protection, we do not propose any substantial differences in the requirements which would apply respectively to medium and large AIFMs.

7.28 Where an open-ended AIF invests in units of another open-ended fund, we propose larger firms should monitor the liquidity management approach taken by the managers of the other funds. However, this would not apply where the units in the open-ended fund in which the AIF invests are actively traded on an investment exchange, for instance ETFs.

7.29 The principal change from the existing requirement is to introduce the 'look through' which requires the AIFM to consider not only the redemption terms of the other funds it invests in, but also the liquidity of the assets held in those funds. This is important because relying solely on the redemption terms may not give the full picture of the liquidity risks posed by the funds in which the AIF invests. For example, there could be an inherent liquidity mismatch in that fund or, even if that were not the case, the liquidity profile of the fund may change over time due to large redemptions or market movements.

7.30 We do not propose to apply the 'look through' requirement at small UK AIFM level, as we believe this level of prescription is not warranted given the smaller NAV of these firms. However, where a small AIFM manages an AIF investing in other funds, we would still expect the firm to consider the liquidity risk and not operate on the basis that it will always be able to liquidate the AIF's holdings in line with the redemption terms of the underlying funds.

7.31 We propose to apply the existing detail on stress testing in the AIFMD Level 2 Regulation to medium and large AIFMs. For example, the stress tests they use should cover market risks and any resulting impact, including on margin calls, and account for valuation sensitivities.

7.32 We also propose that a medium or large AIFM must periodically review the effectiveness of its liquidity risk management system, including its policies, processes and controls. A large AIFM must make sure that the review takes place whenever a material change has occurred and at least once a year. To avoid duplication, the review of the liquidity risk management system may form part of the review of the risk management function required separately under ALTS 5.

Consultation questions

Question 15: Should small AIFMs should be required to comply with new, simplified liquidity risk management rules?

Question 16: We propose that medium and large UK AIFMs of open-ended AIFs that invest in other open-ended funds should be required to 'look through' to the portfolio of those other funds to better assess the liquidity risk. Can you foresee any issues that we should be aware of?

Question 17: Are there any rules that are unnecessary for medium AIFMs or areas in which medium AIFMs should not be subject to the same level of prescription as large AIFMs?

Chapter 8

Delegation

8.1 A UK AIFM may delegate its investment management (risk management and portfolio management) functions, and the other AIF management activities for which it is responsible, to a UK or non-UK delegate.

8.2 Delegation is a critical tool for accessing global expertise, with strict regulatory requirements to protect investors. When delegating, the AIFM remains responsible for compliance and must maintain oversight of the delegate. It must retain sufficient expertise and substance so that it is not, in effect, replaced by its delegate. FUND 3.10 and the Level 2 Regulation set out the requirements that currently apply to full-scope UK AIFMs.

8.3 Overall, we think the current delegation rules work well and provide adequate protection for consumers. We support the current model but want to simplify the requirements, without compromising consumer protection or market integrity.

8.4 We explain our proposals in this chapter. Our draft rules are set out in chapter 4 of the proposed ALTS sourcebook.

Background

8.5 The ability to delegate is a long-established international norm which is essential to the efficient functioning of the UK AIFM and AIF market, and the funds market more broadly. It allows savers to access global expertise and investment opportunities, whilst benefitting from increased choice and high levels of investor protection where there are strict rules on responsibilities, oversight, and supervision.

8.6 Delegation has been demonstrated to perform effectively under robust supervision and local oversight, including during market turmoil. The FCA has supervisory MOUs in place with regulators in other jurisdictions and engages with them on supervisory matters where international delegation occurs.

8.7 In increasingly sophisticated financial markets, this ability to structure operations in the most efficient manner is integral to keeping the UK AIF market competitive. It allows AIFMs to acquire expertise in fields AIFMs may not possess themselves, or where they believe that investors will benefit from the use of third parties and the economies of scale that can be created. It also allows AIFMs 24-hour coverage of global markets, expanding the investment opportunities and products that can be offered to investors, in turn fostering further specialisation and innovation.

8.8 Beyond the associated benefits to investors in UK AIFs from being able to access global investment expertise, delegation also allows UK AIFMs to optimise their administrative and operational activity by being able to pool core functions together into a smaller number of hubs. Economies of scale lower the costs to investors in the fund, resulting in more capital available for investment.

Treasury proposals on delegation

8.9 Currently, if a full-scope UK AIFM delegates risk or portfolio management to an entity not authorised or registered for asset management, the AIFM must seek prior approval from us. In its consultation and draft SI, the Treasury is proposing to remove this requirement so that such delegation arrangements will no longer require our approval. As explained below, we propose new rules about permitted delegation to such entities.

Our proposals on delegation

8.10 Overall, we propose to retain the current delegation requirements for AIFMs, especially as they apply to risk and portfolio management. However, to make the requirements more proportionate, we propose to streamline the rules for delegation of ancillary services. The proposed rules clarify that an AIFM is not required by regulation to be responsible for anything except the investment management functions. Everything else is a matter of contractual agreement with the AIF.

8.11 The delegation rules will apply to all authorised UK AIFMs regardless of their size category.

General conditions for delegation

8.12 We are retaining the rules that:

- mean the AIFM cannot transfer its responsibility to other entities when delegating activities
- determine whether an AIFM is or has become a letter-box entity (a shell legal entity with few resources to do its activities, being solely a registered address in the jurisdiction) contrary to our minimum substance requirements
- require the AIFM to ensure the delegation does not prevent it from managing the AIF in investors' best interests, or prevent effective FCA supervision

8.13 All delegation arrangements concerning AIFM management functions will be subject to certain general requirements. The AIFM must ensure that delegates have sufficient expertise and resources and are run by people of good repute and experience. The delegation must not prevent us from supervising the firm effectively or the AIF from being managed in the best interests of the investors.

8.14 We also propose (ALTS 4.3.2R) retaining the requirement for the AIFM to carry out ongoing reviews of delegation arrangements for AIFM management functions.

Core AIFM functions

8.15 We have reviewed the list of ancillary services in the current rules. We want to make it easier for firms to delegate ancillary services and instead want to focus our rules on the potential impact of those activities on investors and market integrity. So, we propose to introduce a narrowly defined term of 'additional core AIFM functions' which applies to delegation of:

- valuations to a third-party valuer appointed under ALTS 6.2.11R (1)
- regulatory compliance monitoring
- marketing of AIFs

8.16 Given the potential potential impact on the AIF to the AIF and its investors, the delegation of AIFM investment management functions and additional core AIFM functions will be subject to greater controls than the other AIFM management functions. There are additional specific requirements relating to portfolio management only.

8.17 We are proposing that if the AIFM delegates any of its investment management functions or additional core AIFM functions, it should be able to justify its delegation model or structure with objective reasons. This maintains the existing position for full-scope UK AIFMs but is a new measure for small authorised UK AIFMs.

8.18 We have proposed recasting the current provisions in Art 76 (1) of the Level 2 Regulation as guidance, to clarify that the objective reasons may include optimising business functions and processes, cost saving, accessing expertise of the delegate in administration in specific markets or investments and/or to access global trading capabilities.

Written agreement and contractual controls

8.19 Where delegation arrangements concern investment management functions or additional core AIFM functions, we propose to retain the requirement for the arrangement to be recorded in a written agreement that clearly sets out and allocates the respective rights and obligations of the AIFM and the delegate. The agreement should ensure the AIFM can give instructions and monitor the delegate on an ongoing basis. The AIFM must be able to terminate or withdraw the delegation, including with immediate effect where that is in investors' interests.

Delegation of investment management functions (additional requirements)

8.20 We propose to change how AIFMs report their delegated activities to us. Currently, full-scope UK AIFMs must notify us before delegating risk or portfolio management or material administrative functions, ensuring they retain supervision, expertise, and contractual rights to instruct or terminate the delegate. Notifications for delegations to unauthorised entities that require approval must be submitted to the FCA via the 'Notice of AIFMD delegation form' at least one month before changes take effect. Delegations not requiring approval should be notified to us before they take effect.

8.21 For operational ease, we propose to remove the pre-notification requirement. Instead, each AIFM must provide the information to us via a notification as soon as practicable after the delegation becomes effective. AIFMs to confirm the arrangements through regulatory reporting in the AIFM's next reporting cycle, as explained in the FRAME CP.

8.22 Although we will no longer be required by law to approve the delegation of investment management to unauthorised entities, all AIFMs will be required to provide information to us when delegating investment management functions to unauthorised entities. In most circumstances, delegation to an unauthorised entity relates to the management of investments that are not specified investments under the RAO.

8.23 We therefore propose that an AIFM cannot delegate its investment management functions to an unauthorised entity in relation to a specified investment, unless it is covered by the derogation in ALTS 4.3.10R (3) (explained below). We also propose guidance clarifying which entities are deemed authorised or registered, based on article 78.2 of the Level 2 Regulation.

8.24 We will retain the position that risk and portfolio management must not be delegated to the depositary of the AIF (or a delegate of the depositary). Risk and portfolio management must not be delegated to any other entity whose interests may conflict with those of the AIFM or the investors, unless conflicts are identified, managed, monitored and disclosed, and the relevant functions are separated from potentially conflicting tasks.

8.25 Where an authorised UK AIFM delegates the portfolio management function, it must instruct the delegate on the implementation of the investment policy. The AIFM must then monitor whether the delegate complies on an ongoing basis, and take appropriate action if it does not.

Sub-delegation

8.26 Where an authorised UK AIFM delegates any AIFM management function to another firm which then wishes to sub-delegate that function, the AIFM's delegate must obtain the AIFM's consent before those sub-delegation arrangements can become effective.

8.27 Sub-delegation must not dilute the AIFM's ability to oversee the function, enforce contractual rights, or meet its obligations to the AIF and investors.

Non-UK delegates

8.28 Given the global nature of asset management, we understand the benefits to firms, investors and markets of facilitating cross-border activities. It is important for a UK AIFM to retain the ability to delegate the AIFM management functions for which it is responsible to a third party outside the UK.

8.29 Where an AIFM delegates its investment management functions to a non-UK delegate, we and the supervisory authority of the delegate must co-operate in accordance with the MoU or supervisory agreement between the two authorities. As noted above, a

delegate managing specified investments must generally be authorised or registered for the purpose of asset management and subject to supervision.

8.30 However, we are clarifying that this last provision will not apply if a delegate does not need to be authorised or registered or subject to supervision to carry on the management of an asset in its own jurisdiction. This is because other jurisdictions may define their regulatory scope in different ways to our concept of a list of specified investments.

Consultation questions

Question 18: **Do you have any comments on our general approach to delegation?**

Question 19: **Do you agree with our proposals on delegation of investment management activities to entities that are not authorised or supervised for that activity?**

Chapter 9

Annual reporting to investors

9.1 This chapter sets out proposals to adjust the scope of the requirement to prepare annual reports and make them available to investors, while at the same time setting a more principles-based approach to the detail of the contents. The changes aim to protect investors in AIFs by giving them sufficient information about the fund. We set out our draft rules in chapter 10 of the proposed ALTS sourcebook.

9.2 Under the current rules, a full-scope UK AIFM must produce an annual report for each AIF that it manages and each AIF that it markets in the UK. This report must contain the AIF's audited financial statements for the financial year, a report on its activities, any material changes to investor information, and details of remuneration paid to AIFM directors and employees.

9.3 The annual reporting rules for AIFs are designed to align closely with international standards, particularly the International Financial Reporting Standards (IFRS) and international auditing standards, while accommodating UK regulatory requirements. Under rules in FUND 3.3, the annual report must be prepared in accordance with either:

- UK Accounting Standards (i.e. FRS 102) - often used for UK-based AIFs
- International Accounting Standards (IAS/IFRS) - permitted for UK-based funds and often required for reporting transparency; or
- Non-UK National Standards - for non-UK AIFs, the accounting standards of the country where the AIF is established, provided they are equivalent to UK / International standards or provided the information disclosed meets the minimum requirements of UK rules.

9.4 The annual report shows the AIF's financial status for each financial year and comparatively across several financial years. Investors may use it to evaluate performance, risk and compliance. Under AIFMD-derived requirements, these reports are mandatory for providing transparency on portfolio composition, valuation procedures, fees, and leverage, allowing investors to make informed decisions and monitor their investments.

Scope of the rules

9.5 The alternative investment market has grown and diversified since the current rules were introduced. We want investors to be able to make well-informed decisions based on information that is appropriate for their needs. Those needs will vary according to investors' knowledge and experience.

9.6 We already make detailed provision in the COLL sourcebook for annual and half-yearly reports directed at investors in authorised collective investment schemes, so we propose not to apply the rules in this consultation to authorised funds. Similarly, the annual report rules will not apply to recognised schemes. The regimes for the

recognition of non-UK schemes (the Overseas Funds Regime and the s.272 gateway) directly address periodic reporting requirements.

9.7 We also think that other rules ensure that sufficient information is publicly available to shareholders in listed closed-ended investment funds. We propose to exempt these firms from the annual reporting to investor rules, for the reasons we detail more fully in chapter 11.

9.8 With these exceptions, we think the requirement to produce an annual report should apply to all medium and large UK AIFMs in relation to each of their unauthorised AIFs so that investors in these funds have sufficient information. We deem this to be a proportionate requirement for these firms based on their scale, financial standing and activities.

Contents of the annual report

9.9 We want our rules to ensure a fund's financial statements contain sufficient details for investors; while allowing enough flexibility so firms can satisfy the different accounting standards that may apply. We propose that all information contained in the annual report must be accurate, clear, fair and not misleading

9.10 We do not propose to retain all the detailed measures in articles 103 and 104 of the Level 2 Regulation. Instead, we propose to retain the principles of those provisions, so all funds are subject to a common baseline that meets international accounting standards.

9.11 Therefore, a fund's balance sheet must contain adequate details to show how net assets are derived after deducting all its liabilities. Net assets that represent equity interests of investors is an important metric. Similarly, a fund's income and expenditure account must show how income and expenditure is derived, while taking into consideration unrealised gains or losses on investments for the financial year.

9.12 Additionally, we propose introducing guidance setting out that the methodology and terminology adopted in a fund's annual report should be consistent over consecutive financial years. Furthermore, relevant accompanying notes should be featured in financial statements to ensure that the information contained can be adequately interpreted by investors.

9.13 We propose that our rules require medium and large UK AIFMs to produce audited financial statements for each AIF they manage. Full-scope UK AIFMs are already required to do this under the existing annual reporting rules, and we consider this proportionate for both medium and large AIFMs noting the increased threshold in the new regime.

9.14 Under the existing Level 2 Regulation, the annual report of an AIF must also cover any material changes to the information made available to investors before investment. We propose to retain this, with guidance (based on the Level 2 Regulation) on the definition of material changes to clarify our expectations on materiality. A change should be regarded as material if, were a reasonable investor to become aware of such information,

it's highly likely they would reconsider their investment in the fund. This could include changes affecting investors' ability to exercise their rights or resulting in some investors being disadvantaged over others.

9.15 Currently an AIF's annual report must contain a report on the activities of the financial year. We intend to remove some prescription around the level of detail required. For instance, we propose to remove the requirement to disclose financial and non-financial indicators to reflect performance over the past financial year. However, we propose a requirement (adapted from FUND 3.2.5R (1)) to disclose in the annual report the details of any special arrangements applicable to illiquid assets held in an open-ended fund.

Remuneration

9.16 Under the existing rules, the information on the total amount of remuneration paid to an AIFM's staff is required in an AIF's annual report.

9.17 We are consulting separately on simpler remuneration rules for asset managers in the parallel publication CP26-27. Those rules, when finalised, would initially apply to full-scope UK AIFMs. They would then be adapted to apply to medium and large UK AIFMs when the new AIFM regime takes effect.

9.18 To ensure proportionality for medium and large UK AIFMs, we propose that only the total amount of remuneration in relation to material risk-takers is made available in the annual report. This will allow investors to assess whether remuneration paid by the AIFM is broadly in line with the interests of the AIF and its investors. A material risk-taker is defined in CP26-27 published alongside this CP.

9.19 Following the implementation of the new remuneration rules for asset managers, the existing AIFM remuneration code will no longer be applicable. We therefore propose not to carry forward the related guidance on the AIFM remuneration code in FUND 3.3.5AG.

Provision of the annual report

9.20 Under the existing rules, an annual report must be made available to us in relation to each AIF. We propose to clarify that an AIFM will only be required to make the annual report available to us on our request.

9.21 The proposed amendment will not affect how annual reports should be made available to investors for each financial year and at an investor's request. The timing of producing a report is also unchanged.

9.22 We propose a new rule that where an investor makes a reasonable request for further information about the activities of the fund, that is not contained in the annual report, the firm must provide the information to them and make it available to other investors as well.

9.23 Annual summary requirement for small UK AIFMs and in-scope residual CISs

9.24 We do not consider it proportionate to require small UK AIFMs and in-scope residual CIS operators to produce a formal annual report, particularly given that they are not currently subject to this requirement. We define in-scope residual CISs as residual CISs that are not carried interest vehicles, excluded entities, joint venture vehicles, or single investor vehicles. However, we consider it appropriate to introduce a requirement for firms to provide investors with a baseline level of information on an annual basis, i.e. an annual summary.

9.25 We propose that the annual summary contains a concise set of core information, including a financial statement prepared in accordance with applicable accounting standards (which we would not require to be audited), as well as an overview of any material changes to the fund over the relevant period. All information included in the annual summary must be accurate, clear, fair and not misleading. Where an investor makes a reasonable request for further information, firms must provide this to them, ensuring that investors are able to access additional detail where needed.

Consultation questions

Question 20: **Do you agree with the proposed changes to the requirements applying to an AIF's annual report? If not, please explain.**

Question 21: **What are your views on requiring small UK AIFMs and certain operators of residual CISs to prepare an annual summary for investors?**

Chapter 10

Investor disclosures

Background

10.1 The current investor disclosure regime for unauthorised funds comprises pre-contractual and periodic information for all investors, supplemented by additional disclosure rules for retail investors. The purpose of these rules is to provide transparency to investors about how the fund operates.

10.2 The AIFMD-derived requirements apply to full-scope UK AIFMs marketing to both professional and retail investors, but were largely designed for funds marketed to professional investors. Under the current regime, full-scope UK AIFMs must make both pre-contractual and ongoing disclosures to their investors. These cover matters such as the fund's investment policy, the assets in which it invests, liquidity risk management and leverage.

10.3 The separate retail disclosure rules introduced prior to AIFMD apply to full-scope UK AIFMs, small authorised UK AIFMs, and residual CIS operators. These rules require firms to provide retail investors in an unauthorised AIF or residual CIS with pre-contractual information on matters such as how the fund is structured and operates, the main risks of investing, and the charges and expenses that may apply.

10.4 The rules also require firms to provide periodic statements to retail investors, including information on the value of the portfolio of the fund and the charges incurred over the reporting period.

Proposed approach

10.5 In our view, this framework is more complex and prescriptive than necessary, particularly for funds marketed only to professional investors. We therefore propose to bring these disclosure regimes together in one place in our new sourcebook and create a clearer distinction between the professional and retail disclosure regimes.

10.6 Under our proposals, the professional disclosure regime would be more principles-based, supported by certain mandatory disclosures in areas we deem important for market integrity. The retail disclosure regime would remain more prescriptive than the professional regime, reflecting differences in investors' sophistication and bargaining power for information. Even so, we propose to streamline the current retail disclosure regime for unauthorised AIFs.

10.7 We are revising the disclosure rules for residual CIS operators as part of this wider reform. The current retail disclosure rules apply to both AIFMs and residual CIS operators. Where residual CIS operators make unauthorised funds available to retail investors, the retail disclosure rules would continue to apply. However, for proportionality

reasons we propose to exempt the following residual CISs from these rules: carried interest vehicles, excluded entities, joint venture vehicles, and single investor vehicles.

10.8 We also propose bringing operators of residual CISs into the scope of the professional disclosure regime. In our view, this reflects the minimum standard of disclosure that should be expected of an authorised firm and largely formalises what is already good practice. However, the same exemptions outlined above would apply to these rules for proportionality reasons.

10.9 Where an unauthorised AIF or residual CIS is marketed to both professional and retail investors, we would expect the firm to provide each investor group with pre-contractual disclosures in line with the relevant proposed disclosure regime.

10.10 We set out our proposed rules in chapters 9 and 10 of the new ALTS sourcebook.

Call for Input on AIFMs

10.11 There were no questions in the Call for Input on the topic of investor disclosures specifically. However, in response to broader questions about the overall regime, some respondents supported disapplying prescriptive disclosure requirements. Subsequent engagement with firms reinforced this feedback.

10.12 We have considered how to streamline the disclosure rules, particularly for professional investors, while maintaining investor protection. We tested our proposals with industry stakeholders while developing this approach.

Proposed professional investor disclosure regime

10.13 We propose a more principles-based professional investor disclosure regime, supported by a limited set of mandatory disclosures. This reflects our understanding that professional investors are generally able to obtain the information they need directly from fund managers. We recognise that professional investors' ability to request information from fund managers can vary. For example, investors with smaller portfolios may have less bargaining power than those with larger portfolios.

10.14 To address possible differences in investors' ability to obtain information from fund managers, we have retained the rules we consider essential. We also propose a new rule requiring AIFMs and residual CIS operators to meet investors' reasonable demands for information.

10.15 This regime would apply to AIFMs of all sizes, on the basis that the standard of pre-contractual disclosure investors receive should not depend on the size of the firm, although the content might differ depending on the types of investors, firms and funds.

10.16 The current pre-contractual disclosure requirements would be replaced with a high-level rule requiring AIFMs and residual CIS operators to disclose the information investors need to assess the merits, risks and costs of investing in the fund. We have included

guidance on the kinds of information that may be provided to investors to comply with this rule. Certain mandatory disclosures would also be retained for market integrity reasons, including how fund assets are valued and how liquidity risk is managed.

10.17 We are proposing to retain ad-hoc notification requirements so investors receive timely updates on significant developments outside the annual reporting cycle. Where an open-ended fund activates gates, side pockets or similar liquidity management arrangements, or suspends redemptions, firms would need to make appropriate information available to investors as soon as reasonably practicable. This will replace the existing disclosure requirement in the Level 2 Regulation for notification to take place "immediately".

10.18 We propose that firms should make updated information available to all investors as soon as reasonably practicable where there is a material change to any of the pre-contractual information they provided.

10.19 We would also revise the current disclosure requirements relating to liquidity and leverage arrangements. Instead of a requirement to make ongoing disclosures, firms would have to disclose this information at the pre-contractual stage and update investors only if there is a material change to it. We consider this more proportionate.

10.20 When firms use leverage, they would be required to disclose disclose the total amount of leverage used, while having discretion over the calculation method, provided they clearly explain to their investors how leverage has been calculated. We would no longer require firms to use the prescribed gross calculation method for disclosures. We detail our rationale in chapter 5.

10.21 Consistent with this more flexible approach, the requirement to disclose historical performance would be removed. Firms are expected to provide this information, and professional investors should be able to request it where needed under our rules. Any information on historical performance, like all investor disclosures, must be accurate, clear, fair and not misleading.

Proposed approach to retail investor disclosure regime

10.22 The rules for pre-contractual and periodic disclosures to retail investors were originally introduced to address potential risks to retail investors in the unregulated CIS market. They are more prescriptive than the AIFMD-derived disclosure rules.

Why retail investors and professional investors have different disclosure needs

10.23 Compared with professional investors, retail investors are generally less likely to have the same knowledge and experience to assess unauthorised funds, or the same ability to request and obtain additional information from the fund manager. We therefore maintain that retail investors in unauthorised funds need more predetermined disclosures to help them understand relatively complex products.

10.24 Units issued by a residual CIS are categorised as non-mass-market investments (NMMIs) under our COBS rules and this may also be the case for units issued by other unauthorised AIFs. Our financial promotion rules set robust standards for firms marketing NMMIs to retail investors by limiting investor eligibility and requiring rigorous pre-investment checks.

10.25 We recognise that there may be benefits to greater retail access to alternative investment vehicles, such as potentially higher long-term returns in exchange for less liquidity. However, supervisory cases have shown that unauthorised funds can pose particular risks to eligible retail investors, including where firms do not provide accurate and complete information about the fund. Disclosure cannot eliminate the risks to retail investors of investing in these funds. However, it remains necessary to provide these investors with a transparent and comprehensive picture of the product's nature, risks and costs.

10.26 Reflecting these different disclosure needs, we do not consider the more flexible, investor-led approach proposed for professional investors to be sufficient for retail investors. We therefore propose to retain a more extensive set of mandatory disclosures for unauthorised AIFs and residual CISs marketed to retail investors. These would preserve the current combination of pre-contractual information and periodic statements, while streamlining the rules and transferring them from COBS to the new ALTS sourcebook. All disclosures to investors would need to be accurate, clear, fair and not misleading.

Interaction with the Consumer Composite Investments (CCI) regime

10.27 The Consumer Composite Investments (CCI) regime will come into full force on 8 June 2027 and will apply to firms manufacturing and distributing unauthorised AIFs to retail investors.The CCI regime introduces a requirement to produce a product summary, which is a concise, consumer-friendly document outlining the key information about the product.

10.28 The product summary and the pre-contractual disclosures we propose here serve different purposes. Depending on the legal form of the AIF or residual CIS, firms may have a legal requirement to provide pre-contractual information to their investors in the fund's constitutional or offer documents, similarly to how an authorised fund manager has to issue a prospectus for the fund. Their purpose is to provide investors with transparency about how the fund operates, rather than a summary of the information about the fund that is most helpful for making a decision whether or not to invest, which the CCI product summary seeks to provide.

10.29 Therefore, our proposed pre-contractual disclosure rules would require firms to provide certain fund-specific information that goes beyond the information required in the CCI product summary. These disclosures would sit alongside the CCI product summary and are intended to support investors' understanding of how the fund operates.

10.30 We intend to give firms flexibility in how they can comply with our proposed rules. Firms may adopt the format they see fit, which could include providing a link to the additional detailed pre-contractual information in the product summary.

Application of the retail investor disclosure regime

10.31 We propose to apply the retail disclosure regime to AIFMs of all sizes and to residual CIS operators (except for the exempted categories), when those firms market unauthorised AIFs or residual CISs to retail investors or accept investments made by retail investors. As outlined above for the professional disclosure regime, we think the standard of disclosure that investors receive should not depend on the size of the firm but on the needs of different types of investors.

10.32 The proposed information for retail investors comprises the same information required under the professional disclosure regime, plus additional rules tailored to retail investors. These would require firms to explain whether investors may be required to make further contributions to the fund; any preferential treatment given to certain investors; and how investors can complain to the firm, including whether compensation may be available from the compensation scheme if the firm is unable to meet its liabilities.

10.33 This additional information also covers matters not specifically mentioned in the CCI product summary rules including: how the firm manages liquidity risks, including investors' redemption rights in normal and exceptional circumstances and any assets subject to special arrangements because of their illiquid nature; the fund's underwriting commitments; the fund's use of leverage, including any maximum level, the total amount of leverage employed and how leverage has been calculated; how the fund's assets are valued; and any material conflicts of interest.

Periodic and ad-hoc disclosures

10.34 We propose to largely maintain the current requirements relating to periodic statements for retail investors. These statements give retail investors regular information about the fund's portfolio, including the assets and cash held, the value of the portfolio at the start and end of the reporting period, and an explanation for any movement in the value of the portfolio. Firms must continue to provide these statements at least every six months, unless another period of up to 12 months has been agreed with the investor. We propose removing the requirement to provide periodic statements to retail investors relating to contingent liability investments, as we do not consider this to be a proportionate requirement.

10.35 There are currently periodic reporting rules in COBS 16.3 which apply when small authorised UK AIFMs market unauthorised AIFs that are not collective investment schemes (CISs) to their investors. We propose to disapply these rules on the basis that our periodic statement rules will apply to AIFs that are CISs and non-CISs, where previously they only applied to CISs.

10.36 The ad-hoc notification requirements discussed earlier in this chapter would also apply where AIFMs and in-scope residual CIS operators make unauthorised AIFs or residual CISs available to retail investors.

Consultation questions

Question 22: Have we struck the right balance between removing prescription from the disclosures to professional investors and ensuring that those investors can access the information they need? Are there areas of the rules that could be made more or less prescriptive?

Question 23: Do you agree with our approach for AIFM retail investor disclosures? Do you think it is proportionate to the risks posed by these products?

Question 24: Do you agree with our proposal to disapply the COBS 16.3 periodic reporting rules and rely on our proposed disclosure rules instead?

Chapter 11

Closed-ended investment funds trading on UK markets and internally managed investment companies

11.1 This chapter explains our proposed approach to applying the AIFM regime to certain investment company structures, specifically, closed-ended investment companies (CEICs) that are admitted to trading on UK regulated markets. We show how we propose to apply and tailor the AIFM requirements, given the unique characteristics of these companies. We also summarise the Treasury's proposed statutory carve-out for small internally managed investment companies.

Background and existing regulatory framework

11.2 CEICs trading on regulated markets are a long-established investment structure with a combined market value of approximately £270bn. Many retail consumers invest in these vehicles.

11.3 CEICs include structures such as investment trusts, certain real estate investment trusts, and venture capital trusts. These companies invest across a range of asset classes, including listed securities, private equity, private credit, property and infrastructure. As closed-ended vehicles with shares traded on a market, they do not typically need to sell assets to meet investor redemptions. This structure can support long-term investment in less liquid assets and may contribute to broader UK growth objectives, such as productive finance.

11.4 As set out in our Call for Input, these firms operate within a comprehensive regulatory framework. Alongside requirements introduced through the implementation of AIFMD, they may, due to their listing status and/or investors, also be subject to the UK Listing Rules (UKLRs), the Disclosure Guidance and Transparency Rules, the Prospectus Rules: Admission to Trading on a Regulated Market sourcebook, and the UK Market Abuse Regulations, CCI rules, as well as UK company law. The interaction between these regimes, and their overlap between the AIFM regime and some other areas, is central to our approach of streamlining and tailoring the AIFM requirements for these companies.

11.5 Where UKLR requirements apply, they include obligations designed to support appropriate transparency and governance. For example, under UKLR 11 listed CEICs are required to have a published investment policy and to invest and manage assets in accordance with an objective of spreading investment risk. Annual reporting includes disclosures on portfolio composition and how the investment policy has been applied.

11.6 In addition, these companies may be required to report against the Financial Reporting Council's UK Corporate Governance Code (the Code). For example, under UKLR 11 a listed CEIC is required to disclose against the Code and must state how they have

applied the Principles of the Code, and whether they have complied with the provisions in the Code and explain if they have not. The Code also recognises that internally managed CEICs may use alternative governance reporting frameworks, such as the Association of Investment Companies' Corporate Governance Code, where appropriate.

11.7 Boards of UK-incorporated CEICs (and directors on those boards) are also subject to UK company law requirements. Taken together, these regimes deliver a range of governance and disclosure outcomes that may overlap with certain AIFM requirements, as we said in our Call for Input.

11.8 Due to their characteristics and the broader regulatory framework that applies, our Call for Input outlined a different approach to the regulation of managers of CEICs trading on UK regulated markets in key areas including disclosure, governance, risk management and liquidity risk management. Respondents largely agreed with our proposals on the assumption that the Treasury retained these companies within scope of the AIFM Regulations. This chapter sets out how we have developed and intend to apply those proposals in detailed rules consistent with the Treasury's decisions.

Statutory carve-out for small internally-managed investment companies

11.9 Following feedback to its public consultation, the Treasury's draft statutory instrument (SI) now includes an exemption from the entire AIFM regime for small internally managed investment companies that are listed on a recognised UK stock exchange. The legislation defines 'small' in the same way as the legacy AIFM regime size thresholds, albeit changing the reference currency from Euros to Sterling: a £100m threshold for leveraged firms and £500m for unleveraged firms with no redemptions within 5 years.

11.10 Under the draft SI, an internally-managed investment company would need to meet criteria to rely on the exemption, including that:

- the AIFM is a UK AIFM and is not an external AIFM
- the AIFM is a sub-threshold AIFM (with the existing legislative threshold retained for this purpose)
- the AIF is a body corporate and is not a collective investment scheme (CIS)
- the company is admitted to trading on a UK recognised stock exchange or a multi-lateral trading facility
- specified conditions relating to the individuals responsible for the management or operation of the AIFM are met (including in relation to certain convictions and disqualification orders)

11.11 This means that certain small internally-managed investment companies, which are currently eligible for the AIFM registration regime, will be able to operate outside of the AIFM regime entirely, and without applying for permission to manage an AIF. Other rules such as the UKLRs will continue to apply to the company. The Treasury's consultation provides more detail on their rationale and proposed legal drafting.

Externally managed and above-threshold internally-managed CEICs

11.12 The Treasury also proposes that managers of above-threshold investment companies remain within scope of AIFM regulation for financial stability and consumer protection reasons. We recognise that they have features which justify a more proportionate application of certain requirements within the AIFM regime, taking account of the wider regulatory framework that applies to these companies.

Risk management and liquidity risk management

11.13 We propose to apply the risk management rules detailed earlier to CEICs that are authorised UK AIFMs (i.e., those CEICs not subject to the statutory exemption). This means that CEICs will be subject to rules proportionate to their size, structure, and whether leverage is used. Consistent with our intentions outlined in the Call for Input, redemption-related liquidity rules will not apply, due to these funds' closed-ended structure. CEICs that are leveraged (unless using derivatives solely for hedging purposes) will have liquidity rules to address the potential for margin call risk. Unleveraged CEICs will not have to comply with our liquidity risk management requirements and only a minimum of risk management rules, in common with other closed-ended unleveraged funds. Valuation and other AIFM rules would apply as to other types of AIFM.

Investor disclosures

11.14 Under AIFMD-derived rules, investors in CEICs must be provided with additional information before investing and periodically from then on. Most of what is required by the AIFM disclosures and the annual reporting rules is reflected in listed company disclosures. Where CEICs are marketed to retail investors, the CCI product summary also applies. We intend to implement our Call for Input proposal to exempt companies from the AIFM investor disclosure and annual report rules where they meet the definition of a regulated market CEIC. This will ensure investor protection and high transparency, while removing unnecessary and costly duplication.

11.15 We will exempt CEICs (including investment trusts, REITs subject to UKLR Chapter 11, and VCTs) admitted to trading on a UK-regulated market and admitted to listing on the FCA's Official List such that UKLRs apply. The exemption can be extended to companies that are not listed, but which are admitted to trading on a UK regulated market so long as the company opts to make disclosures compliant with the UKLRs. For example, London Stock Exchange Specialist Fund Segment vehicles can opt in to the AIFM disclosure exemption by making listing rule-compliant company disclosures, as some already volunteer to do.

Relations between the company board and the AIFM

11.16 We received feedback through our Call for Input for a clear distinction between the company board, which created and must oversee the company, and must ensure the firm complies with company-related rules such as the Companies Act, tax legislation, and the UKLRs, versus the AIFM, which is directly responsible for managing the AIF and is principally or solely responsible for its day-to-day operations, and therefore best able to make sure it complies with the AIFM rules.

11.17 So, we are consulting on proposals to introduce guidance clarifying that where a CEIC is managed by an external AIFM, the external AIFM remains responsible for compliance with applicable requirements in the ALTS sourcebook. The external AIFM should take reasonable steps to collaborate effectively with the investment company's board, including in relation to delegation or sub-delegation of AIFM management functions, where relevant. This guidance for AIFMs is additional to the board's responsibilities under other regulation and law, including any written agreement to determine the parties' different responsibilities.

11.18 On 3 March 2026, we announced that we were bringing forward a targeted review of the UKLRs for investment entities that would, amongst other things, allow us to assess how our rules ensure boards support strong shareholder rights and manage conflicts of interests. Subsequently we published CP26/21: 'Proposed changes to the UK Listing Rules for closed-ended investment funds'. The review will also explore which types of investment entities should be eligible to list in the UK, in particular whether the current risk-spreading objective they must meet is unduly restrictive. We will publish our timeline for taking this part of the review forward later this year.

Consultation questions

Question 25: **Have we adequately taken account of the differences between the company board and the AIFM and reflected the split of responsibilities in the AIFM rules?**

Question 26: **Does our proposal to disapply the AIFM investor disclosure, and reporting and notification to investor rules for closed-ended investment companies admitted to trading on a UK regulated market, fully account for equivalent outcomes that are delivered through other requirements?**

Chapter 12

NPPR and cross-border marketing

12.1 As part of the implementation of AIFMD in 2013, the Treasury made regulations establishing a national private placement regime (NPPR) for EEA AIFMs authorised under the Directive marketing non-EEA AIFs, and for non-EEA AIFMs marketing any AIFs, including feeder AIFs.

12.2 Following the UK's withdrawal from the EU, the NPPR regime now applies to full-scope UK and Gibraltar AIFMs marketing non-UK and non-Gibraltar AIFs in the UK, and non-UK and non-Gibraltar AIFMs marketing any AIFs in the UK, including feeder AIFs.

12.3 Where it applies, the regime allows an AIF to be marketed primarily to professional investors in the UK, subject to compliance with the minimum requirements of AIFMD.

12.4 Many respondents to the Treasury's consultation considered that the UK NPPR has worked well. The Treasury proposes to restate the NPPR requirements in its new legislation, subject to improvements to the effectiveness of the regime, as described below.

12.5 Because the substantive requirements of the NPPR will continue to be set in secondary legislation, it is unnecessary for us to set many requirements about it. However, we set out draft guidance in chapter 14 of the proposed ALTS sourcebook to help firms comply with their obligations when marketing non-UK AIFs in the UK.

Guidance on the NPPR

12.6 The Treasury refers to AIFMs that are neither UK AIFMs nor Gibraltar AIFMs as 'third country AIFMs'. Likewise, AIFs that are established in a jurisdiction other than the UK or Gibraltar are 'third country' AIFs. We use the same terminology in the Handbook where it is necessary to distinguish between Gibraltar and other non-UK jurisdictions.

12.7 The guidance explains the conditions that will apply to a UK AIFM and a Gibraltar AIFM when marketing a third country AIF in the UK. As is the case now:

- the AIFM will need to notify us of its intention to market, giving details of the AIF
- the AIFM will be required to comply with relevant requirements under the UK AIFM regime or the Gibraltar regime relating to the AIF
- the AIF must be based in a jurisdiction that enables supervisory co-operation and complies with the Financial Action Task Force (FATF) standards on prevention of financial crime
- the AIFM must ensure that one or more firms are appointed to carry out the depositary functions for the AIF
- the AIFM must pay us an annual fee for continued registration

12.8 The guidance also explains the requirements applying to a third-country AIFM that seeks to market a third country AIF. Again, these are like the current regime as regards prior notification to us and provision for supervisory co-operation and FATF compliance. They include the requirement for the AIFM to provide regulatory reporting to us at specified intervals (as explained in the FRAME CP) and pay an annual registration fee.

12.9 We might be given enhanced powers to suspend or revoke the marketing rights of AIFMs that fail to comply with the regulatory and administrative requirements of the NPPR. Details of how these powers may be exercised are in the Treasury's consultation and draft legislation. We would require firms to pay regulatory fees, report information to us, and make disclosures to investors that comply with our rules.

Gibraltar-based AIFMs

12.10 The Treasury's draft legislation also recognises the right of AIFMs established and authorised in Gibraltar to market the UK and Gibraltar AIFs they manage in the UK under retained 'passporting' arrangements and to market other AIFs under the NPPR. The Government has legislated for a Gibraltar Access Regime (GAR) which is intended to be the permanent legislative framework governing financial services market access between the UK and Gibraltar.

12.11 We expect to provide further information on how the arrangements will affect UK and Gibraltar-based AIFMs in the future. However, in broad terms, the GAR will allow specified Gibraltar-based financial services firms to access the UK market as 'authorised persons' under the Financial Services and Market Act 2000 ('FSMA'), without having to apply for authorisation from the UK.

Consultation question

Question 27: **Do you have any comments on our proposed guidance on the NPPR?**

Chapter 13

Discussion chapter: Depositaries

13.1 In this chapter, we discuss outline proposals for a revised set of rules for depositaries of unauthorised AIFs. We are not, however, consulting on rules but are seeking feedback on our intended approach before developing detailed proposals, which we will publish in our second consultation paper.

13.2 At this stage, we are not considering any policy changes to the depositary requirements in COLL for authorised funds, including UCITS schemes and authorised AIFs (NURS, LTAFs and QIS). We believe the role of depositaries in relation to authorised funds generally works well and has wide support from stakeholders as an appropriate means of investor protection.

Background and existing regulatory framework

13.3 Full-scope UK AIFMs must appoint an independent, authorised depositary for each UK AIF they manage. The depositary performs three primary functions aimed at ensuring robust investor protection:

- Safekeeping of assets: holding financial instruments in custody and verifying the ownership of all other assets belonging to the fund
- Cash flow monitoring: ensuring all cash of the AIF is held at an eligible bank, cash flows are reconciled and consistent with the operation of the fund
- Oversight: monitoring the AIFM's valuation of shares, ensuring the handling of subscriptions, redemptions and distribution of income complies with the rules, and that the AIFM's instructions in respect of assets are compliant with the rules and the fund's constitutional documents.

13.4 The regime distinguishes between assets subject to strict custody requirements (most securities, fund units and money market instruments that the depositary is responsible for holding) and non-custodial assets (all other assets).

Custody assets (financial instruments)

13.5 This category includes financial assets that can be registered in a financial instruments account or physically delivered to the depositary.

- Safekeeping method: the depositary must maintain records in its books of the assets it holds in custody, and reconcile these to the records held by delegate sub-custodians, central securities depositaries or the registrar acting for the issuer.
- Liability: the depositary is subject to strict liability for the loss of financial instruments held in custody. If a financial instrument is lost – even if the loss occurred at a delegated sub-custodian level – the depositary must return identical assets or pay

the corresponding amount without delay, unless the loss is caused by an unavoidable force majeure event. The Treasury is not proposing to change this.

Non-custody assets

13.6 The depositary must maintain a record of non-custodial assets, ensure the fund has good title to such investments, and that they are not transferred or sold without its knowledge.

13.7 This category includes financial instruments that are not within scope of custody (e.g., contracts for derivatives), as well as all kinds of physical assets (e.g., land, buildings, infrastructure, commodities). It also includes any financial instruments that are only directly registered in the name of the AIF (or AIFM on behalf of the AIF) with the issuer itself or its agent.

- Safekeeping method: where the depositary does not itself have legal ownership of the asset, it must verify that the AIF, or the AIFM on its behalf, is the owner of the asset, based on information supplied by the AIF or AIFM and external evidence where available. It must maintain a record of the assets for which ownership has been verified.
- Liability: there is no special regime of strict liability for the loss of such assets, but under the regulations the depositary is liable to the AIF or its investors if the loss results from the depositary's negligent or intentional failure to comply with relevant regulatory requirements. The depositary's liability is not affected by a delegation of its safekeeping functions.

Depositary services for private capital funds

13.8 Depositary services are mainly provided by banks and large investment firms with substantial own funds. Our existing approach allows a wider range of firms to provide depositary services for private equity and similar AIFs, because of their limited role in providing custodial services.

Call for Input

13.9 The Call for Input asked whether depositary requirements need to change, whether they should apply only to certain types of firms or funds, and whether our rules should align with other jurisdictions. Over 40 respondents commented on this question, setting out widely diverse views, including:

- broad agreement that some clients value depositaries and the regime should be available to any AIFM that wants to use it
- some stakeholders (including the Financial Services Consumer Panel) supporting limited or no change to the current regime
- depositaries arguing strongly that they add value, providing evidence of interventions they have made to protect AIF investors

- broad acceptance of applying the depositary model to open-ended AIFs, although some suggested that a model with no depositary and a custodian holding custody assets offers better value
- divided views on closed-ended funds, especially when investing in private assets and non-custodial assets such as real estate – some respondents think that where depositaries are not providing custody services, other entities can provide adequate oversight and checks on asset title, so there is little value in appointing a depositary just to perform these functions.
- mixed views on whether to align with non-UK regimes – some see strong value in continued alignment with the EU, others think there is little commercial benefit in doing so and note that other international regimes do not require a depositary

13.10 Several stakeholders also pointed out the need for small authorised UK AIFMs to immediately appoint a depositary once they grow and become a full-scope UK AIFM. This is a burdensome process and potentially puts small authorised AIFMs off from growing their business. Our proposed approach to the thresholds in chapter 2 addresses this concern.

Our general approach to depositary requirements

13.11 We acknowledge the different opinions on the benefits of depositaries for unauthorised AIFs. However, we think that requiring larger, more complex AIFMs to appoint depositaries has strengthened investor protection. We agree the regime could be improved, simplified and streamlined.

13.12 Safeguarding an AIF's assets is a vital part of investment management and is a regulated activity. Regulation of this contributes to our market integrity objective by giving assurance that firms will act as good agents when in charge of other people's money and assets, and will protect them properly.

13.13 Requiring an entity that is functionally separate from the AIFM to safeguard AIF assets gives investors a greater degree of assurance that those assets will not be lost or misused.

13.14 The impact on the market would be amplified where a larger fund, or group of funds, suffers any failure in the safeguarding of its assets or independent oversight of its activities. For these reasons, we believe that the scale of an AIFM's NAV is a relevant factor in assessing how the depositary regime should apply to the firm.

13.15 We have considered whether the regime is appropriate for all types of medium and large AIFMs of unauthorised AIFs. We propose keeping the current overall approach. This would mean that medium UK AIFMs and large UK AIFMs would need to appoint a depositary for each UK AIF they manage.

13.16 Small AIFMs would not be required to appoint a depositary, unless they opt to become a medium UK AIFM or a large UK AIFM as explained in chapter 3. Where small AIFMs do not appoint a depositary, they will need to comply with the client asset requirements as set

out in CASS 6. As we are proposing increasing the thresholds where AIFMs are required to appoint a depositary, this will result in a regime more proportionate to small AIFMs.

13.17 We also intend to allow small UK AIFMs to appoint a depositary and comply with the relevant requirements relating to depositaries, without becoming a medium UK AIFM for any other purpose. We believe this could be helpful for a small UK AIFM whose clients would like their fund to have a depositary, without it facing the burden of opting into the entirety of the medium UK AIFM regime.

13.18 We recognise that as an AIF depositary's obligations are based on the UCITS model of an open-ended scheme, the regime is not necessarily proportionate for all AIFs. For example, it may be less well suited for an investment trust whose governing body is independent of the AIFM, or for a private equity fund that has few investor transactions and limited trading. We are therefore open to considering areas where the depositary requirements might be disproportionate for certain types of AIFs in view of the risks they pose. We welcome feedback on this.

13.19 Regulation 40 of the Treasury's draft SI retains the existing provisions (Reg 57(5) of the AIFMR) that require a UK AIFM of a non-UK AIF to appoint one or more entities to carry out the depositary functions if the AIF is marketed in the UK. The draft legislation will apply to all authorised UK AIFMs in that scenario, including a small UK AIFM whether or not it appoints a depositary for any UK unauthorised AIF it manages.

Single and split depositary models

13.20 AIFMD (FUND 3.11.4R) requires a 'single depositary,' meaning that an AIFM must appoint one independent entity for each AIF to safeguard its assets, monitor cash flows and oversee fund management. However, non-UK AIFs managed by a UK AIFM and marketed into the UK via the NPPR are allowed to appoint a different person to carry out each of the depositary duties. This creates an unlevel playing field between UK and non-UK AIFs for no good reason.

13.21 Some respondents to the Call for Input supported letting a UK AIF use more than one depositary to carry out the depositary functions, as opposed to one single depositary having to do all the functions. We agree that providing this flexibility for UK AIFs would be helpful. Depositaries would not then need to offer all the services and would be able to choose which activities and services they do and do not want to offer. For example, they might decide that they will offer safekeeping for custodial assets but not for non-custodial assets. This would allow depositaries more flexibility in their business models.

13.22 A key assumption, based on the legal framework, is that if more than one person provides depositary services to the same UK AIF, each of them would need to be established in the UK and hold the part 4A permission of acting as an AIF depositary. This permission could be limited where a firm carries out only one of the depositary functions, for example by only providing safekeeping of custodial assets. Any such depositary providing custody of AIF custodial assets would be subject to strict liability for loss of those assets.

Use cases for a split model

13.23 In terms of safekeeping of custodial assets, allowing this split model could enable a global custodian to act as the primary safekeeping depositary while the existing depositary retains the other functions (e.g., cash monitoring). This would reduce duplication of roles and would help both parties by better aligning their regulatory responsibilities with their commercial risks.

13.24 This proposal might also enable firms to restructure business models to achieve greater efficiency, especially if more than one entity could perform the same function for the same AIF. For example, the AIFM of a hedge fund could appoint its UK prime broker to act as depositary for the custody of those assets under its control.

13.25 Some AIFMs carry out stock lending / repo activity using a tri-party collateral manager that temporarily holds the assets received as collateral in its custody. The collateral provider must act as the depositary's delegate for those assets it receives as collateral. This results in operational complexity, as the depositary is still responsible for maintaining duplicate books and records of the borrowed assets.

13.26 Instead, the proposed split model would allow the collateral provider firm to act as a primary depositary in respect of those services. In other words, it would have a contractual relationship with the AIFM to hold (temporarily) in its custody the assets received as collateral. The depositary providing the principal custody service for AIF custodial assets would not be responsible for assets while they are transferred out to the collateral manager, where the latter is acting as a depositary in its own right.

Maintaining a single record of AIF assets

13.27 The existing requirement to have a single depositary gives that depositary a single view of all the AIF's assets so it should be able to account for them. Our proposal to allow for a split service model could potentially undermine that safeguard, as custodial assets might be split between two or more entities, each of which might be unaware of exactly what others are holding.

13.28 To address this, we intend to require the depositary carrying out oversight functions to maintain a record of ownership of all assets, whether they are in custody or subject only to the verification of title duty (i.e., for non-custodial assets). The depositary responsible for oversight needs this information in any case to perform some of its duties, such as ensuring that valuations have been performed correctly and that assets are held in line with the AIF's investment policy.

13.29 Where separate authorised entities take on the different depositary roles of safekeeping and oversight for an AIF, the safekeeping depositary would be subject to CASS 6 in terms of the records it keeps. A depositary keeping the single record, but not carrying out safekeeping, would not be subject to those rules. The oversight depositary could rely on reporting from other depositaries, in a format and at the frequency necessary for it to perform its oversight duties, including the provision of an inventory upon request.

13.30 This would not, however, mean that one depositary would be subordinate to another, or that the depositary carrying out oversight duties would be overseeing the activities of

other depositaries. Each function would be separately appointed by the AIFM, and would need agreements so that information flows between all parties.

Market impact of a split model

13.31 Commercial competitors would need to share information when acting for the same AIFM and AIF. Some stakeholders might have concerns whether doing so would be incompatible with competition law and regulation. However, under existing delegation arrangements one firm may seek to appoint another competitor firm as its delegate and would expect to carry out extensive due diligence on the potential delegate before doing so. We welcome feedback on the competition aspects of this proposal.

13.32 We would like to understand how this proposal could affect existing business models. For example, some smaller depositaries might rely on the current 'bundling' of depositary functions to be able to charge clients a viable price for their services. If, for example, an AIFM wished to move its safekeeping away from the existing depositary, the resulting margins might be too narrow for that firm to continue offering the remaining services. That might result in fewer overall market participants for certain essential services.

13.33 However, we also note that current delegation arrangements can result in layering of duties, for example where operational custody functions are ultimately provided by a delegate of the depositary, resulting in duplication of activities and costs borne by the fund and its investors. So, we welcome feedback on whether stakeholders believe this model could deliver economic benefits.

13.34 Some AIFMs use an overseas entity, such as a US prime broker, to perform similar functions and might wish to appoint them as a depositary under this proposed model. However, the statutory liability provisions would not apply in such cases, so UK investors would not get the same level of protection. We do not think this would be a good outcome and are minded not to allow it, but welcome feedback on this point. If it were not allowed, a UK depositary could still appoint the overseas entity as its delegate, as is the case now.

Cash monitoring

13.35 The depositary's cash monitoring function currently involves both oversight of the AIFM and a re-performance of the AIFM's / fund operator's cash reconciliations, typically daily. We think the re-performance element is an unnecessary duplication and adds relatively little value to investor protection outcomes. It is unlikely to identify any significant isolated errors, or to prevent systematic fraud. It is also disproportionate for AIFs (especially closed-ended funds) that have infrequent cash movements.

13.36 We believe the added value comes from the depositary's more general oversight of the AIFM's cash handling procedures. We therefore propose discontinuing the Level 2 Regulation requirements for the depositary to reconcile cash flow movements daily,

identify significant outliers, and ensure all subscriptions are banked in an account in the AIF's name. This proposal includes any non-UK AIFs managed by a UK AIFM and marketed in the UK under the existing AIFMR Reg. 57 regime.

13.37 Instead, we propose making the cash monitoring requirements explicit on the AIF, or the AIFM on its behalf, and for the depositary to oversee their performance. This would enable depositaries to free up resources and use them more effectively. It would include ongoing monitoring of reconciliations performed by the AIFM / AIF to investigate and resolve discrepancies promptly, so the focus could be on detecting significant errors or evidence of potential fraud. The overall outcome should be a robust regime for protecting investors' cash at all points when it is in the hands of the AIF or the AIFM.

Oversight functions

13.38 Our discussion above, about the possible benefits of not requiring a single depositary, focuses mainly on how it would impact the provision of custody services. We start from the assumption that what we call the 'oversight depositary' in the proposed split model as above could in fact carry out all other functions, i.e.:

- verifying title to non-custodial assets
- maintaining the single record of all AIF assets
- monitoring the AIFM's cash reconciliations
- monitoring the AIFM's key fund operation responsibilities (which we would not expect to change in any significant way)

13.39 We believe, based on the existing model for non-UK AIFs marketed in the UK, that these duties can form a 'package' which a firm might wish to provide on a stand-alone basis (i.e., without also offering custodial asset safekeeping). We welcome views on this point, and on whether firms might want to provide a subset of these functions and could do so without losing oversight of the AIF and the AIFM.

13.40 If the market moves to a model where more than one firm provides services which are currently consolidated, the impact on charges borne by the AIF and its investors would be an obvious concern. We recognise that removing duplicate 're-performance' processes may not alter the overall charges borne by AIFs and investors, and that there may be efficiencies where services are consolidated into a firm or group.

13.41 Prices for depositary services are for the market to determine, and we recognise that overall good value for investors does not always depend on paying depositaries and other providers the lowest possible fees and charges. However, given the great diversity of AIF types and investors, changes that improve cost efficiencies in one sector of the AIF market might be detrimental to another sector. We welcome feedback on any possible unintended economic consequences of greater flexibility.

Other issues

13.42 As well as the more structural matters discussed above, there are some specific points we are reviewing:

- simplifying the approach to treatment of securities lending/repo
- removing prescriptive rules for contents of AIFM/depositary agreement
- clarifying AIF cash account rules to facilitate settlement in overseas markets where non-bank entities need to be involved.

13.43 We will go into more detail on these points in our second consultation paper.

13.44 We recently consulted in CP26/16 on proposals to revise our rules concerning registration of authorised fund assets. We noted that we might consider further adjustments to our proposals as part of the review of the AIFMD regime. We intend to include such proposals in our second consultation paper, having taken account of the feedback to CP26/16. This is likely to include a review of the definition of 'AIF custodial asset' to keep it compatible with good market practice.

13.45 At present, depositaries must have regard to both the specific requirements for operating custody arrangements under the AIFMD regime and the standard FCA rules in CASS 6. We will consider whether we can simplify the relationship between these sets of rules.

13.46 We do not intend to propose any differences in the depositary rules between medium and large AIFMs. Being required to apply differing procedures to AIFMs based on fixed size metrics would not necessarily help depositaries, and it could lead to confusion about which requirements apply. As is the case today, firms will be required to develop and apply oversight procedures that are consistent with the nature, scale and complexity of the relevant AIFM and the AIFs it acts for.

13.47 We want to offer AIFMs and depositaries greater flexibility to meet investors' needs by operating in the most efficient way while maintaining an appropriate level of protection. We also want as far as possible to avoid forcing firms to make changes where they and their investors are content with existing depositary arrangements. We think that a regime incorporating the ideas in this chapter could be applied proportionately to all types of AIF managed by a medium or a large UK AIFM, but will consider further representations about this when finalising our proposals.

13.48 Consultation questions:

Question 28: **Should all large and medium UK AIFMs continue to appoint a depositary for each unauthorised AIF they manage? If not, why not?**

Question 29: **Could the depositary regime could be made more proportionate for certain types of unauthorised AIF, and if so how?**

Question 30: Should a small UK AIFM not be required to appoint a depositary for each unauthorised AIF it manages, but be able to opt to do so?

Question 31: Should an AIFM be able to appoint more than one depositary for the same AIF so that they can carry out different functions? What impact might this have on competition?

Question 32: Does our analysis of how responsibilities could be shared between depositaries performing functions for the same AIF capture all relevant aspects? Is there anything else that we should consider?

Question 33: Do you agree with our proposed approach to the cash monitoring function? Please explain any pros and cons.

Question 34: Would allowing greater flexibility in depositary models be beneficial to the market for providing oversight services? If not, why not?

Chapter 14

Discussion chapter: Prime brokers

14.1 In this chapter, we discuss the role of prime brokers but are not proposing specific rules concerning them in this consultation. We intend to propose rules and guidance in our second consultation paper. This is because the AIFM regime for prime brokers is closely linked with the depositary regime. So, we want to take account of feedback both in relation to prime brokers and to depositaries, as discussed in the previous chapter.

14.2 AIFMs managing unauthorised AIFs (hedge funds in particular) rely on prime brokers to function efficiently. A prime broker, typically an investment bank, provides operational and financial services including trade execution, lending, custody, data reporting and infrastructure.

14.3 The importance of this relationship is highlighted by prime brokers holding fund assets, possibly re-using them as collateral, and extending leverage to funds. The failure of Lehman Brothers in the early stages of the global financial crisis illustrates the potential for prime brokers to cause problems for funds and their investors and amplify systemic risk.

14.4 Prime brokers are subject to a range of regulations to mitigate their risks. The AIFMD regime sought to regulate the relationship between AIFMs and prime brokers, aiming to address counterparty risk management. The rules primarily regulate the AIFM and depositary rather than the prime broker. The AIFM must carry out proper due diligence before appointing a prime broker for an AIF it manages.

14.5 The rules ensure that the prime broker's access to the AIF's assets sits within the AIFM depositary framework. This means that a prime broker can only hold AIF assets if it is appointed as a delegated sub-custodian of a depositary. The depositary must be functionally separate from the prime broker – important within the context of a wider banking business – and must retain oversight and responsibility for the prime broker's custody activities. The prime broker, additionally, must segregate an AIF's assets from its own and other clients' assets, and ensure that rehypothecation of the AIF's assets is done transparently and with the AIFM's permission.

14.6 The rules seek to maintain consistency between the contractual arrangements of AIFMs, prime brokers and depositaries. AIFMs are required to disclose to their investors the existence, nature, and risks of the prime broker relationship, both before they invest in the fund and periodically after.

14.7 Currently, AIFM prime broker rules are found in both the FUND sourcebook and in the Level 2 Regulation. Once the Level 2 Regulation is revoked, any replacement rules will form part of the new ALTS sourcebook. A single source for all AIFM prime broker rules should be simpler for firms to navigate.

14.8 We think it is reasonable and proportionate to continue to have rules requiring an AIFM to carry out proper due diligence on any prime broker it wishes to appoint, and to ensure that adequate contractual arrangements are put in place between the prime broker and

the depositary. We think, however, that detailed prescription will be unnecessary since all the parties involved are authorised persons who should be capable of meeting their obligations to one another under the regulatory system.

14.9 In the previous chapter we explained how we are looking to change the rules for depositaries, and how these changes might impact the role of UK authorised prime brokers. We will consider the role of prime brokers when developing our depositary rules and make proposals in the subsequent consultation paper.

14.10 It is important to note that rules in various parts of the new ALTS sourcebook will directly or indirectly affect AIFMs' relations with prime brokers and the activities that prime brokers carry out on behalf of AIFs. These include the leverage-related rules such as risk management requirements and reporting to us, disclosures to fund investors including in relation to securities financing transactions, and the depositary rules.

14.11 International standard-setters continue to consider risks in relation to non-bank financial intermediation. This includes risk data sharing between hedge funds and their counterparties and hedge fund exposures across prime brokers. We will take account of these wider developments in our proposals.

Consultation question

Question 35: **Do you agree with our intention to broadly retain but simplify the existing requirements for prime brokers, subject to any changes we make to the depositary regime? Is there anything else relevant that we should consider?**

Chapter 15

Consequential changes: operating conditions

15.1 As described in the opening chapters, the AIFM rules are currently in several sources spanning legislation and regulations. We intend to bring many areas of the Level 2 Regulation, and some areas of the AIFMR legislation, into FCA rules.

15.2 In doing so, we want to ensure that those provisions are coherent with the rules in our sourcebook that apply to AIFMs. Furthermore, due to the changes to the AIFM regime reflected in the new ALTS sourcebook and the AIFMRs, the rules for AIFMs in other sourcebooks must work effectively.

15.3 Many of the consequential changes that we make will be minor and aim to maintain the scope and effect of the current rules. Other areas are more complex. This is particularly so for the systems and controls rules in SYSC and the conduct of business rules in COBS. These rules set baseline standards for many types of firms but also apply rules to specific types of firms, including different types of asset managers. The changes to the scope of the AIFM regime, and specifically the changes to the firm size thresholds, mean that we considered these rules carefully.

15.4 To bring across the provisions of the Level 2 Regulation, we propose amending various rules in SYSC and COBS. Where other rules taken from the Level 2 Regulation are specific to AIFMs, we have added them to the ALTS Sourcebook in ALTS 3. Where possible we have simplified and standardised the requirements and removed rules we consider unnecessary because they are covered elsewhere.

Amendments to SYSC

15.5 Some SYSC rules currently apply to full-scope UK AIFMs but not to small authorised UK AIFMs. These often either set basic requirements or are generic enough that they can apply to all authorised UK AIFMs. In general, where a rule currently applies to UK UCITS management companies and MiFID portfolio managers of any size, we do not see a strong rationale for continuing to maintain a different treatment for small authorised UK AIFMs.

15.6 For example, SYSC 4.1.2B requires that the systems and controls of full-scope UK AIFMs take account of UCITS managed by the firm. Similarly, the systems and controls of a UCITS management company must take account of any AIFs that it manages. This rule applies to a UCITS management company of any size, so we consider that it should similarly apply to all authorised UK AIFMs of any size.

15.7 In SYSC 4.1.2C, we plan to apply to all authorised UK AIFMs the rule that the firm must have and effectively employ the resources and procedures necessary for the proper performance of its business activities. We consider this rule sufficiently high-level and

generic that it is unlikely to set materially different standards for small authorised UK AIFMs compared to their current position.

15.8 There are also some provisions that are currently in the Level 2 Regulation where we have taken a similar approach of applying the standard to all AIFMs regardless of their size. For example, we plan to apply to all authorised UK AIFMs the requirement that they must carry out a regular review of their systems and controls. This rule currently only applies to full-scope AIFMs.

15.9 We plan to apply to all authorised UK AIFMs the rules in SYSC 4.2.1R, 4.2.1BR and 4.2.2R that set basic requirements around the senior management of an AIFM. SYSC 4.2.1BR requires that the senior management must be sufficiently experienced in relation to the investment strategies of the AIFs it manages. There is no equivalent rule for other types of investment manager. But we consider this an appropriate standard in the case of AIFMs, since many of these firms operate complex and high-risk investment strategies. We think it is unlikely that many, if any, small authorised UK AIFMs would not meet this standard.

15.10 We also plan to require the management of all authorised UK AIFMs to consist of at least 2 people who are reputable and experienced. We consider this is an appropriate minimum standard for any AIFM to comply with, not least because it currently applies to other types of fund and asset management firms apart from small authorised AIFMs. But we recognise that, because this rule does not currently apply to small authorised AIFMs, there may be firms that would not currently meet this standard. We would welcome feedback on whether this would create any problems in practice.

Amendments to COBS

15.11 In COBS, the COBS 2.2B rules on shareholder engagement currently only apply to full-scope UK AIFMs. They apply to MiFID portfolio managers and UK UCITS management companies of all size, and on a 'comply or explain' basis. They apply only where an AIF invests in shares traded on a regulated market. So, we consider it would be simpler and more coherent to apply the rules to all authorised UK AIFMs.

Rules in ALTS 3

15.12 We have added some elements of the AIFMD Level 2 regulation to ALTS 3. We have included elements that are specific to AIFMs in this sourcebook to avoid adding sector specific rules to other sourcebooks. These rules mainly derive from sections 1 and 6 of chapter III of the Level 2 Regulation and cover areas such as investors' best interests and handling and recording of orders. These rules are typically generic or currently apply to small authorised AIFMs through other rules. So, we plan to apply most of the rules in this chapter to all authorised UK AIFMs.

15.13 We have retained the provision in article 37 for firms to have strategies for the exercise of voting rights. However, because this is likely to be most important for the largest AIFMs, we propose only requiring this for large UK AIFMs.

Future amendments

15.14 There are more areas in our rules that apply similar but slightly different rules to asset managers doing different activities – whether managing AIFs, UCITS, or undertaking MiFID business. Over time, we want to make the asset management regime more coherent and consistent, removing unnecessary differences and structural biases in the rules. Soon, we will publish a Policy Statement to reconcile asset managers' rules on conflicts of interest. We welcome views on areas that cause difficulties for firms and where we should prioritise our reform efforts.

15.15 Many consequential amendments are reflected in the draft rules that we are consulting on. Others will depend on the outcomes of consultation and the Treasury's final legislation. We will consult on those amendments in our second consultation on the AIFM regime.

Consultation questions:

Question 36: **Do you agree with our approach to consequentials in these sourcebooks? If not, what do you disagree with and what alternative approach would you suggest?**

Question 37: **Are there areas of the asset management regime we should consider first to ensure consistency and remove unnecessary differences in our rules?**

Chapter 16

Discussion chapter: removing the business restriction

Background

16.1 AIFMD includes a restriction on the range of activities that a full-scope UK AIFM may carry on. In broad terms, a full-scope UK AIFM may only manage AIFs and provide certain closely related ancillary services. Small authorised UK AIFMs are not subject to this restriction.

16.2 As previously described, the Treasury is removing the legislative distinction between small and full-scope AIFMs. So, we need to decide whether and how to apply the business restriction under the new regime.

16.3 There is no simple option to retain the current position. We could retain the approach of not applying this to small firms but applying it to medium and large ones. But changes to thresholds will alter the population of firms subject to it, even if the restriction itself is unchanged. We therefore consider it appropriate to review whether the restriction remains proportionate, well targeted and internally consistent.

16.4 The business restriction for AIFMs was modelled on a similar requirement in the UCITS regime. The EU legislation did not articulate a purpose in applying this rule to AIFMs. We consider that it aimed to manage potential structural conflicts of interest within firms and to support effective supervision. It limits the activities of larger AIFMs to a defined perimeter, reducing the risk that issues arising from other activities could affect AIFMs.

Evidence for its impact

16.5 As well as not applying to small authorised UK AIFMs, the business restriction does not apply to segregated portfolio managers. Because of this, we can compare the Part 4A permissions held by asset managers subject to the business restriction with those not subject to it.

16.6 The business restriction appears to have had limited impact on containing risk. Few UK asset management firms not subject to the business restriction have permissions to carry out activities that would not be possible under it. But for firms that want to do so, the business restriction creates complexity. In these cases, the business restriction forces firms to set up affiliates which must then be separately authorised.

Issues we have identified

16.7 We have identified two main issues with the current framework.

16.8 First, as firms move through the current thresholds, they may move into or out of scope of the restriction without any material change in their activities or risk profile. This may create cliff-edge effects, uncertainty for firms, and incentives to manage assets around thresholds.

16.9 Second, there are inconsistencies between the business restriction and other regulatory requirements. For example, small authorised AIFMs are currently subject to transaction reporting requirements, while full-scope AIFMs are not. This reverses the usual position that full-scope AIFMs are subject to more onerous requirements. One reason for this is that small authorised AIFMs can carry out a wider range of activities.

Options for change

16.10 Against this background, we have identified four broad options, which are not mutually exclusive. Respondents may wish to comment on alternative approaches.

Option 1: Apply the business restriction to all authorised AIFMs

16.11 Under this option, the business restriction would apply to both small and full-scope AIFMs. Thresholds would continue to determine how other requirements apply, but not whether the restriction applies.

16.12 This would lead to a single regime which would be more coherent from a policy perspective. The restriction would limit the activities of all types of fund manager to investment management activities. If there is evidence that the business restriction mitigates structural risks around fund managers carrying out other regulated activities, it might be better to apply it to all types of AIFM, rather than only larger ones. There would be potential operational benefits for new firms as they would not be required to change business model or set up new entities as they cross the threshold.

16.13 However, we are not currently convinced that there is sufficient evidence that this is proportionate. This option would either lead to additional costs for those firms who become subject to the business restriction, whose business model would require them to alter their structure or force them to stop carrying out additional activities.

Option 2: Retain the restriction only for large and medium AIFMs

16.14 Under this option, the business restriction would continue to apply only to larger AIFMs. Firms that are currently full-scope but become reclassified to become small AIFMs would not be subject to it, but larger firms would.

16.15 Potential benefits:

- Supports a more risk-based approach.
- Limits the restriction to firms where wider activities are more likely to create supervisory or stability risks.
- Reduces the impact of threshold changes on smaller firms.

16.16 Potential drawbacks:

- Adds complexity and boundary issues, particularly for firms close to the thresholds.
- Does not provide a clear policy rationale for why only some types of AIFM should be subject to it.

Option 3: Modify the restriction and align it with other regulatory requirements

16.17 Under this option, the business restriction would be retained in principle but modified. For example, AIFMs could be permitted to carry on additional regulated activities, subject to appropriate safeguards. If we took this approach, we would review related requirements, such as the rules around transaction reporting, to ensure this does not create anomalous requirements between firms doing the same activities . The EU has changed the business restriction under AIFMD II in this way, so that a wider range of activities are permitted for firms based in the EU, and there is no longer a requirement for such a firm to be authorised to do individual portfolio management in order to do the other ancillary activities.

16.18 Potential benefits:

- Provides greater flexibility for firms to organise their activities.
- Allows the framework to be better aligned, reducing anomalies between small and larger AIFMs.
- Retains regulatory safeguards preventing firms from carrying out activities that are incompatible with an investment management business model.

16.19 Potential drawbacks:

- Requires careful design to avoid creating new inconsistencies.
- May increase supervisory judgement and resource demands.
- Could result in more complex rules.

Option 4: Remove the AIFMD business restriction

16.20 Under this option, the AIFMD business restriction would be removed. We would instead rely on the wider regulatory framework, including prudential, conduct and governance requirements, to manage risks associated with the activities of AIFMs.

16.21 Rather than have a rule restricting the activities a firm can undertake, we could assess risks at the authorisation gateway. In many other financial services sectors, there is

no specific restriction on the portfolio of regulated activities that a firm can carry out. But under the threshold conditions, a firm's business model must be appropriate. As noted above, few MiFID investment managers in practice have permissions to carry out a wide range of other regulated activities. When a firm applies for authorisation or for a variation of permission, we challenge business models that we consider might be inappropriate.

16.22 Potential benefits:

- Supports a more principles-based, outcomes-focused approach.
- Removes cliff-edge effects associated with thresholds.
- Allows firms greater freedom to structure their business efficiently.

16.23 Potential drawbacks:

- Increases reliance on firms' governance and controls.
- May make supervision more complex for firms with diverse activities.

16.24 On balance, we think the best option is to remove the business restriction for all firms. We will continue to work on the implications of this in other areas. If we were to do this, we are likely to turn off transaction reporting for all AIFMs rather than extend it to more firms. We have reviewed the transaction reports that we currently receive for small authorised AIFMs and consider that we would not lose material information if we were to do this. But firms should not structure themselves as AIFMs simply to avoid transaction reporting, so we may need to add rules to mitigate this risk. Beyond that, we think the risks of firms carrying out additional activities can be managed at the authorisation gateway, as in many other sectors.

16.25 Consultation question:

Question 38: What are your views on the options we have presented? Are there other approaches that we should consider?

Chapter 17

Discussion chapter: Reviewing the prudential regime for fund managers

17.1 In this chapter, we consider the potential future framework for AIFMs, UCITS management companies (UCITS ManCos) and residual CIS operators (together, fund managers). We want to take a holistic view of how prudential requirements should work across the asset management sector. For firms subject to the Investment Firm Prudential Regime (IFPR), we will review this framework as part of a broader workstream, which will include a Call for Input, which we'll publish in the second half of this year.

17.2 This review covers AIFMs across all three categories (full-scope, small authorised and small registered). However, consistent with chapter 2 of this CP, RVECAs, SEFs and internally managed closed-ended investment companies that fall below the current thresholds, are not included.

17.3 Full-scope UK AIFMs and UCITS ManCos are currently subject to broadly comparable prudential requirements in Chapter 11 of the Interim Prudential Sourcebook for Investment Businesses (IPRU-INV 11). As a significant proportion of UCITS ManCos also manage AIFs, they are included within this review.

17.4 Residual CIS operators fall outside the AIFMD regime but may undertake portfolio management and related activities that in certain circumstances give rise to similar operational and conduct risks. We have therefore also included residual CIS operators within this review.

17.5 This chapter also considers the prudential treatment of collective portfolio management investment firms (CPMIs).

Why we need prudential requirements

17.6 At a high level, prudential requirements aim to reduce the risk of harm both during the life of firms and at the time of firm failure. Holding appropriate financial resources can help firms to:

- remain financially viable and continue to provide services through an economic cycle, including during periods of stress
- put right any harm they cause to consumers or market participants
- exit the market without causing material harm to consumers or to the integrity of the UK financial system

17.7 Fund managers operate on an agency model, managing funds on behalf of investors, with market and counterparty credit risks held within the fund rather than on the fund manager's balance sheet. However, fund managers still face operational and conduct risks. These include losses from trading or pricing errors, compensation

costs, the resources needed to maintain services during stress, and the costs of an orderly wind-down.

17.8 These risks can crystallise in ways that disrupt fund management activity and undermine confidence in the market. Prudential requirements are designed to ensure that firms have sufficient resources to absorb losses/costs, continue operating where appropriate or exit the market without causing material harm. An appropriately calibrated prudential framework can support sustained, long-term growth.

17.9 While fund manager failures in the UK have been relatively infrequent, when they do occur the harm to investors tends to arise not from conventional balance-sheet insolvency but from operational and governance failures, fund liquidity mismatches, investment mandate breaches or the disorderly cessation of management. This has been illustrated by a number of high-profile cases in recent years. An appropriately designed prudential framework can reduce the likelihood of such outcomes and support a more orderly exit where they do occur.

Issues with the current framework

17.10 We have identified 3 main issues with the current framework:

17.11 Complexity: The current framework has become increasingly complex, particularly for firms undertaking multiple regulated activities. Many fund managers are subject to more than one prudential regime (for example, CPMIs under both IPRU-INV and MIFIDPRU). This creates an additional compliance burden and reduces clarity over firms' risk based prudential obligations.

17.12 Inconsistency: Firms undertaking broadly similar activities can face materially different prudential treatment due to historic thresholds and categories. For example, a firm managing assets below the AIFMD threshold is subject to a minimum capital requirement of £5,000, whereas a firm undertaking the same activities above that threshold faces a requirement of EUR 125,000 or EUR 300,000 depending on whether the fund is externally or internally managed. These distinctions do not always align clearly with risks posed to consumers or markets, and may place firms of similar size on an uneven competitive footing.

17.13 Omissions: Parts of the current framework do not include forward-looking requirements on risk assessment, liquidity and wind-down planning comparable with more recent prudential regimes. An important element of a prudential framework is to encourage firms to plan for future stresses in a proportionate manner.

Our direction of travel

17.14 Regulatory approaches to fund manager prudential risk differ across jurisdictions, some place greater emphasis on ex ante capital and liquidity requirements, while others rely more on professional liability obligations, civil liability frameworks or enforcement-based incentives to drive appropriate standards of financial resilience.

17.15 In line with our 5-year strategy, we want to remove complexity and support growth and innovation, while ensuring there is adequate consumer protection and market integrity. We also want our prudential framework to be proportionate and sensitive to risk.

17.16 In our view, the most effective way to address these issues is likely to be to bring fund managers within the scope of our Core Prudential Sourcebook (COREPRU). COREPRU is the integrated prudential framework we have developed as the common baseline for the firms we prudentially regulate. It is built around a set of prudential concepts, which would be applied consistently across sectors, with sector-specific elements added only where the risks of a particular activity require them.

17.17 A common baseline of this kind is intended to deliver greater consistency, proportionality and simplicity across the firms we regulate, while giving firms more flexibility in how they meet requirements. We consulted on the COREPRU framework through our work on the prudential regime for cryptoasset firms. We have set out the finalised rules for COREPRU in PS26/12.

What we are seeking

17.18 In the remainder of this chapter, we are seeking views on how key individual components of COREPRU could be applied to fund managers, alongside Professional Indemnity Insurance (PII) and regulatory reporting. We welcome feedback to inform our development of proposed rules and to ensure the future prudential framework strikes the right balance between supporting firm resilience and avoiding unnecessary burden and costs. We are mainly seeking views on our direction of travel, as we will set out specific rules in a future consultation paper.

Baseline financial resources requirements

17.19 Baseline financial resources requirements set the minimum for level of capital and liquid assets that firms must hold. They should reflect both the scale of a firm's activities and the potential harm that could arise through the business cycle or from failure.

17.20 Under the COREPRU framework, baseline capital requirements are determined as the higher of either a permanent minimum requirement (a base capital requirement), an activity-based requirement or a fixed overhead requirement. For fund managers subject to chapter 5 and 11 of IPRU-INV, where applicable, some of these baseline capital requirements are additive to one another.

Base capital requirements

17.21 Base capital requirements currently differ significantly across fund managers, with small authorised UK AIFMs and residual CIS operators subject to a base £5k requirement compared to EUR 125,000 (externally managed AIFMs and UCITS ManCos) or EUR 300,000 (internally managed AIFMs). The current framework also introduces cliff edges as firms grow. For example, small authorised UK AIFMs may see minimum capital requirements rise sharply from £5,000 to EUR 125,000 or EUR 300,000 when they become full-scope, and a similar step change can occur when small registered UK AIFMs exceed the EUR 100million threshold.

17.22 These increases do not always correspond to an equivalent change in risk. A smoother calibration could support firms' growth while maintaining appropriate prudential safeguards.

17.23 We therefore want to consider whether base capital requirements should be recalibrated to reduce cliff-edge effects and better reflect the scale and nature of firms' activities.

Activity-based requirements

17.24 Capital requirements for full-scope UK AIFMs and UCITS ManCos include a funds under management (FuM) requirement. This is set at 0.02% of the amount by which FuM exceed €250m, capped overall at €10m. A common concern with activity-based metrics is that changes in fund values are reflected in the fund's accounts rather than managers' balance sheets and therefore do not directly capture the fund manager's own financial exposure to those movements.

17.25 There is, however, a distinct category of risk that falls directly on the fund manager arising from the business of managing funds. These are operational and conduct risks, such as errors, negligence or misconduct requiring firms to compensate investors, which can scale with assets under management. Because activity-based metrics scale in the same way, they can signal the potential impact on clients and markets and provide a proxy for operational complexity and client exposure.

17.26 Where a small authorised UK AIFM also holds MIFIDPRU authorisation, K-AUM applies to the assets it manages under its MiFID permissions (i.e. individually managed client portfolios). However, the assets it manages in its AIFM capacity are not subject to the FuM requirement that applies to full-scope AIFMs. They remain subject only to the £5,000 base requirement under IPRU-INV 5. Small registered AIFMs and residual CIS operators have no equivalent activity-based metric. As a result, the scale of assets managed is not reflected consistently in prudential requirements across fund managers, even where activities may give rise to a similar level of harm.

Fixed overhead requirement

17.27 A fixed overhead requirement helps ensure that firms have sufficient resources to support an exit from the market without causing material harm. However, its current application for fund managers is inconsistent.

17.28 Full-scope UK AIFMs and UCITS ManCos must hold capital of at least 1 quarter of their fixed overheads from the preceding year. For small authorised UK AIFMs and residual CIS operators, who are not subject to MIFIDPRU, an expenditure-based requirement only applies in certain cases, set at either 6 or 13 weeks of annual expenditure. There is no equivalent requirement for small registered UK AIFMs, except for managers of RVECAs and SEFs who must hold 1/8th of fixed overheads.

17.29 Greater consistency could help ensure that firms undertaking similar activities hold resources that better match the potential costs of exit and improve regulatory outcomes.

17.30 We welcome views on whether base capital requirements, activity-based requirements and fixed overhead requirements are the appropriate components for baseline financial resources for fund managers, and how they should interact with each other.

Question 39: **Do base capital requirements, activity-based requirements and fixed overhead requirements appropriately reflect the scale and nature of fund managers' activities and, if you think they do, how should they be calibrated?**

Question 40: **To what extent should the risk of compensating investors for errors, negligence or misconduct, which can scale with assets under management, inform the design of activity-based metrics for fund managers?**

Basic liquid assets requirement

17.31 Alongside capital requirements, firms should also maintain a minimum level of liquidity (readily realisable assets such as cash). Doing so helps to ensure that firms can meet liabilities as they fall due or to exit the market without causing material harm. While fund managers typically have low levels of on-balance sheet liabilities, they still have contractual and operational liabilities (such as third-party costs, employee costs and other operational expenses), which must continue to be met even during wind-down, when fee income may have ceased.

17.32 The current liquidity requirements vary across fund managers depending on the applicable sourcebook and rules. A basic liquid asset requirement could help address this by setting a minimum level of liquidity required to service liabilities as they fall due or support an orderly wind-down. This could be calibrated in different ways, including as a proportion of fixed overheads serving as a proxy for the liquidity needed to cover operating or wind-down costs across firms of different sizes and business models.

17.33 We therefore seek views on whether a basic liquid asset requirement should apply to fund managers and, if so, how it should be calibrated.

Question 41: **To what extent are firm-level liabilities and the costs of wind-down significant for fund managers, and should they be subject to a basic liquid asset requirement; if so, how should this requirement be calibrated?**

Capital and liquid assets interaction

17.34 Capital quality (also known as own funds) is concerned with loss absorption. It determines which tiers of capital a firm may use, and in what proportions to meet capital requirements. Liquid asset requirements are concerned with what resources a firm can rapidly mobilise to meet its obligations as they fall due.

17.35 In most prudential frameworks, the quality of capital and the requirement to hold liquid assets are treated as distinct but complementary obligations. The current framework

for full-scope UK AIFMs and UCITS ManCos creates a closer linkage between these two by requiring that part of their capital requirement be held in qualifying liquid assets.

17.36 We are considering whether capital composition and liquid asset requirements should remain linked or whether they would be better calibrated separately to reflect that risks to capital and liquidity can arise in different ways. We are also considering whether a consistent standard for the quality of capital and liquid assets should apply.

Question 42: **How should capital and liquidity requirements interact for fund managers, and should a consistent standard for the quality of own funds and liquid assets apply, taking account of the typically simple nature of fund managers' firm-level balance sheets?**

Risk management and wind-down planning

17.37 Effective risk management and wind down planning are key components of a sound prudential framework. While we recognise that fund assets are held separately from the fund manager, it is imperative for the fund manager to ensure that these assets are managed effectively, both during business as usual as well as in wind-down.

17.38 Fund managers are not currently required to carry out a formal, structured assessment of their capital and liquidity adequacy. Instead, they are guided by the expectations in FG20/1: Assessing Adequate Financial Resources.

17.39 The overall risk assessment under COREPRU builds on this by introducing a more structured and consistent approach, helping firms better link risks, resources and their ability to exit the market without causing harm on a forward-looking basis.

17.40 Wind-down planning remains an important tool in this context. Credible and realistic wind-down arrangements can limit disruption to clients and reduce risks to market integrity where a firm is unable to continue operating. We have published guidance on what an effective wind-down plan might include. However, formal expectations are not applied consistently across the firms we prudentially regulate.

17.41 We are therefore considering whether more structured and consistent requirements should apply, and how these could be calibrated proportionately given differences in firms' scale, complexity and risk profiles. A more structured approach could create a common baseline that helps firms better understand the link between their risks, resource needs and ability to exit the market without causing material harm.

Question 43: **To what extent should structured risk management and wind-down planning expectations apply to fund managers, given that fund assets are held separately from the manager and do not count towards insolvency, and how should any such expectations be calibrated proportionately across firms of different sizes, complexity and risk profiles?**

Professional indemnity insurance

17.42 PII can mitigate losses arising from negligence claims, but reliance on PII has limitations. Coverage may be subject to exclusions, caps or conditions, and claims may not be settled promptly. The availability and cost of insurance can also vary. PII does not therefore replace the need for adequate capital, liquidity and effective governance.

17.43 Currently, full-scope UK AIFMs are required hold liquid assets to cover either a PII capital requirement or a professional negligence capital requirement. We are considering how PII should operate within the wider prudential framework, including whether such requirements should be retained and, if so, under what conditions.

Question 44: **What role should PII play within a prudential framework for fund managers?**

Reporting

17.44 Prudential reporting supports effective supervision, but requirements for fund managers vary across regimes. Firms undertaking similar activities face different reporting expectations, while those operating across multiple regimes may need to submit overlapping or duplicative information. Alongside this CP, we have published a CP on FRAME, a new unified reporting framework to address some of these inconsistencies.

17.45 We also recognise that indicators of a firm's operational-risk profile (such as trade and pricing errors, valuation and model errors, business-continuity failures, fraud events, compliance breaches and redress events including near-misses) are a leading signal of potential or realised harm to investors and of pressure on a firm's own funds.

17.46 We are considering how prudential reporting could be better aligned with the core prudential components discussed in this chapter, what additional reporting would best capture these operational-risk indicators, and how data collected through FRAME could reduce duplication for firms subject to more than one prudential framework.

Question 45: **How could our data collection be improved, and where firms are subject to multiple prudential regimes, how significant are overlapping or duplicative reporting requirements?**

Question 46: **What types of reporting would provide reliable indicators of potential or realised harm to fund investors or other market participants, including operational errors, redress events and near-misses?**

Collective portfolio management investment firms

17.47 CPMIs are subject to both the IFPR and AIFMD, requiring firms to apply 2 prudential sourcebooks in parallel (IPRU-INV 11 and MIFIDPRU). This requires separate calculations

and may lead to overlapping requirements, even where the underlying activities and risks are closely aligned.

17.48 We are therefore seeking views on whether changes to the CPMI framework could deliver a more coherent and proportionate prudential regime. This could improve consistency across firms undertaking similar activities, reduce complexity and duplication in prudential calculations, and make regulatory expectations clearer.

Question 47: **How could the prudential framework for CPMIs be designed to better reflect the nature of their combined fund management and MiFID investment activities?**

Annex 1

Questions in this paper

Question 1: Do you agree with our proposed size calculation, i.e. the aggregate NAV of all CIS and non-CIS AIFs and non-AIF CIS, managed by the AIFM?

Question 2: Do our proposals for firms moving between thresholds, including SUP15 notifications and a delayed application of new rules, remove the cliff edge effects in the current regime?

Question 3: Do you foresee any challenges and practical issues because of the Treasury's clarification of the definition of an AIF, and the potential for some non-AIF CISs to be reclassified as AIFs?

Question 4: Do you think that the SYSC and COBS rules that currently serve as guidance should be applied as rules to residual CIS operators? Please explain why or why not. Are there any other rules that you think we should consider applying to residual CIS operators?

Question 5: Do you have any comments on our proposal to apply enhanced investor disclosure requirements to some categories of residual CIS?

Question 6: Should AIFMs only appoint an independent valuer subject to certain conditions? If so, do you agree with the conditions that we have proposed?

Question 7: Do the baseline rules we propose represent an appropriate standard to set for all AIFMs?

Question 8: Should we remove the gross and/or commitment method calculations or would you prefer the regime to retain an adjusted version of the calculations?

Question 9: Does a hedging exemption for closed-ended AIFs that use leverage only for hedging purposes work well to tailor our risk management and liquidity rules? If so, how should hedging be defined?

Question 10: Should we allow AIFs to undertake a de minimis level of leverage (for investment purposes)? If so, how should the de minimis level be calculated? What is the appropriate threshold?

Question 11: Can you foresee any benefits or challenges in allowing firms to disclose to a fund's investors a leverage method that is best suited to the AIF?

Question 12: Should all AIFMs be subject to baseline standards, with additional requirements applying according to the type of AIF managed and the size of the firm? If not, what alternative approach would you suggest?

Question 13: Should firms managing only closed-ended, unleveraged AIFs be subject only to baseline risk management requirements? If not, what alternative approach would better reflect the risks posed by those firms?

Question 14: Should the largest firms should remain subject to a more detailed framework that preserves the substantive standards of the current regime, while simplifying the drafting where possible? If not, why not?

Question 15: Should small AIFMs should be required to comply with new, simplified liquidity risk management rules?

Question 16: We propose that medium and large UK AIFMs of open-ended AIFs that invest in other open-ended funds should be required to 'look through' to the portfolio of those other funds to better assess the liquidity risk. Can you foresee any issues that we should be aware of?

Question 17: Are there any rules that are unnecessary for medium AIFMs or areas in which medium AIFMs should not be subject to the same level of prescription as large AIFMs?

Question 18: Do you have any comments on our general approach to delegation?

Question 19: Do you agree with our proposals on delegation of investment management activities to entities that are not authorised or supervised for that activity?

Question 20: Do you agree with the proposed changes to the requirements applying to an AIF's annual report? If not, please explain.

Question 21: What are your views on requiring small UK AIFMs and certain operators of residual CISs to prepare an annual summary for its investors?

Question 22: Have we struck the right balance between removing prescription from the disclosures to professional investors and ensuring that those investors can access

the information they need? Are there areas of the rules that could be made more or less prescriptive?

Question 23: Do you agree with our approach for AIFM retail disclosures? Do you think it is proportionate to the risks posed by these products?

Question 24: Do you agree with our proposal to disapply the COBS 16.3 periodic reporting rules and rely on our proposed disclosure rules instead?

Question 25: Have we adequately taken account of the differences between the company board and the AIFM and reflected the split of responsibilities in the AIFM rules?

Question 26: Does our proposal to disapply the AIFM investor disclosure, and reporting and notification to investor rules for closed-ended investment companies admitted to trading on a UK regulated market, fully account for equivalent outcomes that are delivered through other requirements?

Question 27: Do you have any comments on our proposed guidance on the NPPR?

Question 28: Should all large and medium UK AIFMs continue to appoint a depositary for each unauthorised AIF they manage? If not, why not?

Question 29: Could the depositary regime could be made more proportionate for certain types of unauthorised AIF, and if so how?

Question 30: Should a small UK AIFM not be required to appoint a depositary for each unauthorised AIF it manages, but be able to opt to do so?

Question 31: Should an AIFM be able to appoint more than one depositary for the same AIF so that they can carry out different functions? What impact might this have on competition?

Question 32: Does our analysis of how responsibilities could be shared between depositaries performing functions for the same AIF capture all relevant aspects? Is there anything else that we should consider?

Question 33: Do you agree with our proposed approach to the cash monitoring function? Please explain any pros and cons.

Question 34: Would allowing greater flexibility in depositary models be beneficial to the market for providing oversight services? If not, why not?

Question 35: Do you agree with our intention to broadly retain but simplify the existing requirements for prime brokers, subject to any changes we make to the depositary regime? Is there anything else relevant that we should consider?

Question 36: Do you agree with our approach to consequentials in these sourcebooks? If not, what do you disagree with and what alternative approach would you suggest?

Question 37: Are there areas of the asset management regime we should consider first to ensure consistency and remove unnecessary differences in our rules?

Question 38: What are your views on the options we have presented on the AIFM business restriction? Are there other approaches that we should consider?

Question 39: Do base capital requirements, activity-based requirements and fixed overhead requirements appropriately reflect the scale and nature of fund managers' activities and, if you think they do, how should they be calibrated?

Question 40: To what extent should the risk of compensating investors for errors, negligence or misconduct, which can scale with assets under management, inform the design of activity-based metrics for fund managers?

Question 41: To what extent are firm-level liabilities and the costs of wind-down significant for fund managers, and should they be subject to a basic liquid asset requirement; if so, how should this requirement be calibrated?

Question 42: How should capital and liquidity requirements interact for fund managers, and should a consistent standard for the quality of own funds and liquid assets apply, taking account of the typically simple nature of fund managers' firm-level balance sheets?

Question 43: To what extent should structured risk management and wind-down planning expectations apply to fund managers, given that fund assets are held separately from the manager and do not count towards insolvency, and how should any such expectations be calibrated proportionately across firms of different sizes, complexity and risk profiles?

Question 44: What role should PII play within a prudential framework for fund managers?

Question 45: How could our data collection be improved, and where firms are subject to multiple prudential regimes, how significant are overlapping or duplicative reporting requirements?

Question 46: What types of reporting would provide reliable indicators of potential or realised harm to fund investors or other market participants, including operational errors, redress events and near-misses?

Question 47: How could the prudential framework for CPMIs be designed to better reflect the nature of their combined fund management and MiFID investment activities?

Questions in the CBA

Question 1: Do you consider these estimates reflect the cost of complying with AIFMD? Where possible, please provide alternative quantitative estimates.

Question 2: How would the increased flexibility in our requirements for small and medium AIFMs benefit your firm and the funds it manages? Please provide a description of the benefit these changes will make and, where possible, provide quantitative estimates.

Question 3: Do you consider there to be new risks to investors from reduced prescription in our rules for small and medium AIFMs?

Question 4: Do you have any comments on our cost benefit analysis?

Annex 2

Cost benefit analysis

Executive summary

1. The UK Alternative Investment Fund Managers Directive (AIFMD) was introduced in 2013 to regulate managers of alternative investment funds (AIFMs). AIFMs manage a wide range of fund structures, spanning different asset classes and liquidity profiles. Investors are mainly professional, although some alternative investment funds (AIFs) are marketed to retail investors.

2. The AIFMD regime has not kept pace with market growth. It does not adequately reflect differences in business models and risk profiles, creating unnecessary compliance costs in some areas and requirements that are not well aligned with risk in others. The regime's limited oversight of small registered firms means risks of harm from this segment may not be fully addressed, particularly where AIFs have a relatively high proportion of retail investors.

3. To address these issues, we propose:

   - Creating 3 graduated categories of regulation based on net asset value (NAV) alone, rather than the current 2 (small authorised, full-scope) that consider other factors such as leverage. The requirements at each level would scale with size, with small firms subject to a set of core high-level requirements, mid-sized firms subject to a proportionate but comprehensive regime, and larger firms subject to a more prescriptive regime similar to the current full-scope regime.
   - Applying AIFM requirements to an estimated 69 AIFMs following HM Treasury's removal of the registration regime for most types of AIFM.
   - Removing low-value compliance-driven activities, such as duplicative regulation for closed-ended investment companies (CEICs).

4. Enhancements to baseline liquidity risk management processes for small AIFMs.

5. As a result of our proposals, most AIFMs are expected to benefit from lower ongoing compliance costs and greater operational flexibility. We estimate that 638 AIFMs would move from the full-scope regime into the small or medium categories and face less prescriptive requirements. However, these savings cannot be robustly quantified due to limited evidence on how AIFMs will respond in practice. We expect that some firms will maintain their existing practices to ensure continued compliance, while others may adjust their operations to take advantage of the greater flexibility. Where impacts can be quantified, we estimate savings of around £10.8m to CEICs from removing duplicative disclosure rules and around £0.9m in savings to AIFMs from increased delegation flexibility, over our 10-year appraisal period.

6. We expect our proposals to improve investor protection and promote market integrity by strengthening baseline standards for small registered and small authorised firms. Bringing small registered firms within our oversight increases protections for investors, reduces the scope for harm, and may lead to the exit of poorly-run firms. Investors in smaller authorised funds will also benefit from stronger liquidity risk management requirements, ensuring that the costs of meeting redemptions are not borne disproportionately by remaining investors and that funds' liquidity profiles are maintained.

- The proposals create implementation costs for AIFMs and other market participants and ongoing compliance costs for small registered and authorised AIFMs. Over our 10-year appraisal period, we estimate:
- £20.6m in one-off familiarisation, gap analysis, training and governance change costs to AIFMs and other market participants.
- £65.6m in costs to relevant small registered AIFMs in becoming authorised.
- £38.1m in costs to small authorised AIFMs arising from enhancements to liquidity risk management processes,
- £17.6m in costs to small authorised AIFMs, National Private Placement Regime (NPPR) small third country AIFMs, and residual CIS operators to produce annual reports.

7. Overall, we estimate a net present cost of £130.2m over a 10-year period and an equivalised annual net direct cost to business of approximately £15.1m. If the 638 AIFMs benefiting from greater flexibility were to save just over £24,000 per year on average in compliance costs, these savings would be sufficient to offset the estimated costs. We expect this is likely based on our supervisory knowledge. Taking this into account, together with the wider unquantified benefits, we consider that the overall benefits of these measures are likely to outweigh the costs.

8. We consider this conclusion to be robust to reasonable variation in AIFMD compliance costs, our main quantified input. Sensitivity analysis shows that the net present value could range from –£79.8m to –£192.7m when AIFMD compliance costs are assumed to be 25% and 75% of the upper bound of the cost range in the original AIFMD CBA.

Introduction

9. Section 138I of the Financial Services and Markets Act 2000 (FSMA) requires us to publish a cost benefit analysis (CBA) of our proposed rules. A CBA is defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

10. This CBA sets out our assessment of the significant impacts arising from our proposals. Where reasonably practicable, we have provided quantitative estimates of the costs and benefits. Where quantification is not feasible, we have set out a qualitative assessment.

In developing our proposals, we have considered all relevant impacts and exercised judgement to determine the appropriate level of regulatory intervention.

11. In July 2026, HM Treasury published draft legislation to reform the regulatory perimeter of the Alternative Investment Fund Managers Directive (AIFMD), including removing the option for some types of firms to use the registration regime. HMT is maintaining the registration regime for a subset of small registered firms. Registered Venture Capital Fund managers are subject to a separate regulatory framework, which HMT intends to retain for the time being. HMT is also postponing the authorisation of Social Entrepreneurship Funds (SEF), meaning both these fund types are out of scope of this CBA. In addition, HM Treasury has opted to remove internally managed investment companies (IMCs) from both the registration regime and the AIFMD framework entirely. The remaining small registered AIFMs are in scope of our proposals.

12. The accompanying HMT Impact Assessment estimates the likely FCA authorisation application fees and ongoing annual fees for firms currently registered. Our CBA assesses the impacts of applying AIFM rules to these firms, alongside other changes introduced as part of the AIFMD reforms.

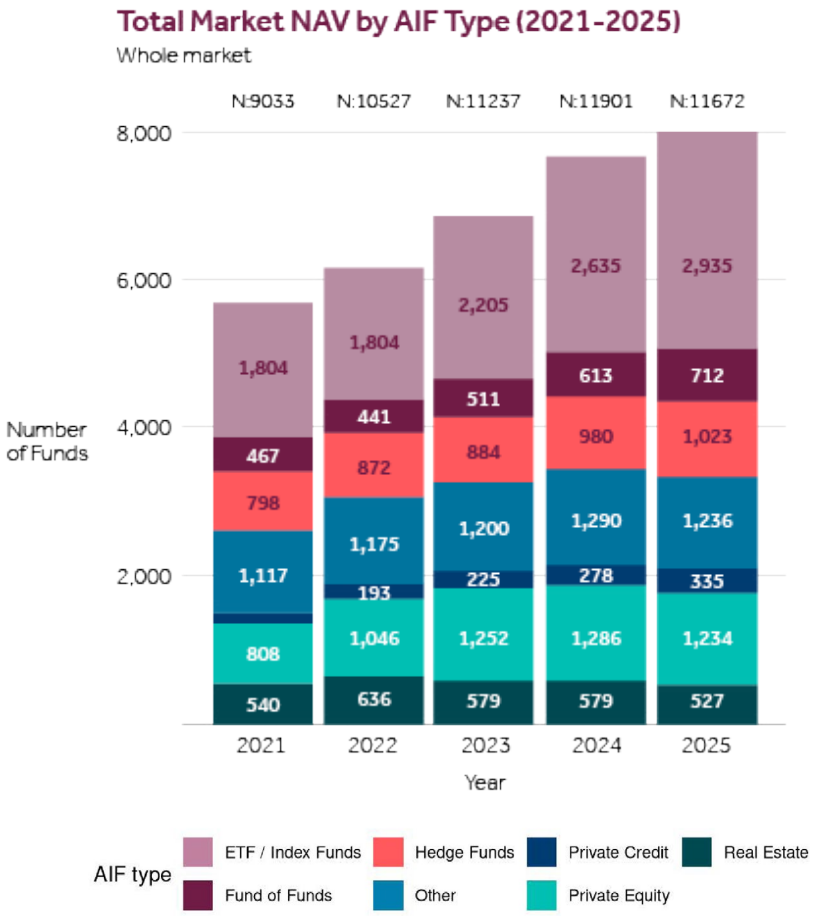
13. Our CBA is informed by our understanding of the UK alternative investment fund market, which is heavily informed by our AIFMD reporting data. Throughout the CBA, we present statistics derived from this data. Further information on the data sources, how the figures are constructed, and their limitations is set out in 'Key data sources' in the CBA and our Research Note on the UK alternative investment fund market due to be published shortly.

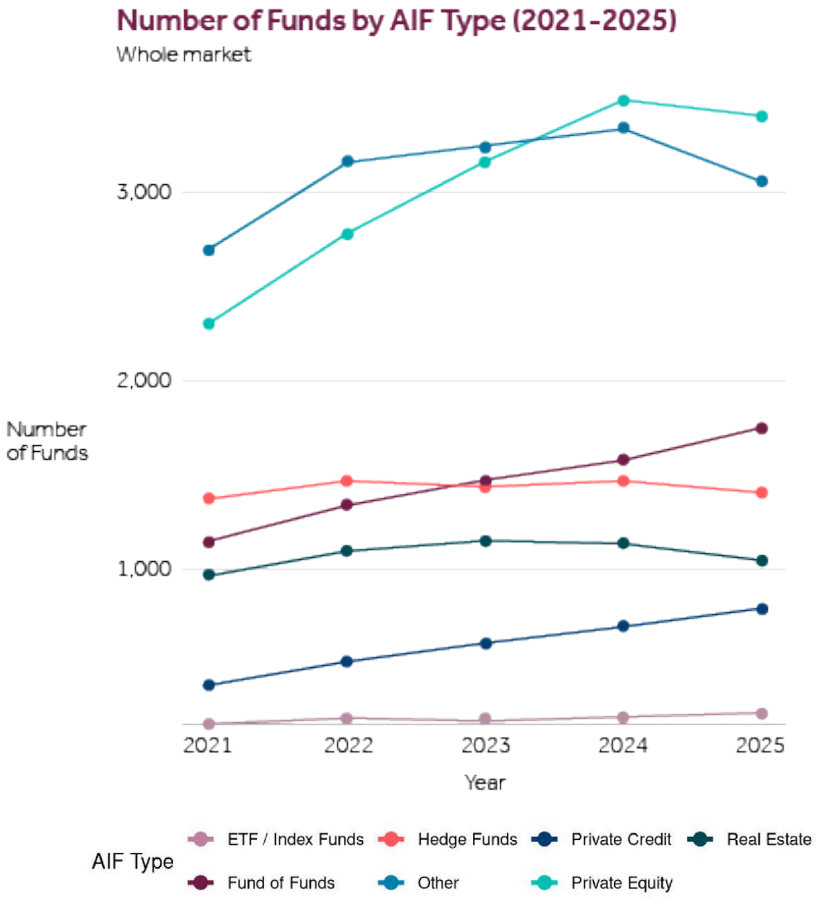
The UK Alternative Investment Fund Market

14. An Alternative Investment Fund (AIF) is a collective investment undertaking that raises capital from investors and invests it under a defined investment policy that is not a UK Undertaking for Collective Investment in Transferable Securities (UCITS). Alternative Investment Fund Managers (AIFMs) are the entities that are responsible for the portfolio management and/or risk management of AIFs.

15. We have observed a significant increase in the total net asset value (NAV) held by AIFs available to UK investors over the past 5 years. As shown in Figure 1, the NAV held by all AIFMs reporting to us increased by 46%, rising approximately from around £5.5trn to £8.0trn between 2021 and 2025. Over the same period, NAV managed only by UK AIFMs increased by 16%, reaching £1.8trn in 2025.

Figure 1: UK AIF market statistics (2021 – 2025)





Source: AIFMD reporting

Notes: 1. To avoid double-counting and simplify the analysis, we exclude feeder funds that we can identify a corresponding master fund for in our sample. Our AIFMD regulatory data does not allow us to identify private credit funds directly. We therefore use a multi-stage process to classify private credit funds. This approach is deliberately conservative and may not capture all private credit funds. Further details of the identification process will be set out in our forthcoming Research Note on the UK AIF market. 2. The number of funds corresponding to each total NAV bar is displayed above the bar.

16. A key characteristic that distinguishes AIFs from UCITS is they can more easily invest in a broader range of eligible assets and employ a wider set of investment strategies. For example, AIFs can invest in illiquid assets such as private equity, private debt, real estate, and infrastructure, and have no routine restrictions on leverage. The nature of these investments can allow investors to earn higher expected returns and provide diversification benefits. Some AIFs operate strategies that are restricted to a single category of investments, while others invest across several categories. In addition, some AIFs operate as a fund of funds, rather than investing in assets directly. Figure 1 also shows how the NAV is distributed across different fund types between 2021 and 2025, such as private equity, private credit, real estate, hedge funds and fund of funds. A notable number of funds did not specify their type and have been categorised as 'Other', which may include, for example, private credit funds.

17. Another characteristic that distinguishes AIFs from UCITS is that many AIFs are only available for sale to professional investors. 1 In contrast, UCITS funds are, by design, available to retail investors. According to our AIFMD reporting data, institutional investors are the primary investor base for AIFs, with retail investors accounting for only 7% of the total NAV across all AIFMs reporting to us and 20% of NAV among UK AIFMs in 2025. This composition of AIF investors has remained broadly consistent since 2016.

AIFM Business Models and Ecosystems

18. The AIFM sector consists of a wide variety of business models. Some large asset managers operate across both AIF and non-AIF activities, while other managers are specialised and manage AIFs exclusively. The competitive dynamics are also not uniform across the sector and can vary materially by the asset class. For example, while scale may be important for leveraged buyout private equity strategies, it may be less important, or even detrimental, for some hedge funds pursuing niche investment strategies. These differences can shape the growth incentives of AIFMs: while some firms seek to increase assets under management to generate higher management fees, others place greater emphasis on performance-based fee revenues.

19. AIFMs compete to attract and retain investor capital across various dimensions. This includes the management and performance fees charged to investors, investment performance, investment strategy and asset specialisation, and the liquidity terms and structure of the fund. For example, firms may adopt a master-feeder structure, in which investors provide capital to feeder funds that invest into a single master fund, where assets are pooled and managed. These feeder funds are typically domiciled in the same jurisdiction as the investor to accommodate jurisdiction-specific tax and regulatory requirements.

- The activities of AIFMs are supported by a range of market participants, including:
- Depositories and custodians responsible for the safekeeping of fund assets.
- Prime brokers providing financing, securities lending and trade execution.
- Fund administrators delivering outsourced services to AIFs such as fund accounting.
- Third party valuers providing independent asset valuations.

1 Some types of AIFs, such as Non-UCITs Retail Schemes (NURS) and Investment Trusts, can be purchased by retail investors.

20. The AIF market provides several benefits for the efficient functioning of the wider financial system, including:

- AIFMs can facilitate more efficient capital allocation by investing in asset classes that fall outside the restrictions applicable to UCITS funds. In particular, AIFMs can channel capital towards real-economy firms and projects, which may not fully be served by public capital markets or traditional bank finance.
- Some types of AIFs, such as hedge funds, can support market liquidity and price discovery in public markets in normal market conditions. However, this benefit may be state-dependent as such AIFs could also exacerbate declines in market liquidity during periods of market stress.

Regulatory Framework

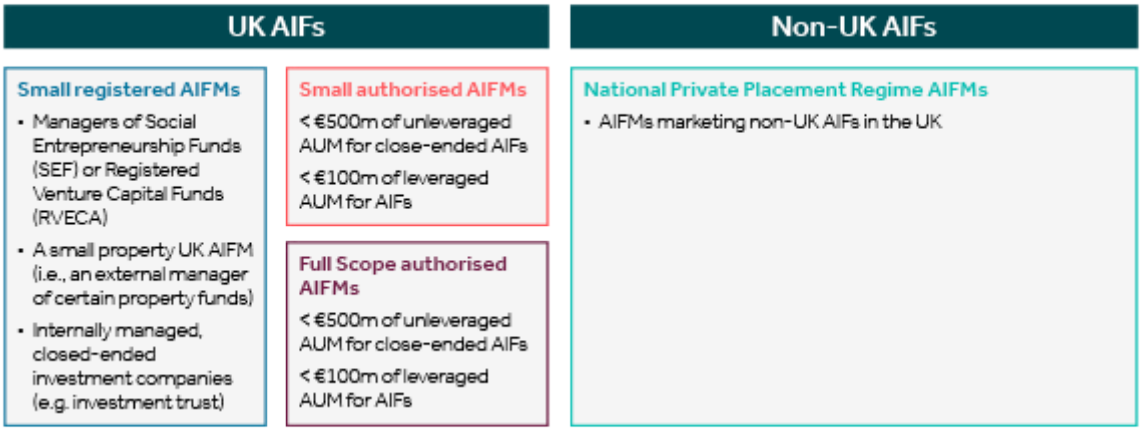
21. AIFMs are subject to the AIFMD, which was implemented in 2013 across the European Union while the UK was a Member State. The regime was adopted via UK legislation, FCA rules, and a directly applicable EU regulation ("Level 2" legislation). Following Brexit, this Level 2 legislation was onshored into UK legislation on 31 December 2020.

22. With regard to the FCA Handbook, the principal requirements for AIFMs are set out in FUND (Investment Funds), which is the specialist sourcebook and will be replaced with the new proposed sourcebook. An AIFM is also subject to high-level standards, including PRIN (Principles of Business), COND (Threshold Conditions) and SYSC (Senior Management, Arrangements and Controls), and separately Prudential Standards.

23. This CP focuses primarily on the requirements currently in FUND and the AIFMD level 2 regulation. These contain the substantive obligations that govern an AIFM's fund management activity, rather than the high-level standards that would apply to an AIFM in its capacity as an authorised person.

24. As summarised in Figure 2, AIFMs marketing their funds in the UK are subject to different regulatory regimes depending on whether the AIF is managed within the UK or from overseas. Our CBA will mainly focus on AIFMs that manage AIFs within the UK, but we consider the impacts on AIFMs managing non-UK AIFs that are subject to the National Private Placement Regime (NPPR).

Figure 2: AIFMD regulatory categories



25. Under the current regime, UK AIFMs are classified as full-scope authorised (above-threshold), small authorised or small registered (sub-threshold), based on their size and use of leverage. Full-scope AIFMs are subject to significantly more regulatory obligations than sub-thresholds firms. Moreover, some sub-threshold AIFMs are only registered with us rather than authorised, which limits our supervisory oversight and intervention powers. Table 1 shows the number of AIFMs within each regulatory category under the current regulatory framework

Table 1: AIFMs by regulatory category

Regulatory Regime	AIFMD Category	Number of AIFMs
UK AIFs	Full-scope AIFM	702
	Small Authorised AIFM	475
	Small Registered AIFM	145
Non-UK AIFs	National Private Placement Regime Regulation 59 AIFM	2,365
	National Private Placement Regime Small Third Country AIFM	787

Source: FCA regulatory data

26. UK AIFs are also subject to different fund-level requirements depending on whether they are authorised and the nature of the fund. Authorised funds, such as Non-UCITS Retail Schemes (NURS), Qualified Investor Schemes (QIS) and Long-Term Asset Funds (LTAFs), are subject to more stringent requirements than unauthorised funds, with only NURS and LTAFs available to mass market retail investors. The high-level differences between authorised AIFs and unauthorised AIFs are summarised in Table 2.

Table 2: AIF scheme types

Factor	NURS	QIS	LTAF	Unauthorised Funds
Authorisation Status	Authorised	Authorised	Authorised	Unauthorised
Targeted investor base	Retail and professional investors	Professional and qualified investors	Professional and some retail investors	Professional investors and few retail investors
Fund structure	Open-ended	Open-ended	Open-ended but more constrained liquidity	Open-ended or closed-ended
Restrictions on eligible assets	Yes, but more flexible than UCITS	Few restrictions	Wider investment powers allowing significant exposure to long-term assets	Few restrictions
Diversification requirements	Yes, but more flexible than UCITS	Depends on particular fund	Yes, but tailored to illiquid assets	No formal diversification requirements

Problem and rationale for intervention

27. The current AIFMD regulatory framework is not well calibrated to the structure and risks of the UK market. We distinguish between regulatory failures and underlying market failures that provide the rationale for intervention.

28. Regulatory failure arises where the design or application of the regime leads to outcomes that are misaligned with its objectives, for example by imposing disproportionate burdens or failing to adequately mitigate risks driven by underlying market failures, or because their effects have changed as market conditions have evolved over time.

29. In contrast, market failures arise from certain features of the market which, left uncorrected, can impose costs or risks on participants. The AIFMD was introduced by the European Union in the aftermath of the 2008–2009 financial crisis, with the aim of creating a unified regulatory framework for supervising risks associated with AIFMs. It was designed to improve investor protection and mitigate systemic risk arising from two main market failures:

- Externalities, where the activities of AIFs, including the use of leverage and complex strategies, could amplify and transmit risks across the financial system without being fully internalised by firms.
- Information asymmetries, where investors lacked sufficient, consistent and comparable information to assess and monitor the risks, liquidity and valuation of AIFs. These asymmetries can give rise to agency problems where fund managers have incentives, or opportunities, to act in ways that may not fully align with

investors' interests, including in relation to conflicts of interest, valuation practices and the safeguarding of assets.

30. In addition, AIFMD sought to address regulatory fragmentation across Member States, where inconsistent or absent national regimes created inefficiencies, impeded effective supervision, and led to opportunities for regulatory arbitrage.

31. We set out below the key regulatory failures and the harms they give rise to, as well as the underlying market failures and the associated harms that remain unaddressed where gaps in the current framework exist.

The framework has not kept pace with market growth

32. The existing regime is derived from the EU AIFMD, which was implemented in 2013 to address systemic risk concerns following the Global Financial Crisis in 2008. However, the regime has remained largely unchanged since its implementation, despite the developments and substantial growth in the AIFM market over the past decade. Despite this growth, the thresholds that determine what level of regulation applies within the regime have remained the same, meaning more funds have become subject to the most prescriptive AIFMD regulations over time without a corresponding increase in the risks they pose or their share of the market. This leads to regulatory failure because the current regime imposes disproportionate regulatory burdens that deliver limited additional benefits. For example, one of the thresholds determining whether an AIFM is subject to the most stringent requirements was set at €500m (approximately £440m) in 2013 and has not been revised since. Had this threshold been adjusted to reflect inflation, it would sit at approximately €720m (approximately £640m) today. Since fund risk is no longer grouped in the same way as originally intended, investors may face an information asymmetry when allocating their investments within their risk appetite.

The framework does not reflect differences in business models and risk profiles

33. Industry feedback received through our Call for Input indicates that the current framework is overly prescriptive and insufficiently flexible to accommodate the heterogeneity of AIFMs' business models, investment strategies and risk profiles. As a result, the current regulatory regime is not always well-calibrated to the business model and risk profiles of AIFMs, leading to regulatory costs that do not deliver commensurate benefits in terms of investor protection or market integrity.

34. For example, our current rules on risk limits require AIFMs to categorise investment risks across prescribed risk types, such as market, credit, liquidity, counterparty and operational risk. Whilst this taxonomy is relevant for most hedge fund managers, it is less suitable for private equity fund managers where investment risks depend on individual investments and cannot be easily mapped onto these categories.

35. Similarly, liquidity management requirements are primarily linked to firm size, rather than to broader indicators of liquidity risk. This can result in insufficient requirements for smaller managers of open-ended funds or leveraged closed-ended funds. We have identified areas where these could be enhanced to support consumer protection and

market integrity, and align with the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB) international standards for liquidity risk management.

36. Effective liquidity management is important for AIFMs and for the functioning of financial markets, as the illiquid nature of investments made by AIFs can amplify market stress through forced sales, particularly where the use of leverage exacerbates financial losses and accelerates deleveraging. Under the current regime, smaller AIFMs managing open-ended funds are only subject to high-level obligations that may be interpreted differently across firms and no explicit liquidity risk management rules. While the smaller scale of these firms reduces risks to market integrity, those risks are not eliminated. Poor liquidity management by smaller AIFMs could still have material, localised market impacts, for example where firms hold concentrated positions in particular asset classes. In addition, weak liquidity risk management poses consumer protection risks regardless of firm size, as remaining investors may be left exposed to an increasingly illiquid portfolio.

37. The risks of poor liquidity management reflect a combination of underlying market failures. Information asymmetries mean that investors may not be able to assess the liquidity profile of a fund, including mismatches between assets and liabilities or the use of leverage, particularly where strategies are complex or illiquid. As a result, investors may underestimate the risk of delayed redemptions, gating or dilution. These asymmetries give rise to agency problems, where AIFMs may not fully take into account the impact of their liquidity management decisions on investors, for example by offering redemption terms that are not aligned with the liquidity of underlying assets or delaying the use of liquidity management tools. In addition, coordination failures can arise where investors have an incentive to redeem early in stressed conditions to avoid losses, creating a 'first-mover advantage'. While individually rational, this behaviour can lead to accelerated outflows, forced asset sales and a deterioration in portfolio liquidity, amplifying harm to remaining investors.

Duplication with other regulations

38. The broad prescriptive approach adopted by the current regulatory regime also leads to duplication for some AIFMs that are subject to other rules in our Handbook. For example, in some circumstances listed closed-ended investment companies (CEICs) are subject to overlapping disclosure requirements under the UK Listing Rules and the AIFM regime. Whilst these disclosure requirements are important for investor protection, requiring CEICs to comply with substantively similar requirements under both regulatory regimes does not deliver additional regulatory benefits.

Limited oversight of small registered firms

39. We have also identified harm that arises from the conduct of small registered firms, which is enabled by the features of the current regulatory regime. According to FCA supervision data, approximately 23% of the 661 sub-threshold UK AIFMs were classified as small registered firms in 2025. Unlike small authorised and full-scope AIFMs, however, small registered AIFMs are subject to limited regulatory oversight. In particular, they are not subject to the Threshold Conditions or the Principles for Businesses in our

Handbook, are not required to hold capital to cover losses, are not required to appoint Senior Management Functions, and are subject to minimal regulatory reporting obligations. Meanwhile, a firm's registered status may be perceived by retail investors as implying a degree of regulatory oversight that is not present in practice (a 'halo effect'). We in turn have limited supervisory and intervention powers over these firms under the current rules, which gives rise to concern for two interrelated reasons.

40. Firstly, compared to small authorised and full-scope AIFMs, a significantly larger proportion of NAV is held by retail investors in funds managed by small registered AIFMs, increasing the risk that regulatory status is misinterpreted. According to our AIF002 reporting data, approximately 57% of the total NAV held by small registered UK AIFMs was held by retail investors in 2025, whereas this figure was 15% and 20% for small authorised and full-scope UK AIFMs respectively. 2 A firm's registered status may be perceived by retail investors as implying a degree of regulatory oversight that is not present in practice (a 'halo effect'). Given existing information asymmetries, compared to institutional investors, retail investors are generally less able to assess the complex investment structures and risks associated with alternative investments, and are therefore more likely to rely on simplified signals such as regulatory status. This increases the risk that the 'registered' label leads investors to overestimate the level of protection and scrutiny applied to these firms, exacerbating both information asymmetries.

41. Secondly, we have found evidence of poor practice among some small registered AIFMs. Our primary concern relates to breaches of financial promotion rules, such as firms inappropriately opting-up retail investors to quasi-professional status to sell them high-risk products. As a result, the 57% figure stated above may understate the retail share of NAV managed by registered firms. We have also found instances of firms illegally carrying out activities that require authorisation and firms using their registration status to confer credibility while undertaking high-risk unregulated activities. Due to our limited regulatory oversight under the current regime, many of these issues are identified only through reactive supervisory casework. In several cases, we consider it unlikely that firms exhibiting these poor practices would have been approved through the full authorisation process. Given that retail investors disproportionately comprise the investor base of small registered AIFMs which invest in non-traditional assets, this is reflected in how we have calibrated the application of our new rules.

Trade-offs and alternative policy options assessment

42. When considering potential interventions, we considered whether the harms could be addressed simply with better enforcement or supervision. However, since much of the harm arises from structural issues with the rules such as the static thresholds and the registration regime, these need to be changed directly. For example, only once registered firms are authorised can we apply better enforcement or supervision of

2 Investment trusts in the registered firm population are likely driving the relatively higher retail investor share. We will investigate this further post CBA Panel submission.

them. Therefore, we propose rule changes that address the problems in the market, accompanied by considerations that improve our oversight. For example, we will receive better data due to the changes in how we require firms to report leverage. By asking for raw data, meaning less burden on firms to make calculations, we reduce the complexity of regulatory returns whilst improving the analysis we can perform.

43. In designing our proposals to address the problems with the existing regime, we considered the main overarching policy questions:

- How to set thresholds within the regime that determine the level of applicable requirements, ensuring regulation is proportionate to risk while minimising regulatory burden and smoothing sharp increases in requirements at each level. As the Treasury have removed the registration regime for some firms, our policy decision relates to how our requirements apply to these firms.
- How to tailor key requirements in the regime to firm risk, while ensuring sufficient flexibility for the range of businesses.

Setting thresholds to calibrate the level of regulation for firms

Options considered

44. We consider the continued use of thresholds within the regime to be broadly appropriate as a mechanism for ensuring proportionality. Our assessment therefore focused on the choice of metric or metrics used to define thresholds, and the appropriate calibration of threshold levels.

45. A summary of our options assessment, and the success factors we considered, are outlined below.

Table 3: Options analysis

Overall assessment	Success factors			
	Accounts for inflation	Accounts for sector growth	Allows rules to be made proportionate to risk posed by different types of firm, reflecting differences in business models and risk profiles	Creates a coherent and simple regime that encourage innovation and UK competitiveness
Option 1: Leave thresholds unchanged				
While this provides consistency to industry, it doesn't take account of inflation, nor growth in sector since regime was introduced.	No	No	No – industry considers existing framework to be overly prescriptive and insufficiently flexible.	To some extent, although industry feedback on current regime suggests that lack of flexibility in existing regime may deter some firms from operating in UK.
Option 2: Keep small AIFM threshold at £100m but change AUM to NAV				
This would mean that small AIFMs which manage AUM up to 500M EUR currently without leverage, are pushed into medium AIFM category.	No	No	Yes, as we could still have three tiers and set rules accordingly.	To some extent, but low threshold for small firms may deter new market entrants.
Option 3: Remove thresholds so that regime does not distinguish between different sizes of AIFM				
Due to risks posed by larger firms, we would need to apply more prescriptive requirements to all firms, regardless of their size, meaning that we could not take a proportionate approach based on risk posed by different types of firm.	Yes	Yes	No	To some extent. This could be seen by some as a simplification. However, it would also represent a significant uplift for a large number of AIFMs and mean that we cannot provide a more flexible regime tailored to new market entrants wishing to become small AIFMs.

Option 4: Increase thresholds and change AUM to NAV				
This allows us to design a regime based on proportionately and take account of both inflation and sector growth since the regime was introduced.	Yes	Yes	Yes	Yes, as we can provide a more flexible regime that is tailored to the risks posed by different types of business model. It provides certainty to industry by maintaining the tiered approach while addressing concerns that could reduce appeal of UK market.

46. We sought to avoid complex calculations and to address risks arising from leverage and fund liquidity structures through the way detailed regulatory requirements apply. We therefore decided to move the AIFM size calculation from leveraged assets under management to net asset value, with differences in regulatory treatment arising from leverage and liquidity structure addressed separately.

47. We considered setting the firm size thresholds at different levels, particularly the level distinguishing between small firms, and mid-sized and large firms. For example, we consulted on setting the small threshold at £100m NAV and setting a smaller number of high-level principles for these firms. Many respondents argued that the proposed level is not economically viable for many firms and therefore the small firm regime would be largely redundant. Many firms in the private capital sector argued that our initial proposal could result in increased regulation because the current threshold for unleveraged firms with limited redemptions is set at €500m. So, our intention to create a comprehensive but flexible regime for medium-sized firms meant that some AIFMs would be recategorized from "small" to "medium-sized" and be subject to new rules. We recognise that this could create disproportionate costs for these firms.

48. We took £500m NAV as a baseline and considered several factors, including the effect of inflation since the thresholds were introduced, the number of firms at each size, and the possible effect of each option on firms' behaviour. As previously mentioned, increasing the highest sub-threshold in line with inflation would result in approximately £640m today. We considered that moving the threshold to £750m would result in a small increase in the number of firms in the small category with no increase in the aggregate level of leverage, while further increases would increase the leverage risks in the small firm regime. Taking these factors together, we decided that £750m represents a tolerable increase in the threshold to promote growth in the sector, while ensuring that risks remain addressed. In parallel, our proposed small firm regime is more comprehensive than we had initially envisaged due to the proposed wider population of small firms, designed to address gaps and risks in a proportionate way that reflects the expectations of well managed firms. Our proposed rules for small firms reflect

our current supervisory expectations – for instance, new rules around substance requirements and also liquidity, make clear what is already implicit in our principles for firms. Taken together, these measures raise investor protection standards for smaller firms while avoiding the application of the full requirements applicable to medium sized AIFMs.

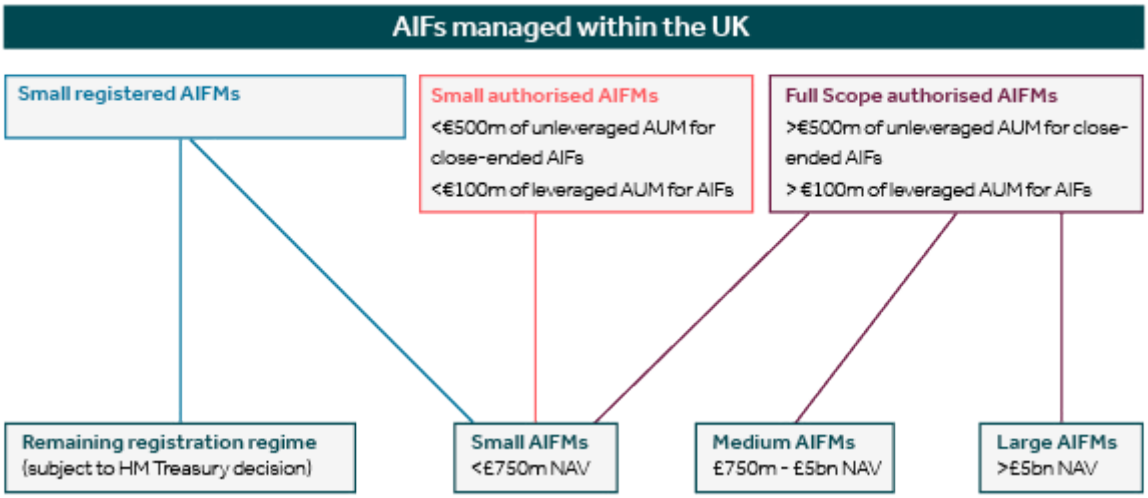
49. When developing our proposals, we also took into account the international competitiveness of the UK. In recent years there has been a greater interest internationally in private markets, both the opportunities they provide and the risks that they pose. Multiple jurisdictions have taken action to strengthen their regime for alternative asset managers to ensure that their systems and procedures are adequately robust to take account of the unique risks that can arise from investment in private assets. We believe that, if we are to enhance the UK's position as an attractive place to undertake asset management activities, we must offer a regime that provides for a high standards of market integrity and is well placed to resist any market shocks, while also giving fund managers the flexibility to pursue their desired investment strategies. We consider that our proposed interventions strike this balance.

50. We continue to participate in international fora to support the creation of new international standards, such as on liquidity risk management and valuation. In implementing these standards at a national level, we have sought to tailor them to the UK market while also taking into account the approach taken by other jurisdictions. While we want to provide a competitive framework, we also recognise that firms which operate across multiple jurisdictions can incur significant costs if they must comply with rules or standards that are substantially different. We therefore believe that our approach should limit costs to cross border firms by providing a regime that is consistent with international standards but not overly prescriptive in how firms demonstrate compliance with the requirements.

Our proposed thresholds to calibrate the regime

51. Our proposed thresholds in the regime that determine the level of regulatory requirements that apply to an AIFM are summarised in Figure 3. The lines map where AIFMs may move from existing AIFM categories at the top to our proposed categories at the bottom.

Figure 3: Proposed thresholds within the AIFMD regime



52. We propose:

- Creating 3 graduated categories of regulation based on net asset value (NAV) alone, rather than the current 2 that are also based on other factors such as leverage.
- Applying requirements proportionately, with small firms subject to high-level requirements, mid-sized firms subject to a proportionate but comprehensive regime, and larger firms subject to a more prescriptive regime similar to the current one.
- No longer requiring firms that pass a threshold to apply to the FCA for permission to enter a new category; instead, requiring a simple notification to us and giving time for firms to comply with new rules.
- Applying the AIFM regime to firms currently registered, following HMT's removal of the registration regime and the requirement for those firms to become authorised.

Tailoring requirements to risk

Options considered

53. For each element of the AIFMD requirements, we considered how to tailor them to address risk, while ensuring sufficient flexibility for the range of businesses, and increase proportionality for firms. The main trade-offs considered were between targeting risks effectively, the complexity of regulatory definitions, and the costs imposed on firms.

54. For example, we considered various means of categorising firms to tailor risk management rules to liquidity risks. We considered targeting liquidity risks by categorising firms as managing hedge funds/liquid funds versus private capital/illiquid funds. But we recognised that defining broad categories of fund can be difficult, inadequately capture intermediate cases, and invite regulatory arbitrage (for example purposeful misclassification of a firm's primary activities) due to ambiguity. Similarly, leaving terms undefined and to firms' discretion can cause firms and investors confusion, result in misclassification and undermine the credibility of the regime. To remedy this, we considered introducing an illiquid asset threshold to distinguish between liquid and illiquid funds. This option could use an existing regulatory definition such as "inherently illiquid assets" to help firms categorise their portfolio. A quantitative threshold would provide greater clarity than the previous option, but we found that the right threshold level is contestable. Furthermore, introducing another threshold in the regime could be perceived to be increasing complexity.

55. Our proposed approach aligns the liquidity risk management rules with the risks that they are designed to protect against, while mitigating the issues with defining new terms or quantitative thresholds. While some rules apply to all firms, we propose to apply others, designed to address risks arising from liquidity mismatches, based on whether the fund is open- or closed-ended.

Our proposed approach to AIFMD requirements

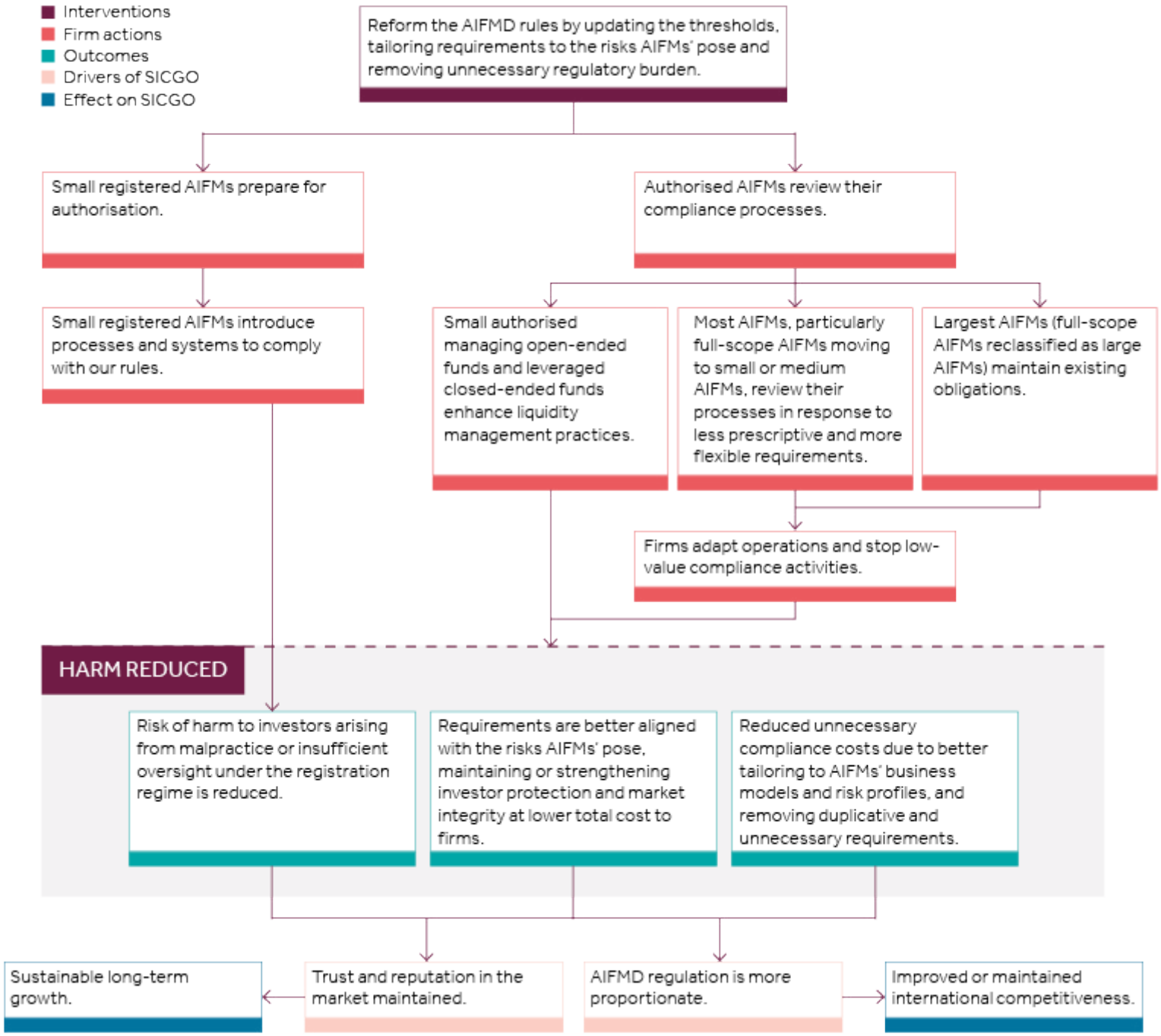
56. In relation to the detailed AIFMD requirements, we propose:

- Risk management rules tailored to the risks posed by AIFs, including whether the firm is open or closed-ended and whether it has leverage, and scaled in prescriptiveness based on firms' size.
- Liquidity management rules similarly tailored to fund structure, and to address redemption and margin call risks, proportionate to firms' size and their potential market impacts.
- Exempting closed-ended investment companies that trade on a UK recognised stock exchange from AIFM investor disclosure and annual reporting rules if they make similar, UK Listings Rules-compliant disclosures.
- No longer requiring leveraged firms to do complex mandated calculations to disclose their leverage to investors and determine whether to report information to the FCA.
- Giving firms that market to professional investors more flexibility to disclose information that is relevant to their needs and wants. While firms marketing to retail investors must clearly and comprehensively explain how their AIF works, they have flexibility in how they achieve this.
- Clarify several aspects of the existing rules on annual reporting to ensure that investors are well-informed and adequately protected. We propose to clarify that an AIFM will only be required to make the annual report available to the FCA on request.
- Change the way that AIFMs report their delegated activities to the FCA. AIFMs will be required to provide information to the FCA on its delegation arrangements on an ongoing basis, including delegation of investment management functions to unauthorised entities in relation to assets that are not specified investments.
- Some firm notifications will be removed, such as private equity control notifications, or streamlined, such as focusing delegation notifications on information that is more useful for oversight.
- Addressing certain gaps in small authorised firm regulation, such as in relation to liquidity risk management and a lack of entity substance requirements to better protect investors in their funds and to enhance market integrity.
- Clearer and more proportionate valuation rules, drawing on the experience of our multi-firm supervisory exercise.
- Clarifying rules throughout the regime to better explain our desired regulatory outcomes and removing ineffective provisions. For example, the AIF annual report rules are more streamlined and clearer.
- Apply investor disclosure rules to in-scope residual collective investment scheme (CIS) operators, ensuring that their disclosures and marketing to professional investors align with our requirements.
- Apply annual summary requirement to small UK AIFMs and in-scope residual CIS operators.

Our causal chain

57. Our proposals aim to ensure that the AIFMD regime is better tailored to AIFMs' business models and risk characteristics, making it more proportionate. As set out in the causal chain below, AIFMs are expected to review and adapt their processes. For the largest AIFMs, processes are likely to remain largely unchanged. Small and medium-sized AIFMs that are currently full-scope are expected to adapt their processes and reduce unnecessary compliance activities in response to greater flexibility. While we expect some compliance-driven activities to fall away, the extent of changes in firms' practice and outcomes for investors will depend on firms' behavioural responses to the increased flexibility that more principles-based rules bring. In some cases, firm responses could also give rise to increased risks for investors. While some smaller AIFMs are expected to strengthen practices in specific areas, for example liquidity management, strengthening investor protections. Improved oversight and the extension of AIFM requirements to small registered firms will reduce risks of harm, particularly to retail investors, by raising standards and improving our ability to supervise. Overall, recalibrating the requirements to better align with risk and reducing disproportionate compliance costs should deliver investor protection and market integrity more efficiently. Finally, a more proportionate regime, tailored to the risks posed by AIFMs, is expected to maintain or enhance the competitiveness of the UK AIF market and promote trust in the market, supporting sustainable long-term growth.

Figure 4: Our causal chain



Key data sources

58. Our two main data sources are our regulatory reporting data and the CBA of AIFMD when it was first introduced, with adjustments as described below.

Regulatory reporting data

59. Under AIFMD Annex IV, AIFMs are required to report information on their AIFs, including fund size, leverage, portfolio and risk exposures, retail investor exposures and liquidity profiles, through AIF001 (information on the AIFM) and AIF002 (information about their AIFs) reports.

60. To ensure our analysis captures all AIFMs and their AIFs, we combine AIFMD reporting data with our existing regulatory data. Where AIFMD reporting data are not available, we make assumptions about the characteristics and distribution of AIFMs and AIFs that do not submit AIFMD reports. The most important of these assumptions relates to net asset value, which determines firms' regulatory categorisation. Our central assumption is that smaller AIFMs and AIFs are less likely to report. We clearly identify where these assumptions are applied and explain their implications for the analysis.

61. For UK investment trusts, we also use London Stock Exchange Group's data and the Official List.

62. Detailed market statistics and the limitations of the data are in our Research Note due to be published shortly.

2012 AIFMD CBA

63. The primary evidence base for cost estimates is the Cost Benefit Analysis undertaken for the original implementation of AIFMD in 2012 ('2012 AIFMD CBA'). A summary of those cost estimates, uprated to current prices using GDP deflators, is shown in Table 4.

Table 4: Summary of costs of the current AIFMD regime per firm in 2012, adjusted for inflation

Cost type	Implementation (one-off)	Ongoing (annual)
Operating requirements	£0 - £686,000	£0 - £1,656,000
Delegation	£0 - £74,000	£0 - £347,000
Valuation	£0 - £37,000	£0 - £223,000
Liquidity management	£0 - £239,000	£0 - £265,000
Leverage	£0 - £266,000	£0 - £279,000
Transparency	£0 - £192,000	£0 - £223,000
Remuneration	£0 - £639,000	£0 - £265,000
Total	£0 - £2,133,000	£0 - £3,258,000

64. The costs of compliance in the 2012 AIFMD CBA were based on the results of a firm survey and were informed by a study commissioned by the FCA to Charles River Associates on the impact of AIFMD across Europe. The survey was issued to 36 firms, of which 22 expected to operate UK AIFMs within their group structures and to be full-scope AIFMs. The firms in the survey sample collectively managed around £179.5bn of assets in AIFs. The resulting cost estimates were presented as ranges starting from £0, reflecting the fact that some firms in the wider population already had systems and practices in place that were broadly consistent with the incoming AIFMD requirements and therefore faced negligible incremental costs.

65. We use the mid-point of the figures in Table 4. We also recognise that many compliance costs vary with firm size, complexity and activity levels. The estimates in Table 4 reflect costs incurred by full-scope AIFMs with average AUM of £1.25bn, whereas the AIFMs to which we apply these estimates are generally smaller. We therefore apply size-based adjustments to account for differences between these firm populations, as the firms covered by the original CBA are typically materially larger.

66. We use these one-off and ongoing compliance cost estimates as the basis for quantifying the costs and benefits of our proposals where they give rise to new costs or cost savings.

67. We recognise that using uprated estimates from 2012 have limitations. We considered undertaking new primary research to update these estimates but concluded it would be disproportionate to firms to provide this new information. We note that through industry engagement, firms told us that it is challenging to disentangle the costs of complying with AIFMD from their wider operations, and that estimating compliance costs over and above business-as-usual activities would be difficult. We therefore believe that any incremental improvement in accuracy from conducting a new survey is uncertain and it may not outweigh the additional burden on firms.

68. Further we consider that the nature of compliance activities is unlikely to have changed significantly, though process efficiencies such as use of AI or improved systems may lead some of the 2012 costs to be a relative overestimate.

69. With respect to the original implementation costs, we believe they remain a relevant proxy for assessing the relatively large impact of requiring small registered AIFMs to become authorised. We shared these estimates through engagement with a sample of firms as part of our policy development, seeking validation or alternatives. However, noting the challenges in estimating AIFMD costs, we have had no feedback as of publication.

70. Across all costs, we invite firms to use the consultation to give us feedback on the appropriateness and accuracy of these costs. For the purposes of this CBA, to mitigate the uncertainty, we use sensitivity analysis to assess how changes in the size of the estimates affect our analysis.

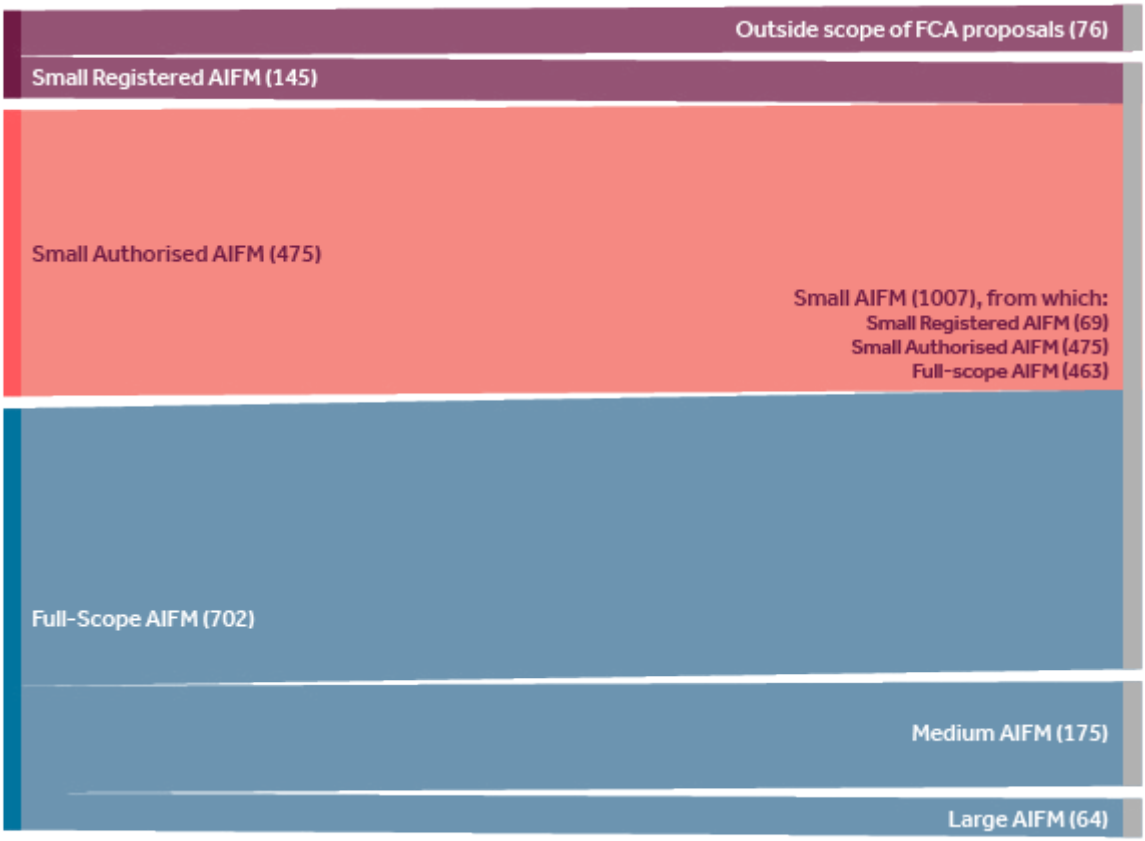
Question 1: **Do you consider these estimates reflect the cost of complying with AIFMD? Where possible, please provide alternative quantitative estimates.**

Classification of AIFMs under our proposed regime

71. Under our proposals we estimate there will be 1,007 Small AIFMs, 175 Medium AIFMs and 64 Large AIFMs. AIFMs would move between existing and new regulatory categories based on their NAV:

- All small authorised AIFMs would become small AIFMs under the new regime (475).
- All small registered firms subject to authorisation (some remain out of scope of these proposals due to HMT policy) will become small AIFMs (69).
- Full-scope AIFMs will be reclassified as either small (463), medium (175) or large (64) AIFMs. In cases where NAV data are unavailable, we assume full-scope AIFMs are likely to be small under the new regime, given lower reporting rates among smaller firms. Figure 5 shows the expected movement of AIFMs between current categories on the left to our proposed categories on the right, based on their current NAV.

Figure 5: How firms move regulatory categories under our proposals



Expected impact on firm behaviour

72. Our analysis relies on assumptions about firm behaviour in response to our proposals.

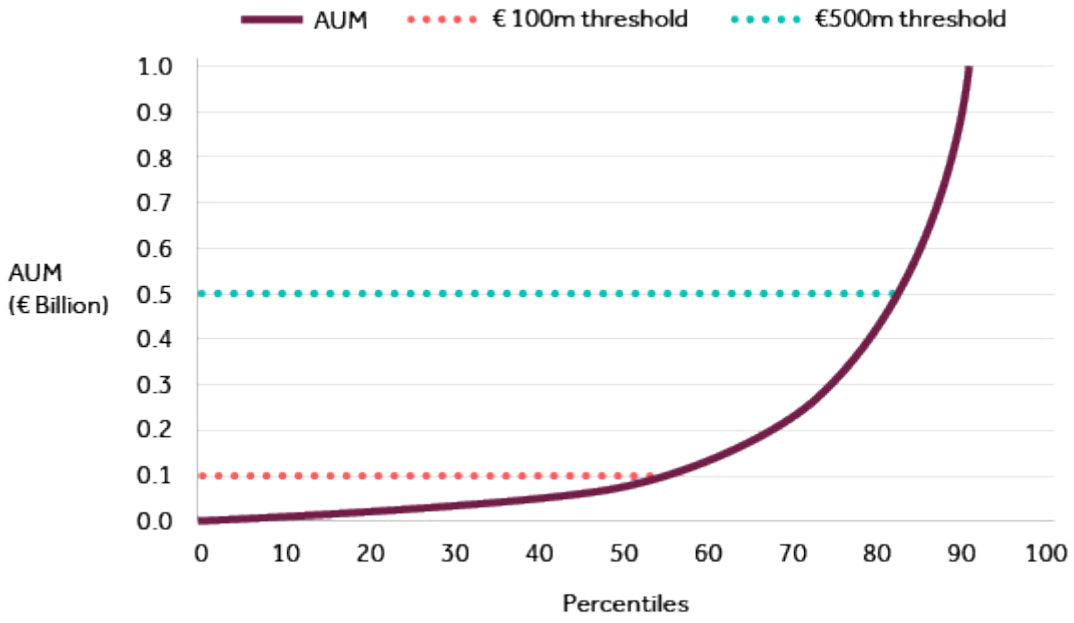
Response to changes in AIFMD thresholds

73. When firms cross the threshold to become full-scope AIFMs, they are immediately subject to significantly more onerous regulatory requirements. Some firms have told us that this may disincentivise growth, creating so-called 'cliff-edge effects'. To assess

whether such effects are present, we examine whether firms cluster around the AIFMD thresholds and whether firms approaching the threshold grow more slowly than those just above it.

74. We find no evidence of clustering around the thresholds based on a visual inspection of the distribution of AIFM AUM. As shown in Figure 6, the distribution increases smoothly across percentiles, with no visible bunching or discontinuities around either threshold. AUM rises steadily through both the €100m and €500m points, providing no visual evidence of firms clustering just below the regulatory thresholds.

Figure 6: UK AIFMs by AUM, by eligible threshold



75. We also find no evidence of a discontinuity in firm growth at the thresholds on average. Growth does not accelerate once firms move just above the threshold relative to those just below it. We test this by estimating the effect of proximity to the threshold on growth rates for firms with AUM between 60% and 140% of their applicable threshold, while controlling for firm size. We also test for discontinuities in firm growth using subscription volumes rather than AUM and again find no evidence of such effects.

76. These findings may be because firms are taking steps to ensure their firm is below the full-scope threshold to avoid cliff-edge effects. For example, firms may establish a new authorised or registered firm under a group structure such that the new entity does not count towards the firm's reported assets against the AIFM thresholds. We estimate that several groups may exhibit this behaviour, where a new entity is established as an AIFM approaches the AIFMD threshold. Firms may also establish collective investment schemes that are not AIFs and therefore fall outside of the regime and do not contribute to the AIFM's AUM for the purposes of calculating their size relative to the thresholds.

77. While similar behaviour could persist under our proposals, the incentives to do so would be reduced, as the thresholds are higher and the transition between regulatory categories is smoother. Furthermore, HM Treasury proposes to reduce the opportunities for arbitrage where funds are misclassified by tightening the definition of which funds constitute AIFs and by including collective investment schemes in AIFM's size calculations. The new legal definition will reflect existing FCA and European Securities and Markets Authority guidance.

78. Based on these findings, we do not model explicit behavioural changes by firms beyond those arising mechanically from changes in regulatory classification, which determine the requirements that apply.

Response to removal of the registration regime

79. We assume that a proportion of small registered AIFMs will not ultimately become authorised following our proposals. This is because some will voluntarily exit the regime rather than seek authorisation and others may attempt authorisation but, upon assessment, are found to be non-compliant and have insufficient capability to meet AIFMD requirements. We deem this proportion to be 10% of small, registered AIFMs based on internal judgement of those that are most exploiting the light touch regime and propagating consumer harm.

80. The small registered AIFMs that remain would seek to comply with our requirements, either by hiring compliance professionals in-house or outsourcing compliance support through a regulatory host, a firm that has permissions to provide services to a fund manager, including assuming some regulatory responsibilities.

81. There is a possibility that a subset of small registered AIFMs, upon becoming authorised, would seek to consolidate by merging with larger managers or integrating into wider group or umbrella structures. Such consolidation could reflect efforts to realise economies of scale, share fixed compliance and governance costs, and access established infrastructure. As the extent of consolidation is uncertain, our analysis assumes there is no consolidation for simplicity.

Behavioural responses to principles-based rules

82. Moving from prescriptive rules to principles-based rules may lead to different firm behavioural responses and associated costs and benefits. For some firms, greater flexibility may enable efficiencies and cost savings while continuing to manage risks appropriately. Other firms may choose to retain existing practices to ensure compliance. For example, mid-sized firms may also look to the more prescriptive requirements applying to larger firms as a benchmark, leading to conservative interpretations or gold-plating. There is also a risk that some firms could use this flexibility in ways that increase the risk of harm.

83. Given uncertainty around how firms will respond in practice, our CBA does not differentiate between behavioural responses. Through this consultation, we seek evidence from firms on how they expect to respond to the proposed changes.

AIFM population over time

84. We model UK AIFM growth over our 10-year appraisal period to estimate where firms will sit in the regulatory framework under the counterfactual and under our proposals. Differences in growth outcomes would affect the balance of costs and benefits. As AIFMs cross regulatory thresholds, some would no longer make savings relative to the counterfactual, while others incur new costs over time under our proposals.

85. Given uncertainty around future growth, we apply a simplifying assumption based on historical trends, using the average growth rate observed across the UK AIF market between 2016 and 2025. The resulting projections are applied consistently across all cost and benefit modelling.

86. In the counterfactual, we assume the current AIFMD thresholds remain unchanged and that, over time, more firms transition into the full-scope AIFM regime approximately at the same assumed growth rate. Based on an average of 7 small authorised AIFMs transitioning to full-scope AIFMs per year over the past 7 years, if the population increases by the same rate each year, we estimate there are around 60 additional full-scope AIFMs by the end of the appraisal period (2035).

87. Under our proposals, we assume that AIFMs continue to grow at a mean annual NAV growth rate of 6.9%. Consistent with our behavioural assumptions, we assume that proximity to regulatory thresholds does not affect firms' growth trajectories. By 2035, we expect there to be an additional 31 large AIFMs and 46 medium AIFMs.

88. Given the relatively small number of AIFMs transitioning regulatory categories over time, these effects are unlikely to change the overall conclusions of the CBA.

Other assumptions

89. We use standard assumptions from our Statement of Policy on CBAs:

- We use the standard appraisal period of 10 years.
- We assume 100% compliance. However, we model lower compliance in our sensitivity analysis (see 'Risks and uncertainties').
- We apply a discount rate of 3.5% to determine the present value of the stream of costs and benefits we expect to occur in future years.
- We present all values in 2025 prices.
- To estimate the opportunity cost of staff time, we use average salary assumptions uplifted to account for non-wage costs within our Standard Cost Model (SCM).

Summary of Impacts

90. The majority of AIFMs will benefit from ongoing compliance savings and greater flexibility in how they operate from our proposals. Of the impacts we quantify over the 10-year appraisal period, we expect £10.8m in savings to CEICs from removing duplicative disclosure requirements and £0.9m in savings to AIFMs from delegation flexibility.

91. We also expect our proposals to improve investor protection and promote market integrity by strengthening baseline standards for small registered and small authorised AIFMs. Bringing small registered AIFMs within our oversight increases protections for investors, reduces the scope for harm, and may lead to the exit of poorly run AIFMs. Investors in funds managed by small authorised AIFMs will also benefit from stronger liquidity risk management requirements. Subjecting all AIFs to baseline rules on risk and liquidity management helps ensure that the costs of meeting redemptions are not borne disproportionately by remaining investors and that funds' liquidity profiles are maintained.

92. These benefits are accompanied by one-off implementation costs for AIFMs and other market participants. We estimate £20.6m in familiarisation, gap analysis, training, and governance change costs across the market.

93. We also expect new ongoing compliance costs for small registered and authorised firms. Over the appraisal period, we estimate:

- Around £65.6m in one-off costs to small registered AIFMs in becoming authorised, following HMT's removal of the registration regime.
- £38.1m in costs to small authorised AIFMs arising from improving liquidity risk management processes.
- £17.6m in costs to small authorised AIFMs, NPPR small third country AIFMs, and residual CIS operators to produce annual reports.

94. Overall, we estimate a negative net present value (NPV) of £130.2m over a 10-year period and an equivalised annual net direct cost to business (EANDCB) of approximately £15.1m.

Table 5: Present values of quantified costs and benefits over 10-year period

	PV Benefits	PV Costs	NPV
Total impact	£11.7m	£141.9m	(£130.2m)
-of which direct	£11.7m	£141.9m	(£130.2m)
-of which indirect	-	-	-

Table 6: Net direct cost to firms

	10-year PV	EANDCB
Total net direct cost to business	**£130.2m**	**£15.1m**

95. We expect 638 full-scope AIFMs moving to the small or medium AIFM categories to benefit from greater flexibility in regulatory requirements, although we are unable to

quantify these savings. As an indicative calculation, if each firm were to save just over £24,000 per year, on average, in ongoing compliance costs, these savings would be sufficient to offset the estimated implementation costs. From our supervisory work, we believe this is achievable, though these savings may arise differently for different firms over time. Alongside the wider unquantified benefits to investors, we consider that the overall benefits of our proposals are likely to outweigh the costs.

96. We consider this assessment to be robust even if AIFMD compliance costs differ within a reasonable range. Our sensitivity analysis indicates that the net present value could vary between –£79.8m and –£192.7m when AIFMD compliance costs are assumed to be 25% and 75% of the upper bound of the cost range in the original AIFMD CBA.

97. Table 7 presents a detailed summary of the benefits and costs by group affected.

Table 7: Summary of total benefits and costs, by impact type

	Benefits		Costs	
Impact type (all direct impacts unless labelled indirect)	One-off	Ongoing, annual	One-off	Ongoing, annual
All market participants (UK AIFMs, NPPR firms, residual CIS operators, prime brokers and depositaries)				
Familiarisation with requirements and gap analysis			£5.6m	
Full-scope and small authorised AIFMs				
Change project			£8.9m	
Training			£6.1m	
Annual reports (small authorised AIFMs)			£1.7m	£1.4m
Liquidity management (small authorised AIFMs)			£5.7m	£4.0m
CEICs saving on disclosures and annual reports	-	£1.2m		
Removal of delegation notification requirement		£0.1m		
Greater regulatory flexibility for most AIFMs		Not quantified		
Residual CIS operators				
Annual reports			£0.06m	£0.05m
NPPR third country firms				
Annual reports			£0.6m	£0.5m
Small registered AIFMs				
Meet authorisation requirements			£4.7m	£7.1m
Investors				
Reduced harm to investors		Not quantified		
Total	**-**	**£1.3m**	**£33.4m**	**£13.1m**

Benefits

98. We identify two core categories of benefits: compliance cost savings and increased operational flexibility for AIFMs, and enhanced investor protection for investors in small registered and small authorised AIFMs.

Compliance cost savings to AIFMs

Greater flexibility for AIFMs

99. There are several areas in which AIFMs will be able to more flexibly determine how they operate, so long as they continue to achieve our desired regulatory outcomes. By reducing prescription, we aim to reduce unnecessary costs, promote competition between business models, and better enable innovation.

100. Most AIFs are marketed to professional investors. We will no longer require such funds to comply with prescriptive disclosures in most areas. Instead, we will require them to meet their investors' reasonable demands for information and maintain some core provisions relevant to market integrity, such as disclosures of valuation methodology and leverage. These will remain mandated without prescribed calculations to ensure proportionality.

101. Small and medium AIFMs will not be subject to prescription in many areas of the risk management rules. Current full-scope AIFMs that become medium or small under our proposals therefore have the flexibility to either choose to change how they operate or maintain compliance with the prescribed rules applied to large AIFMs.

102. We propose removing leverage calculation rules from AIFMD. Firms will still need to measure and monitor their leverage for the purposes of risk management and to disclose leverage to their investors. However, they will be able to use methods more suitable to their portfolio. This might reduce the burden of producing additional calculations solely to comply with AIFMD.

103. We also propose to remove certain unnecessary rules from the AIF annual report requirements, making these less burdensome.

104. Where flexibility increases, the savings achieved depend on firms' response to our changes. If a firm prefers to maintain existing processes and arrangements, then it is likely some benefits of our intervention will not be realised. This unpredictability means we cannot accurately estimate responses across different groups (for example size or category) and we therefore ask, as part of the consultation, for firms' input.

Question 2: **How would the increased flexibility in our requirements for small and medium AIFMs benefit your firm and the funds it manages? Please provide a description of the benefit these changes will make and, where possible, provide quantitative estimates.**

Closed-ended investment fund disclosures

105. In addition to AIFMD requirements, closed-ended investment companies (CEICs) listed on the London Stock Exchange's (LSE) Main Market must currently comply with relevant listings, prospectus, disclosure and transparency, and market abuse rules. Our proposals will exempt these CEICs (including Investment Trusts, Real Estate Investment Trusts and Venture Capital Trusts) from AIFM investor disclosure and annual reporting rules to reduce duplication with UK Listing Rules. CEICs admitted to trading on the LSE's Specialist Fund Segment will also be exempt from AIFM investor disclosure and annual reporting rules if they publish certain UK Listing Rule disclosures (UKLR 11).

106. Based on London Stock Exchange Group data, the Official List and AIFMD reporting data, we estimate that there are around 300 CEICs listed on the LSE's Main Market, managed by around 180 AIFMs. An estimated 184 CEICs are managed by full-scope and small authorised AIFMs and are expected to benefit from savings arising from the removal of the requirement to make AIFM investor disclosures. Approximately 155 of these CEICs are managed by full-scope AIFMs, are also expected to benefit from savings from the removal of the annual report of an AIF requirements.

107. We estimate the annual savings per CEIC using the mid-point of the range of costs from the original CBA, adjusted to reflect differences in firm size. The estimates in the original CBA apply to AIFMs with average AUM of £1.25bn, whereas AIFMs managing CEICs are, on average, around 80% of this size. We therefore scale the estimates using the ratio of average AUM in the original sample relative to AIFMs managing CEICs. We consider that the original cost estimates largely reflect firms repurposing existing information to meet AIFMD investor disclosure and annual reporting requirements. As CEICs already prepare some of this information to comply with the UK Listing Regime, we assume that the relevant cost savings are equivalent to around 80% of the ongoing costs of producing these AIFMD disclosures. This judgement is informed by industry feedback. We test the robustness of this assumption through sensitivity analysis.

108. Given these assumptions and as shown in Table 8, we expect that such changes will lead to £10.8m cost savings for CEICs.

Table 8: Disclosure cost savings to CEICs

Cost type	Number of CEICs	Estimated saving per year	Total for CEIC population per year
Investor disclosures	184	£4,000	£0.7m
Annual report	155	£4,000	£0.6m
10-year present value			£10.8m

Table notes: Due to missing data on AIFM categories, we assume that the 44 CEICs identified as AIFs are distributed across AIFM categories in the same proportions as those observed in the available data.

Risk management requirements for AIFMs managing closed-ended AIFs

109. Our proposals would apply high-level, baseline requirements for risk management to closed-ended AIFs. This would remove a significant degree of prescription currently associated with risk management requirements for full-scope AIFMs managing closed-ended funds.

110. AIFMs could respond by reducing process-heavy risk management activities that are not considered value-adding or required by investors. In practice, compliance with EU regulatory requirements and client expectations may limit the extent of these responses. AIFMs may also continue to look to the most prescriptive existing rules when interpreting how to meet the proposed high-level requirements.

111. Given the uncertainty around how firms will respond in practice, including the extent to which they would change existing processes, we are unable to reliably quantify any resulting cost savings.

Delegation requirements

112. We propose that less critical, administrative delegated activities be subject to more flexible FCA controls and reporting requirements. Furthermore, AIFMs managing non-specified investments will be able to delegate the investment management functions related to those non-specified investments to unauthorised entities. We do not estimate the impact of these changes.

113. On the other hand, we also propose that AIFMs managing specified investments will be only able to delegate the investment management functions related to those specified investments to authorised entities. By clarifying the rules to ensure such delegates are authorised and appropriate, we additionally propose more proportionate reporting requirements. AIFMs will not be required to obtain pre-approval from the FCA for such arrangements. This shift from advance notification of delegation onboarding to ongoing reporting is expected to generate benefits for AIFMs. Under this approach, firms would no longer need FCA preapproval and would instead report delegation arrangements periodically. Furthermore, this ongoing reporting will concern delegated investment management functions only, instead of all AIFM management functions broadly as is currently the case. Table 9 sets out the estimated compliance cost savings from our delegation proposals.

114. We estimate that completing a delegate notification currently takes 0.79 full-time-equivalent days of compliance staff time. This estimate is based on a survey of FCA-regulated firms covering a comparable notification process, as reported in CP24/28 on incident reporting. Staff cost assumptions are taken from our SCM and averaged across small, medium, and large firms, assuming delegation activity is evenly distributed. Multiplying the cost per notification by the volume of delegation notifications received by the FCA yields an estimated market-wide annual saving of £109,000, equivalent to an NPV of £940,000 over 10 years.

Table 9: Compliance cost savings to AIFMs from delegation proposals

Number of delegate notifications received by the FCA from AIFMs	2023	233
	2024	312
	2025	321
Mean 289		
Cost of delegation notification form	0.79 FTE days	
Daily salary including overheads	£474	
Market wide ongoing compliance cost savings to AIFMs	£109,000	
10-year present value	£940,000	

Valuation requirements

115. We propose that external valuers appointed by AIFMs should be responsible for valuation outcomes only where they conduct valuations of all assets and liabilities. This differs from the current approach, under which external valuers may be liable for partial valuations. At present, valuation firms typically hold liability insurance to manage this risk, reflecting both regulatory requirements and uncertainty over legal responsibility. This can disadvantage smaller and newer valuation providers, who may be less able to afford such coverage and result in higher costs for smaller AIFMs through higher valuation fees. As a result, the supply of valuation services may be constrained by the current regulatory framework.

116. The proposal clarifies rules, reduces the liability risk faced by valuation firms, and narrows their need to hold liability insurance for their engagements with AIFMs. Therefore, there is a potential indirect benefit of lowering the prices of valuation services facing AIFMs. In addition, the proposals could lower barriers to entry for valuation firms looking to provide services to AIFMs, a large segment of their addressable financial services market.

117. We do not quantify these impacts, as doing so would require disproportionate engagement with valuation service providers.

Benefits to investors

118. We expect our proposals to improve investor protections and promote market integrity by strengthening baseline standards for small registered and small authorised firms.

119. Bringing small registered AIFMs into authorisation would address several harms we have observed. The current regime limits our ability to assess firms at entry and to supervise them on an ongoing basis. In practice, intelligence has mainly been gathered

reactively, for example, through authorisation assessments at the registration gateway or supervisory work triggered by complaints. This leads to delayed identification of risks and scrutiny only after harms have occurred. As a result, our understanding of risks in the small registered AIFM regime has developed through isolated cases rather than routine, preventative supervision.

120. Eventually removing the registration regime would also reduce the risk of firms presenting registration as a form of FCA endorsement. Investors do not always understand the distinction between 'FCA registered' and 'FCA authorised', and registration can create a halo effect that confers undue credibility on unregulated or high-risk activity. Bringing all AIFMs into authorisation would better align regulatory status with the standards firms must meet and reduce the risk of misplaced investor reliance.

121. Bringing these firms into authorisation would further reduce harm by applying clearer accountability and more effective ongoing scrutiny. The application of Threshold Conditions, Principles for Business and Senior Management Functions would provide a clear framework for authorising fund managers likely to engage in better conduct. Ongoing supervision under AIFMD would also allow us to monitor firms over time, rather than relying on one-off scrutiny at registration. In practice, we have observed some small, registered firms departing from their stated business models, including undertaking non-AIFM activity and mis-selling to retail investors. Earlier scrutiny at authorisation, combined with ongoing monitoring, would allow us to intervene sooner and prevent consumer harm.

122. Our proposals to formalise small authorised firms' liquidity management practices strengthen investor protection by supporting a fairer allocation of costs between subscribing, redeeming and remaining investors. Requiring small authorised AIFMs managing open-ended funds and leveraged closed-ended funds to establish formal liquidity risk management systems, conduct annual stress testing, and make use of anti-dilution tools helps ensure that the costs associated with meeting redemptions are not borne disproportionately by remaining investors, and that the liquidity profile of the fund is maintained.

123. Improved liquidity management practices also enhance AIFMs' ability to manage redemption pressures in both normal and stressed market conditions. This reduces the likelihood that funds are forced to dispose of assets at significant discounts to meet redemptions, thereby limiting dilution and downward pressure on asset prices. In the absence of effective liquidity management practices, such price falls may trigger further redemptions, reinforcing a negative feedback loop that amplifies stress within individual funds and across financial markets.

124. Improving baseline standards for small registered and small authorised AIFMs could also support investor confidence, as all AIFs would be subject to baseline rules on risk and liquidity management and some poorly-run firms operating under the registration regime are likely to exit the market.

Costs

125. In this section, we describe the main costs we expect to arise from our proposals and their estimated values, by the group affected. The key expected costs to firms are summarised in Table 10.

Table 10: Summary of expected costs to firms

Firm segment	Expected costs
All AIFMs and residual CIS operators	Familiarisation and gap analysis costs
Prime brokers and depositaries	Familiarisation costs
All AIFMs	Implementation costs to review and update existing compliance processes and train staff
Residual CIS operators	Produce AIF annual summary
	Ensure existing disclosures are aligned with investor disclosure rules
Small authorised AIFMs	Formalise liquidity management processes
	Produce AIF annual summary
	Ensuring approach to valuations meets is aligned with requirements
Small third Country AIFMs	Produce AIF annual summary
Small registered AIFMs	Costs to meet relevant AIFMD regulations as an authorised AIFM

Familiarisation and gap analysis costs

126. We consider familiarisation and gap analysis costs for all firms that are subject to AIFMD, including UK AIFMs and NPPR managers. We assume that prime brokers and depositaries of authorised and unauthorised AIFs will incur familiarisation costs, but not gap analysis costs. All affected firms will need to familiarise themselves with the consultation and accompanying legal instruments in order to prepare for any resulting business changes.

127. In total, 2,334 firms will be affected by our proposed changes. These firms are categorised by size in line with the definitions in our SCM.

Table 11: Affected population of firms

SCM Firm size	AIFMs	Prime brokers	Depositaries of authorised and unauthorised AIFs	Residual CIS operators	NPPR third country AIFMs
Large	64	30	18	0	0
Medium	175	65	11	8	0
Small	1,007	108	26	35	787

128. Table 12 summarises the estimated costs to firms, using assumptions from our SCM. These are based on firms reviewing 120 pages of policy documentation (the CP) and 60 pages of the legal text, reflecting the complexity of the regime.

Table 12: Familiarisation and gap analysis costs

Firm size	Assumptions	Average cost per firm
Large	Familiarisation: 20 FTE compliance staff, with an hourly salary of £75. Gap analysis: 4 FTE legal staff, with an hourly salary of £87.	£15,700
Medium	Familiarisation: 5 FTE compliance staff, with an hourly salary of £70. Gap analysis: 2 FTE legal staff, with an hourly salary of £81.	£5,000
Small	Familiarisation: 2 FTE compliance staff, with an hourly salary of £58. Gap analysis: 1 FTE legal staff, with an hourly salary of £77.	£1,300
Total costs to all firms		£5.6m

Costs to UK AIFMs

Implementation costs

129. We anticipate that all AIFMs will make some changes to their current processes in line with our proposals. AIFMs will also need to train the necessary staff to understand these changes and update working practices. The costs of updating processes and training staff are estimated for each transition group, as both the scale of the changes and firm size affect the costs.

130. To estimate these costs, we use our SCM calibrated with the assumptions in Table 13.

Table 13: Summary of assumptions for implementation costs

AIFM type	SCM Firm Size	Central cost impact	Reason for cost impact
Small authorised AIFMs reclassified as small	Small	Minimal	Minimal change to regulatory requirements, accounting for changes quantified separately.
Full-scope AIFMs reclassified as small	Small	Moderate	Materially reduced requirements and increased flexibility.
Full-scope AIFMs reclassified as medium	Medium	Minor	Some reduced requirements and increased flexibility.
Full-scope AIFMs reclassified as large	Large	Minimal	Minimal change to regulatory requirements.

Training costs for updates to AIFMD rules

131. AIFMs will incur costs to train fund management, legal and compliance staff on how to comply with our revised requirements. In addition to general training on complying with the updated regime, we expect the training would cover more specialised training scenarios, including the application of proposed clarifications and updated valuation definitions.

132. Our SCM assumes that all large firms and 40% of medium firms develop and deliver training in-house, with other firms using external providers.

133. To estimate the number of staff that need training we use internal data and assumptions from our SCM. The cost of training reflects the opportunity cost of time spent by trainees that they would otherwise have spent performing their usual role, as well as the cost of developing and delivering the training.

134. Table 14 below outlines the assumptions used in our calculations and the estimated cost of training.

Table 14: Training costs for AIFMs

Transition group	Assumptions	Firms affected	Average cost per firm	Total costs to firms
Full-scope AIFMs becoming Large	Written briefing – 1 hour 75 trainees	64	£5,600	£0.36m
Full-scope AIFMs becoming Medium	Basic training – half day 25 trainees	175	£13,500	£2.37m
Full-scope AIFMs becoming Small	Basic training – full day 4 trainees	463	£4,800	£2.23m
Small authorised AIFMs becoming Small	Basic training – half day 4 trainees	475	£2,400	£1.14m
Total 10-year PV cost				£6.10m

Changing existing processes

135. There are many parts of the AIFMD rules in which our proposals represent minor change. These each have a small one-off impact, as AIFMs refine or alter processes to comply with our rules going forward. We provide several examples in the section 'Greater flexibility for AIFMs' of how firms may change their processes in response to increased flexibility in our rules. Estimating each of these costs individually would likely result in double counting and uncertainty. In practice, it is likely that many firms will treat making these changes as one project amongst their risk management and compliance staff. Therefore, we estimate these changes together as part of one 'change project'.

136. These changes do not materially increase the ongoing cost burden to firms, and in many cases the increased flexibility may result in small incremental cost savings over time, set out in the benefits section of this CBA.

137. We estimate these costs using our SCM. In line with our Statement of Policy, we use the 'change project' set of assumptions, varying the size of the project to reflect the difference between each transition group. The more changes a transition group is expected to make, the larger the magnitude of the change project cost. The mapping from transition group to SCM size applies here, as firm size partly determines FTE involvement and salary.

138. Table 15 below outlines the assumptions used in our calculations alongside the cost to firms in each transition group.

Table 15: Costs to update processes

Transition group	Assumptions	Firms affected	Average cost per firm	Total costs to firms
Full-scope AIFMs becoming Large	45 person days	64	£24,400	£1.56m
Full-scope AIFMs becoming Medium	42 person days	175	£22,100	£3.87m
Full-scope AIFMs becoming Small	16 person days	463	£6,100	£2.83m
Small authorised AIFMs becoming Small	3 person days	475	£1,300	£0.60m
Total 10-year PV cost				£8.86m

Liquidity management costs to small authorised AIFMs

139. Our proposals will require small AIFMs to comply with explicit liquidity management requirements. This represents an uplift from current expectations for small authorised AIFMs which are not subject to explicit rules on liquidity risk management. However, under the threshold conditions and in the interests of treating all investors fairly, we would already expect that small authorised AIFMs to ensure consistency between an AIF's investment strategy, liquidity profile and redemption policy and have procedures in place to monitor the liquidity risk of the AIF. Table 16 summarises how the liquidity

rules apply as they relate to our estimation framework and the estimated population of AIFMs affected.

Table 16: Summary of requirements by affected AIFMs

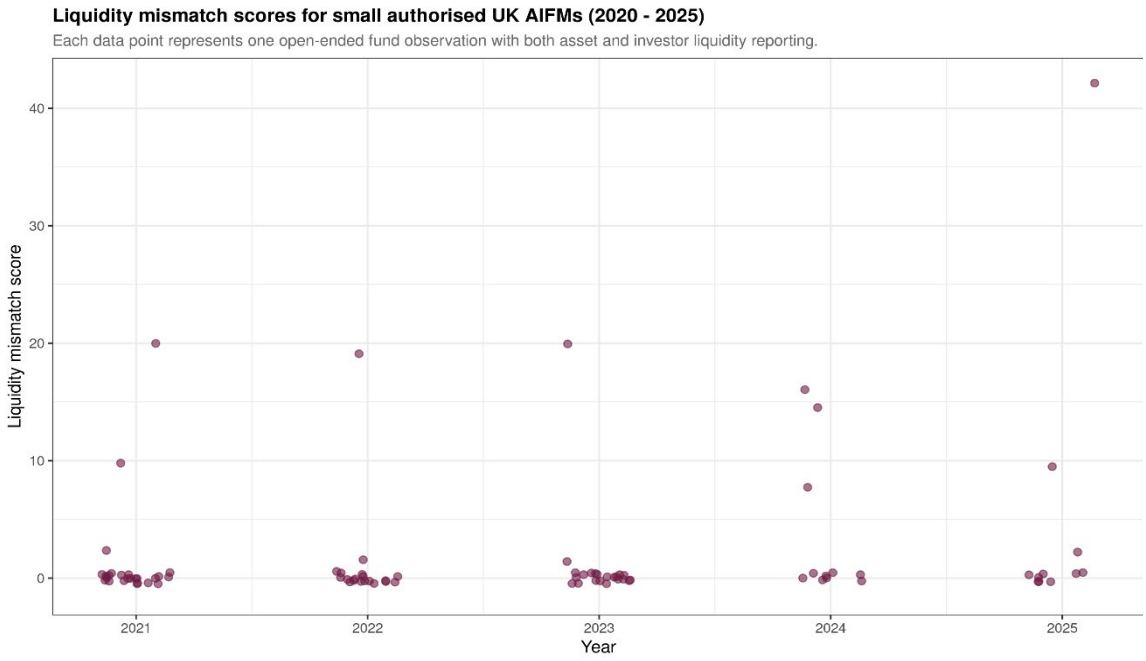
Summary of requirement	Affected AIFMs	Estimated population
AIFM must ensure that liquidity profile is aligned with redemption policy and investment strategy.	Small authorised AIFMs managing open-ended funds.	61
AIFMs must have a liquidity risk management system and adopt procedures in place.	All small authorised AIFMs managing open-ended or closed-ended funds with some leverage. Although some aspects are not relevant to closed-ended funds.	156
AIFM must conduct stress tests at least once a year.	All small authorised AIFMs managing open-ended or closed-ended funds with some leverage.	156
AIFM must have liquidity management tools (LMTs) in place.	Small authorised AIFMs managing open-ended funds.	61

Notes: As we do not have information on liquidity structure and leverage for all AIFs, we apply the distribution observed in the reporting sample to the wider population of AIFMs.

140. We do not expect AIFMs to make material changes to their portfolio allocations due to these requirements as there is limited evidence of liquidity mismatch among the affected funds. To assess liquidity mismatch we measure the ability of individual funds to meet redemption requests through computing a liquidity mismatch score for each fund. We construct a simple measure of peak liquidity mismatch for each fund by subtracting the total percentage of assets that can be liquidated in or before each period from the total percentage of investor equity that can be redeemed over the same period. We then select the maximum value (i.e., the largest gap) and term this the fund's "liquidity mismatch score". This score can take a value between 0 and 100, where a score of 0 indicates that there is no period in which investor redemptions exceed the liquidity of the fund's assets. A score above 0 indicates a potential liquidity mismatch: for example, a score of 20 indicates that there is at least one period in which investors could redeem, for example, 70% of the fund's NAV but the fund could only sell 50% of the NAV in that same period.

141. As shown in Figure 7, very few open-ended funds managed by small authorised AIFMs demonstrate a redemption-driven liquidity mismatch, as relatively few funds have a liquidity mismatch score above zero. As around 40% of UK funds, representing 10% of NAV, do not report data that enables us to identify the structure of the fund, we assume that these results are representative across the entire population of small authorised AIFMs managing open-ended funds.

Figure 7: Redemption-driven liquidity mismatch scores for small authorised AIFMs managing open-ended funds (2021 – 2025)



Source: AIFM reporting data.

Notes: The sample of funds varies by year: 2021 (25), 2022 (19), 2023 (22), 2024 (11) and 2025 (11).

142. In general, we expect that small authorised AIFMs already have systems in place which allow them to model the liquidity of a fund's portfolio and how it might evolve under different circumstances and market conditions. However, based on a small sample of small authorised AIFMs for which AIFMD reporting data is available, very few report having liquidity management tools in place, such as side pockets or gates.

143. We expect around 156 small authorised AIFMs managing open-ended funds or closed-ended funds with leverage to establish or formalise liquidity risk management systems, including the implementation of a liquidity risk management framework and annual stress testing. This is likely to require updates to documentation and systems and associated IT costs to support liquidity assessment and stress testing. Of these firms, an estimated 61 small authorised AIFMs managing open-ended funds only will need to set-up and maintain liquidity management tools. This is likely to require updates to documentation and systems, the specification of parameters for anti-dilution tools, and associated IT costs to support liquidity assessment, stress testing and the administration of those tools.

Table 17: Liquidity management costs to small AIFMs

Cost type	No. of AIFMs (year 1)	Average implementation cost	Average ongoing (annual) cost	Source
Liquidity risk management system1	156	£11,000	£17,000	CP12/32 adjusted for firm size and inflation.1
Annual stress testing1	156	£2,000	£3,000	
Liquidity management tools2	4 AIFMs that already have LMTs available	£3,000	£0	Our SCM as in CP25/38 (see pages 63 to 67). We assume ongoing costs are 50% of implementation costs.
	57 AIFMs that do not already have LMTs available	£39,000	£3,000	
Disclosure to investors1	156	£9,000	£5,000	CP12/32 adjusted for firm size and inflation.
Total 10-year PV cost[3]				£38.1m

Notes: 1. These costs are 19% of the costs estimated in the 2012 AIFMD CBA based on the average size of a small authorised AIFM managing an open-ended fund compared with the larger firms on which the original estimates were based. 2. We estimate the cost for an AIFM implement at least one LMT tool. 3. The 10-year present value cost accounts for small authorised AIFMs becoming full-scope AIFMs in the counterfactual, as described in 'Key assumptions'.

Annual summary and investor disclosure costs

144. Small authorised AIFMs, residual CIS operators and small third country AIFMs will incur costs associated with producing annual reports. The information contained in these reports largely overlaps with information prepared for annual accounts and should therefore be readily available. As a result, the costs are primarily driven by the production process rather than information gathering.

145. Small third country AIFMs will also align their investor disclosures, retail and professional, with our proposed AIFMD rules. Similarly, residual CIS operators will need to align their disclosures for professional investors with our requirements, although they already required to provide disclosures to retail investors compliant with our rules.

146. Our proposals do not apply to residual CIS operators that are in scope of the carve out for residual CISs (carried interest vehicles, excluded entities, joint venture vehicles or single investor vehicles). We are unable to exclude these specific vehicles from the number of residual CISs in our data, so our population estimate is an overestimate.

147. To estimate these costs, we use the cost per disclosure estimated in the 2012 AIFMD CBA, adjusted for AIFM size. The cost of preparing an annual summary or investor disclosure in line with our rules is estimated at approximately £400 for initial implementation and £300 on an ongoing annual basis. This estimate is derived from the 2012 AIFMD CBA, using the cost per AIF disclosure as a proxy, adjusted to reflect the smaller average size of firms in scope. Specifically, the costs are scaled based on the relative size of a small authorised AIFM compared with the larger firms on which the original estimates were based. Given that the average size of a small authorised AIFM is comparable to that of a small registered AIFM, the same adjustment factor of 0.1 is applied, as set out in Table 21. We apply this adjustment factor to residual CIS operators and small third country AIFMs, as we assess these firms to be broadly comparable in size.

Table 18: Costs to produce annual summaries

Cost type	Number of firms	Average number of AIFs	One-off cost per firm	Ongoing cost per firm
Small authorised AIFMs	475	10	£3,600	£2,900
Residual CIS operators	43	2	£700	£600
Small third country AIFMs	787	1	£400	£300
Total 10-year PV cost				£17.6m

Costs to small registered AIFMs

148. Under our proposals, small registered AIFMs would be required to become authorised and comply with almost all the requirements and guidance set out in AIFMD for the first time. The only requirement that small, registered AIFMs are currently subject to is the requirement to submit an annual report to the FCA. Authorisation would require these firms to establish and formalise a range of systems, controls and processes that are not currently required under the registration regime. In this CBA, we estimate the incremental compliance costs that small registered AIFMs would face upon becoming authorised, relative to a counterfactual in which firms remain subject only to the existing registration regime. The primary evidence base for these estimates is the 2012 AIFMD CBA (see 'AIFMD compliance costs').

149. The population of small registered AIFMs to which we apply these costs represents a subset of the overall registered population, as set out in Table 19. Registered Venture Capital Fund managers are subject to a separate regulatory framework, which HM Treasury intends to retain for the time being, and are therefore excluded from this analysis. HM Treasury is also postponing the authorisation of Social Entrepreneurship Funds (SEF), and the single SEF manager is excluded on this basis. In addition, HM Treasury has decided to remove internally managed investment companies from both the registration regime and the AIFMD framework entirely. Of the remaining small registered AIFMs expected to fall within scope, we model that around 10% will exit the regime rather than seek authorisation, reflecting potential voluntary withdrawal or insufficient capability to meet AIFMD requirements. After these exclusions and assumptions, we estimate that 69 small registered AIFMs would incur the costs analysed below. HM Treasury is legislating to require small registered AIFMs to become authorised, and its impact assessment considers the costs associated with the FCA authorisation process itself. This CBA focuses on the subsequent costs of complying with the AIFMD framework following authorisation.

Table 19: Population of small registered AIFMs

Type of small, registered AIFM	Number
Total AIFMs	145
AIFMs managing registered venture capital funds	50
AIFMs managing social entrepreneurship funds	1
AIFMs managing internally managed investment companies	18
Expected regime exit	7
AIFMs subject to authorisation	69

Source: FCA internal calculations using regulatory data and judgement

150. Using the 2012 AIFMD CBA estimates uprated for inflation, we apply size-based adjustments to reflect the materially smaller business footprint of the small registered AIFM population compared to the firms covered by the original analysis. These adjustments are applied to the midpoint of the original cost ranges to approximate the average cost per firm. The justification for this approach is illustrated in Table 20, which shows that average AUM per AIFM were around £1.25bn in 2012, compared to approximately £0.069bn per firm for small registered AIFMs in Q4 2025. On this basis, small registered AIFMs are, in AUM terms, just under 5.5% of the size of the firms to which the original estimates applied. We therefore adjust the inflation-uprated costs to reflect this difference, under the assumption that many compliance costs vary with firm size, complexity and activity levels.

Table 20: Comparison of firm populations and AUM between 2012 AIFMD CBA and current small registered AIFMs

	Total AUM in population	Average AUM per manager
Affected population of original CBA (2012)	£541.53bn	£1.25bn
Population of small registered firms (2025, Q4)	£4.75bn	£0.07bn

Source: FCA internal calculations using AIFMD reporting data
Notes: As our AIFMD reporting data do not cover all small registered AIFMs, the total AUM reflects only a subset of the overall population of AIFMs.

151. As shown in Table 20 above, most cost estimates are subject to a standard size-based adjustment, reducing the inflation-adjusted original estimates to 5.5% of their original values. Cost items that are less sensitive to firm scale, operational complexity or the number of external relationships are subject to a lighter adjustment, reducing costs to 10% of the original estimates.

Table 21: Size based adjustments made to the original CBA cost estimates

Adjustment method	Rationale
Standard size-based adjustment (5.5%)	Applied to all cost items to reflect variations with firm size, complexity and activity levels.
Lighter adjustment for less sensitive cost items (10%)	Applied to cost items that are less sensitive to the size of the firm. Obligations are per-fund and/or governance-led with minimum floors (drafting, approvals, board time, periodicity).

152. Small registered AIFMs will be expected to hold regulatory capital upon authorisation, although we do not model the impacts of capital requirements. The reasoning for this decision is in the Annex to the CBA.

153. We do not distinguish between the current AIFMD regime, and the regime proposed in this CP. For small registered AIFMs that currently face no requirements, we assume that the one-off changes needed to comply with the proposed regime would not differ materially from those required under the current AIFMD. For ongoing compliance costs, we use the original AIFMD cost estimates from 2012 as a baseline and adjust from that point.

154. Table 22 below is a summary of the costs facing small, registered AIFMs as a result of authorisation, split by cost area. Details on the underlying cost items of each area and the adjustments made can be found in the Annex to the CBA. The exclusion of the annual report cost under the transparency area is explained there.

Table 22: Summary of costs of the proposed changes to small registered AIFMs

Cost type (central estimate)	One-off	Ongoing (annual)
Operating requirements	£21,000	£52,000
Delegation	£3,000	£14,000
Valuation	£1,000	£6,000
Liquidity management	£9,000	£8,000
Leverage	£11,000	£10,000
Transparency	£700	£700
Remuneration	£22,000	£12,000
Total per firm	**£71,000**	**£105,000**
Number of AIFMs affected	69	
Annual market wide costs to small, registered AIFMs	£4.65m	£7.09m
10-year present value		£65.64m

Source: FCA internal calculations. Figures may not add up due to rounding.

155. We estimate that authorising small, registered AIFMs will impose one-off costs of £4.65m across the affected firms, reflecting the cost of setting up systems to comply with AIFMD. Following authorisation, these firms will face ongoing annual costs of £7.09m to operate under the regime, totalling a present value cost of £65.64m over a 10-year appraisal period.

Costs to investors

156. To the extent that our proposals give rise to additional compliance costs for small registered AIFMs, these costs may ultimately be passed on to investors through higher fund fees. Evidence from the implementation of the current AIFMD regime suggests that compliance costs borne by fund managers are typically reflected in fund charges over time. The degree of pass through is likely to vary across firms and fund types, depending on competitive pressures, fee structures and the scope for absorbing costs within existing margins. We therefore expect any pass through of costs to investors to be small and diffuse.

157. Our proposals introduce greater flexibility and a more principles-based approach to certain disclosure and governance requirements. While this may reduce unnecessary

prescription for AIFMs, it could increase variation in the form and presentation of information provided to investors, potentially raising search or comparability costs when assessing and comparing funds. The proposal to allow AIFMs to override the requirement for annual valuation could impose a similar indirect cost. However, we expect most AIFMs to continue to carry out and report annual valuations. Furthermore, given the sophistication of most AIF investors and existing market practice, we expect any such costs to be limited.

158. Reduced prescription in our rules could, in theory, weaken certain protections for investors, for example, through reduced independent oversight arising from changes to risk and portfolio management separation. These potential risks are discussed further in the 'Risks and uncertainties' section. We do not expect these effects to give rise to material additional costs to investors.

Question 3: **Do you consider there to be new risks to investors from reduced prescription in our rules for small and medium AIFMs?**

Costs to FCA

159. There would be no increase in FCA costs, as our supervisory approach is unchanged and registered firms would be authorised and supervised using existing staff resources.

Wider economic impacts, including on secondary objective

160. Overall, we expect the wider economic impacts of our proposals to be small and it is not reasonably practicable to quantify them.

161. A more principles-based and proportionate regime, calibrated to firms' business activities and risk profiles, can improve regulatory efficiency, support productivity in financial services markets. Raising standards for small registered and authorised AIFMs should also help to build trust and confidence in the sector.

162. Taken together, these effects can enhance the UK's attractiveness as a location in which to establish and grow AIFMs and may, in turn, support sustainable economic growth over the medium to long term.

Risks and uncertainties

Risks to investors

163. Our proposals create more flexibility in our requirements for most AIFMs, particularly full-scope AIFMs moving to small or mid-sized AIFM categories. Depending on how firms respond, we may see greater risks to investors. Meanwhile, we are increasing regulatory expectations for small registered and authorised AIFMs, reducing risks for investors.

164. To assess the risk profiles of firms in each regulatory category in the current and proposed regime, we compare market coverage, retail investor concentration and leverage use. These metrics are measured as a percentage of NAV for each of the current and proposed thresholds.

165. After implementation, we estimate that assets will become less concentrated in the most comprehensive AIFMD threshold. Currently, over 98% of NAV is held by full-scope AIFMs, whereas around 75% of NAV will be held by large AIFMs. By reducing this concentration, we believe that more assets will be more proportionately managed with less stringent regulatory requirements. Depending on how firms respond, we may observe increased risk to investors in funds which move from full-scope to become medium or small. However, we believe this trade-off is justified in ensuring the requirements are proportionate to the risks firms pose.

166. Retail investor exposure is a key driver of potential harm, as professional investors are generally better able to protect their own interests. Small registered AIFMs have around 57% NAV retail exposure, compared to just 15% in small authorised AIFMs and 20% in full-scope AIFMs. Retail investors in AIFs managed by small registered AIFMs which become authorised will see a large benefit and reduction in potential harm, due to higher baseline standards and increased oversight. Under our proposed NAV thresholds, much of the retail investor concentration moves from lower AIFMD categories to more stringent ones. Small AIFMs would have a retail investor concentration of 10% of NAV, with that of medium and large AIFMs being 14% and 23%. This ensures that more retail investors benefit from the fact that larger AIFMs face relatively higher regulatory requirements.

167. Currently, leverage is used much more by full-scope AIFMs (83% of NAV) than small authorised (31%) or small registered AIFMs (39%). High leverage, defined as an adjusted leverage ratio above 3, is an important risk indicator. Around 14% of full-scope AIFM NAV is highly leveraged versus less than 1% for both small authorised and small registered AIFMs. Our estimates suggest that leverage, including high leverage, is distributed across all proposed AIFM categories. We estimate that small, medium and large AIFMs will have 9%, 16% and 14% of NAV being highly leveraged. This increases potential risk to some investors, particularly in funds managed by full-scope AIFMs recategorised as small.

Sensitivity analysis

168. The two main drivers of our quantified costs and benefits savings to firms are:

- The size of original cost estimates from the AIFMD implementation CBA. These were estimated before implementation, have wide ranges, with ranges starting from £0, and are over a decade old. We use the mid-point of the range (50% of the upper bound).
- The adjustments we apply to these estimates to reflect our affected firm population. We do not observe the underlying distribution of the data so we scale the estimates based on the size, measured through AUM, of firms in our affected firm population relative to the sample population.

169. We test the sensitivity of our estimates to the size of the costs in the original CBA by applying lower and upper bounds equal to 25% and 75% of the top of each cost range. As the underlying distribution of costs within these ranges is unknown, we adopt this simple assumption for sensitivity testing. The bounds reflect scenarios in which the original CBA costs may no longer be representative. For example, the lower bound represents the costs being an overestimate, perhaps because the relevant activities are now carried out more efficiently than in 2012.

Table 23: Sensitivity analysis

Metric	Lower	Central	Upper
Total costs	£93.8m	£141.9m	£232.6m
Total benefits	£13.9m	£11.6m	£40.0m
Total 10-year NPV	-£79.8m	-£130.2m	-£192.7m
EANDCB	£9.3m	£15.1m	£22.4m

170. At 75% of the upper bound of the 2012 costs, the NPV decreases from -£130.2m to -£192.7m, due to a rise in costs of over £90m that is only somewhat offset by an increase to the quantified benefits of less than £30m. Even in this scenario, we expect that the quantified benefits due to be estimated in future work, for example, the proposals on depositaries set out in Chapter 13 of the CP and the non-quantified value of the other benefits set out in this and upcoming CPs, outweigh the costs.

Monitoring and evaluation

171. There are several criteria against which we would consider the design and implementation of these reforms in the CP a success:

- Compliance costs of AIFMD reduce as low-value-added compliance activities cease and firms benefit from flexibility in the regime. Through industry and firm engagement, we will monitor how firms have responded to removing prescription from our rules by adapting their business models and the costs of compliance.
- Clearer and less complex requirements reduce firm burden. We will monitor firms' burden in interpreting requirements through supervisory intelligence and the volumes of calls to our contact centre indicating firms' difficulties interpreting rules (noting that this might increase during the initial familiarisation period).
- Risks of harm among the formerly registered firm population decline and the risks of harm in the wider market are within our regulatory tolerance. We will monitor whether firms' controls are more tailored to the risks posed by the funds they manage and risks of harm in the market through supervisory intelligence, cases and complaints.

- Our regulatory changes will be accompanied by improvements to AIFMD reporting being consulted on concurrently, enabling better monitoring of market developments and risk profiles, and firm response to these reforms. This data will also enable us to identify potential risks arising from unintended consequences of reduced prescription in our requirements.

Question 4: **Do you have any comments on our cost benefit analysis?**

Consultation with our Cost Benefit Analysis Panel

172. We have consulted the CBA Panel in preparing this CBA in line with the requirements of s138IA(2) FSMA. In Table 24 below we summarise the Panel's main recommendations with our actions and response to them. The CBA Panel publishes a summary of their feedback on their website.

Table 24: Summary of the CBA Panel's recommendations and our responses

Main recommendation	Our response
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.	In addition to setting out issues with the existing regulatory framework, we have more clearly articulated the underlying market failures driving the harms we are seeking to address through regulatory recalibration or new requirements.

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.	We recognise, and have set out in more detail, that using uprated estimates from 2012 has limitations. However, we consider that collecting new data from firms would be disproportionate for the reasons set out in the 'Key data sources' section. We sought to validate these estimates with trade bodies and firms during engagement on the policy proposals, but did not receive follow-up responses at the time of publication. Firms also noted that it is challenging to disentangle the costs of complying with AIFMD from wider business operations, and that estimating incremental compliance costs beyond business-as-usual activities would be difficult. We welcome additional evidence on the costs of complying with AIFMD in response to our consultation question 36 in the CBA.
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.	We have made the dependence of costs and benefits on firms' responses more explicit in our analysis, including where these uncertainties could affect outcomes. Our scenario analysis also provides more detail on how firm behaviour could influence those outcomes. We recognise that a lack of evidence on how firms will respond to proposals that increase flexibility is a limitation, and we sought to address this through stakeholder engagement. We welcome further evidence on how firms may respond to our proposals in responses to the CBA consultation questions.

Annex 3

Annex to the CBA

Annex 2.1: Adjustments to costs that form the overall small, registered AIFM cost of authorisation

Operating cost

1. Becoming authorised would require small registered AIFMs to establish and maintain core operating requirements under AIFMD, including compliance functions, internal audit arrangements, governance processes, risk management frameworks and appropriate systems for record-keeping and oversight. The costs associated with operating requirements reflect a combination of fixed governance obligations and activities that scale with business breadth. We therefore apply a mix of light and standard sizebased adjustments to the original AIFMD estimates to reflect the smaller scale, narrower product range and reduced organisational complexity of small registered AIFMs.

Table 25: Operating cost estimates

Requirement	Original estimate		New estimate for small, registered AIFMs	
	One-off	Ongoing	One-off	Ongoing
Compliance function	£0 - £41,468	£0 - £571,973	£1,000	£16,000
Internal audit function	£0 - £37,178	£0 - £178,742	£1,000	£5,000
Suitable electronic systems for recording of transactions & subscriptions	£0 - £41,468	£0 - £147,283	£1,000	£4,000
Accounting policies and procedures (lighter adjustment)	£0 - £41,468	£0 - £193,041	£2,000	£10,000
Due diligence	£0 - £31,459	£0 - £100,095	£1,000	£3,000
Appointment of counterparties and prime brokers	£0 - £218,780	£0 - £78,646	£6,000	£2,000
Fair treatment of investors (lighter adjustment)	£0 - £31,459	£0 - £50,048	£2,000	£3,000
Risk management	£0 - £227,359	£0 - £285,987	£6,000	£8,000
Conflicts of interest (lighter adjustment)	£0 - £15,729	£0 - £50,048	£1,000	£3,000
Total	**£0 - £686,368**	**£0 - £1,655,862**	**£21,000**	**£52,000**
Number of AIFMS affected	69			
Annual market wide costs to small, registered AIFMs	**One-off**		**Ongoing**	
	£1.45m		£3.59m	

Delegation

2. AIFMD delegation requirements would require small registered AIFMs to review, document and oversee any delegation arrangements and to submit relevant information to the FCA. These obligations are primarily driven by the number and complexity of external service providers and the level of ongoing oversight required. Reviewing services for each delegate receives a standard adjustment because workload scales with the number and depth of delegate relationships, which we expect to be lower for smaller AIFMs. Reporting to the FCA is a light adjustment since we expect the burden of filing forms to be somewhat constant.

Table 26: Delegation estimates

Requirement	Original estimate		New estimate for small, registered AIFMs	
	One-off	Ongoing	One-off	Ongoing
Reviewing services provided by each delegate	£0 - £37,178	£0 - £147,283	£1,000	£4,000
Reporting to FCA (lighter adjustment)	£0 - £37,178	£0 - £200,191	£2,000	£10,000
Total	**£0 - £74,356**	**£0 - £347,474**	**£3,000**	**£14,000**
Number of AIFMS affected	69			
Annual market wide costs to small, registered AIFMs	**One-off**		**Ongoing**	
	£0.20m		£0.97m	

Valuation

3. Under AIFMD, small registered AIFMs would be required to comply with valuation requirements, including the appointment or oversight of external valuers where applicable and the establishment of appropriate valuation policies and controls. These requirements are largely driven by asset type and valuation complexity rather than firm size alone. Given that valuation costs scale with the nature of assets managed and the need for independent assurance, rather than the overall size of the firm, we apply moderate size-based adjustments to the original AIFMD valuation cost estimates.

Table 27: Valuation estimates

Requirement	Original estimate		New estimate for small, registered AIFMs	
	One-off	Ongoing	One-off	Ongoing
External valuer	£0 - £37,178	£0 - £223,069	£1,000	£6,000
Number of AIFMS affected	69			
Annual market wide costs to small, registered AIFMs	**One-off**		**Ongoing**	
	£0.07m		£0.42m	

Liquidity management

4. Authorisation would require small registered AIFMs managing relevant fund types to establish and maintain liquidity management systems, conduct stress testing where applicable, and provide related disclosures to investors. Although many firms are likely to have some liquidity management practices in place, AIFMD compliance would require these practices to be formalised and potentially extended, consistently applied and documented. Costs associated with systems, procedures and stress testing scale with fund structure and liquidity complexity and are therefore subject to standard size-based adjustments. Disclosure-related costs, which are more governance-led and standardised, are subject to lighter adjustments.

Table 28: Liquidity management estimates

Requirement	Original estimate		New estimate for small, registered AIFMs	
	One-off	Ongoing	One-off	Ongoing
Systems and procedures	£0 - £120,114	£0 - £178,742	£3,000	£5,000
Stress testing	£0 - £22,879	£0 - £34,318	£1,000	£1,000
Disclosure to investors (lighter adjustment)	£0 - £95,805	£0 - £51,478	£5,000	£3,000
Total	£0 - £238,799	£0 - £264,538	£9,000	£8,000
Number of AIFMS affected	69			
Annual market wide costs to small, registered AIFMs	**One-off**		**Ongoing**	
	£0.60m		£ 0.58m	

Leverage

5. Compliance with AIFMD leverage requirements would require small registered AIFMs to establish leverage policies, calculate leverage at fund level, set leverage limits and provide disclosures to both investors and the FCA. These requirements introduce new analytical and governance processes for firms that have not previously been subject to leverage rules. Costs related to leverage policy development, calculation and monitoring scale with asset complexity and the number of funds managed and are therefore subject to standard size-based adjustments. Disclosure-related requirements are subject to lighter adjustments, reflecting their largely fixed and standardised nature.

Table 29: Leverage estimates

Requirement	Original estimate		New estimate for small, registered AIFMs	
	One-off	Ongoing	One-off	Ongoing
Leverage policy	£0 - £101,525	£0 - £180,172	£3,000	£5,000
Calculating leverage levels of each AIF				
Setting a maximum level of leverage				
Disclosure to investors (lighter adjustment)	£0 - £148,713	£0 - £48,618	£7,000	£2,000
Disclosure to FCA (lighter adjustment)	£0 - £15,729	£0 - £50,048	£1,000	£3,000
Total	**£0 - £265,967**	**£0 - £278,837**	**£11,000**	**£10,000**
Number of AIFMS affected	69			
Annual market wide costs to small, registered AIFMs	**One-off**		**Ongoing**	
	£0.76m		£0.68m	

Transparency

6. Small, registered AIFMs are already required to conduct annual reporting to the FCA, hence the corresponding cost item, 'Reporting to the FCA', is not applicable to this CBA, and a separate CBA addresses our proposed reforms to asset management and fund data and reporting. AIFMD transparency requirements would require small registered AIFMs to provide periodic disclosures to retail investors and submit annual reports to investors. These obligations are largely governance driven and apply consistently across firms, regardless of scale. Therefore, we apply lighter adjustments to the original AIFMD cost estimates in this area.

Table 30: Transparency estimates

Requirement	Original estimate		New estimate for small, registered AIFMs	
	One-off	Ongoing	One-off	Ongoing
Disclosure to investors (lighter adjustment)	£0 - £85,796	£0 - £51,478	£360	£290
Annual report	£0 - £7,150	£0 - £5,720	£360	£290
Reporting to the FCA	£0 - £105,815	£0 - £171,592	N/A	N/A
Total	**£0 - £191,611**	**£0 - £223,069**	**£720**	**£570**
Number of AIFMS affected	69			
Annual market wide costs to small, registered AIFMs	**One-off**		**Ongoing**	
	£0.05m		£0.04m	

Remuneration

7. Authorisation would require small registered AIFMs to comply with AIFMD remuneration requirements, including the establishment of remuneration policies, enhanced governance oversight, data collection, reporting and record keeping. Several cost items receive a lighter adjustment, as these are predominantly governance-led and involve prescribed processes and senior management engagement with fixed cost elements that do not materially scale with firm size. By contrast, costs associated with changes to remuneration policies, systems and controls reflect implementation and operational effort that scales with organisational complexity and workforce size and therefore do receive a standard adjustment.

Table 31: Remuneration estimates

Requirement	Original estimate		New estimate for small, registered AIFMs	
	One-off	Ongoing	One-off	Ongoing
For changing: - The way remuneration policies are set; - systems and controls; - additional data collection; - reporting; and - record keeping requirements	£0 - £428,980	£0 - £71,497	£12,000	£2,000
Issuing an annual remuneration statement (lighter adjustment)	£0 - £142,993	£0 - £42,898	£7,000	£2,100
Senior management board or committee time (lighter adjustment)	N/A	£0 - £34,318	N/A	£1,700
Enhanced risk management function (lighter adjustment)	N/A	£0 - £44,328	N/A	£1,200
Due diligence (lighter adjustment)	£0 - £67,207	£0 - £71,497	£2,000	£2,000
Total	**£0 - £639,180**	**£0 - £264,538**	**£21,000**	**£9,000**
Number of AIFMS affected	69			
Annual market wide costs to small, registered AIFMs	**One-off**		**Ongoing**	
	£1.54m		£0.80m	

Capital requirements

8. Small, registered AIFMs will be expected to hold regulatory capital upon authorisation. We have not elected to model the impacts of capital requirements. There are 3 types of prudential regime designed for the small, authorised regime that the small, registered AIFMs could fall into:

9. When engaging in AIFM business only; or a combination of AIFM business and non-MiFID business where the AIFM business comprises most of the revenue – IPRU-INV Chapter 5

- When engaging in AIFM business in addition to MiFID business – MiFIDPRU
- When engaging in AIFM business in addition to non-MiFID business where the non-MiFID business forms most of the revenue – IPRU-INV Chapter 3

10. Given our limited visibility over the business models of small, registered AIFMs, we are unable to assume they engage in any activity beyond AIFM business, so we would model the capital requirements under IPRU-INV Chapter 5. This regime imposes liquid capital requirements, which will be the higher of £5,000, or the AIFM's total capital requirement. We cannot determine an AIFM's total capital requirement, so we would model the capital requirement as the opportunity cost of holding £5,000. We determine that there is a reasonable possibility that small, registered AIFMs already hold £5,000 in liquid capital and hence would likely not face incremental costs under this modelled scenario.

11. It is for these reasons that we have elected not to model the impact of the capital requirements facing small, registered AIFMs because of authorisation. The level of detail needed will only be available to FCA authorisation teams that will be determining which regime and specification each AIFM will be subject to.

Annex 4

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules (a) is compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA, and (c) complies with its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA. The FCA is also required by s 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (section 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. In relation to the FCA's strategic objective, this consultation aims to ensure that the relevant market, funds and asset management, functions well by providing firms with the ability to opt in to a more proportionate regime while ensuring good consumer outcomes.

8. The proposals set out in this consultation are primarily intended to advance the FCA's operational objectives of:

- securing an appropriate degree of protection for consumers
- protecting and enhancing the integrity of the UK financial system
- promoting effective competition in the interests of consumers.

9. The proposals advance our consumer protection objective by supporting the sound management of risks within AIFs and helping investors receive appropriate information. This includes setting baseline expectations for small UK AIFMs in areas such as valuation and risk management, including the management of liquidity risk, and maintaining strong standards for retail disclosures.

10. The proposals advance our market integrity objective by helping AIFMs identify and manage risks that could affect markets. In particular, requirements relating to leverage, valuation and risk management, including the management of liquidity risk, should support orderly markets and reduce the risk that fund activity contributes to wider market disruption.

11. The proposals advance our competition objective by reducing unnecessary complexity and cliff-edge effects while maintaining appropriate standards. This should make it easier for firms to enter, grow and compete in ways that benefit consumers, including through greater choice, efficiency and innovation.

12. The proposals are also relevant to the FCA's secondary objective to facilitate the international competitiveness and growth of the UK economy in the medium to long term. By creating a UK AIFM regime that is clearer, more proportionate and aligned where appropriate with international standards, the proposals should support innovation, cross-border business and confidence in the UK as a leading centre for asset management.

13. In preparing the proposals set out in this consultation, we have also had regard to the regulatory principles in section 3B FSMA.

The need to use our resources in the most efficient and economic way

14. These proposals should help us use resources more efficiently by creating a clearer, more proportionate UK AIFM regime. Moving firm-facing requirements from legislation into FCA rules, removing unnecessary prescription, and tailoring obligations to firms' size, and activities should make the regime easier for firms to understand and for us to

supervise. It should also help us focus our resources on areas where risks to consumers, market integrity and financial stability are greatest.

15. Consulting on our proposals provides greater certainty to industry and gives firms, investors and other stakeholders a clear opportunity to comment on the future shape of the UK AIFM regime. This will help us test whether the proposed rules are workable in practice before we finalise the new framework.

The principle that a burden or restriction should be proportionate to the benefits

16. We have carefully considered the proportionality of our proposals, including through engagement with internal and external stakeholders throughout the development of this consultation. Our proposals are designed to create a clearer and more proportionate UK AIFM regime by tailoring requirements to firms' size and activities while maintaining appropriate standards for consumer protection and market integrity.

17. The proposals will require some firms to make changes, including where they become authorised or move between size categories. However, we have sought to reduce unnecessary burdens by removing prescription where it is not needed and providing greater flexibility for firms. We consider that the proposals are proportionate and that the benefits outweigh the costs. The CBA in Annex 2 sets out the expected costs and benefits of our proposals.

The need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target) and section 5 of the Environment Act 2021 (environmental targets)

18. In developing this Consultation Paper, we have considered the environmental, social and governance (ESG) implications of our proposals and our duty under section 1B(5) and 3B(c) of the Financial Services and Markets Act 2000 (FSMA) to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008 and environmental targets under section 5 of the Environment Act 2021.

19. On balance, we do not think that there is any contribution the proposals outlined in this consultation can make to these targets. We will keep this under review during the consultation period and when considering whether to make the final rules. We will need to make consequential amendments to the ESG sourcebook where there are cross-references to the AIFM regime. We intend to do this as part of a second consultation addressing a range of consequential changes.

The general principle that consumers should take responsibility for their decisions

20. Our proposals do not inhibit consumers' ability to access a range of products, nor do they seek to remove from consumers the need to take responsibility for their own

decisions in relation to their use of regulated and unregulated products and services. In designing our proposed investor disclosure rules, we have considered the needs of different types of consumers, enabling them to make decisions, while ensuring a sufficient degree of protection.

The responsibilities of senior management

21. We consider that our proposals are likely to enhance the ability of senior management of AIFMs to take responsibility for their decisions by making the regime clearer and better tailored to firms' size and activities. In particular, the proposed rules clarify our expectations in areas such as valuation, risk management, including liquidity risk management, and leverage.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

22. Our proposals recognise the diversity of AIFM business models by tailoring requirements according to firms' size and activities whilst allowing a degree of flexibility, for example, giving smaller AIFMs the opportunity to comply with the requirements that apply to larger AIFMs.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

23. We have had regard to this principle and believe our proposals are compatible with it. Our proposals do not introduce any new requirements for us to publish information about individual firms. Although the Treasury's changes to the relevant legislation will enable us to create and publish registers of funds with permission to market in the UK, or conversely funds for which we have withdrawn permission, if we choose to do so. Where firms are required to make information available to investors, this is intended to support transparency and investor protection in a proportionate way and with due consideration to the needs of different types of investors.

The principle that we should exercise of our functions as transparently as possible

24. We have developed the proposals in this consultation transparently, building on previous engagement through our Discussion Paper and Call for Input, and through ongoing engagement with firms, trade bodies and other stakeholders. We have held roundtables, member meetings and bilateral engagement with industry groups representing the main affected sectors. This consultation sets out our proposed approach, draft rules, and questions for feedback, so stakeholders can engage with us on our proposed AIFM regime.

25. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on

(i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s 1B(5)(b) FSMA).

26. The Treasury will change the scope of the regime to bring registered firms into authorisation. We are considering the right way to bring these firms into the perimeter, ensuring that they meet our Threshold Conditions including in respect of financial crime. While our rules do not specifically address financial crime, several elements will be relevant including in relation to organisational requirements and risk management. Broadly, our proposals seek to be proportionate by matching compliance with the risks that firms pose, and we have sought to address gaps in the current regime.

Further specified matters to which the FCA must have regard

27. The Securitisation Regulations 2024, Regulation 8, requires the FCA to have regards to the coherence of the overall framework of securitisation regulations when making rules. AIFMs are in scope of the Securitisation Regulations, and we have considered the implications of changes to the AIFM regime. We intend to maintain the effect of the current rules and, where necessary, will work with the Treasury to ensure that consequential changes are reflected in both regulations and legislation.

Expected effect on mutual societies

28. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies , given the sectoral limit to fund and asset management.

Compatibility with the duty to promote effective competition in the interests of consumers

29. In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers. We have detailed our consideration of our operational objectives earlier in this Annex.

Equality and diversity

30. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, and to foster good relations between people who share a protected characteristic and those who do not.

31. As part of this, we ensure we consider the equality and diversity implications of any new policy proposals. Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010 (in Northern

Ireland, the Equality Act is not enacted but other anti discrimination legislation applies). But we will continue to consider the equality and diversity implications of the proposals when determining our approach to reform of the regime.

Environmental, social & governance considerations

32. In developing this Consultation Paper, we have considered the environmental, social and governance (ESG) implications of our proposals and our duty under ss. 1B(5) and 3B(c) of the Financial Services and Markets Act 2000 (FSMA) to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008 and environmental targets under s. 5 of the Environment Act 2021.

33. On balance, we do not think that there is any contribution the proposals outlined in this consultation can make to these targets. We will keep this under review during the consultation period and when considering whether to make the final rules. We will need to make consequential amendments to the ESG sourcebook where there are cross-references to the AIFM regime. We intend to do this as part of a second consultation addressing a range of consequential changes.

Treasury recommendations about economic policy

34. We have considered the recommendations made by the Treasury under section 1JA of the Financial Services and Markets Act 2000 about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties In particular, we have had regard to the vital contribution of the financial services sector to overall economic growth and to creating a regulatory environment which facilitates growth. Our proposals aim to secure an appropriate degree of protection for consumers and safeguard market integrity while ensuring our rules are proportionate and support firms to enter, grow, compete, innovate and operate internationally.

Legislative and Regulatory Reform Act 2006 (LRRA)

35. We have had regard to the principles in the LRRA and Regulators' Code (together the 'Principles') for the parts of the proposals that consist of general policies, principles or guidance. We consider that these parts of our proposals are compliant with the five LRRA principles – that regulatory activities should be carried out in a way which is transparent, accountable, proportionate, consistent and targeted only at cases in which action is needed.

- Transparent – We are consulting on our proposed changes with industry to articulate our proposals. Through consultation and pro-active engagement both before

and during consultation, we are being transparent and providing a simple and straightforward way to engage with the regulated community.

- Accountable – We are consulting on these changes and will publish final rules after considering all feedback received. We are acting within our statutory powers, rules and processes.
- Proportionate – We recognise that firms may be required to make changes to how they carry out their business and have provided for an implementation period to give them time to do so. The CBA sets out further detail on the costs and benefits of our proposals.
- Consistent – Our approach in some areas of our proposals is tailored by firm size and activity. We have clearly articulated the approach in each area of our proposals, and these will apply consistently across all firms.
- Targeted – Our proposals will enhance our ability to provide targeted firm engagement and consider how to best deploy our resources.
- Regulators' Code – Our proposals are carried out in a way that supports firms to comply and grow through our consideration of their feedback via the CP and refining our proposals where necessary. Our CP, CBA, draft instrument, accompanying annexes public communications and communications with firms are provided in a simple, straightforward, transparent and clear way to help firms meet their responsibilities.

Annex 5

Abbreviations used in this paper

Abbreviation	Description
AIF	Alternative Investment Fund
AIFM	Alternative Investment Fund Manager
AIFMD	Alternative Investment Fund Managers Directive
AIFMR	Alternative Investment Fund Managers Regulations 2013
ALTS	Alternative Investment Funds sourcebook
AuM	Assets under Management
CASS	Client Assets sourcebook
CCI	Consumer Composite Investments
CEIC	Closed-Ended Investment Company
CIS	Collective Investment Scheme
COBS	Conduct of Business sourcebook
COREPRU	Core Prudential sourcebook
CPMI	Collective Portfolio Management Investment Firms
Draft SI	Draft Statutory Instrument (the Treasury's proposed amendments to the AIFMR)
FATF	Financial Action Task Force
FRAME	Fund Reporting for Asset Management Entities
FSB	Financial Stability Board
FSMA	Financial Services and Markets Act 2000
FUND	Investment Funds sourcebook
GAR	Gibraltar Access Regime

Abbreviation	Description
IFPR	Investment Firm Prudential Regime
IOSCO	International Organization of Securities Commissions
Level 2 Regulation	Commission Delegated Regulation (EU) 231/2013
MiFID	Markets in Financial Instruments Directive
MiFIDPRU	Prudential sourcebook for MiFID Investment Firms
MiFID Investment Firms NAV	Net Asset Value
NMMI	Non-Mass Market Investment
NPPR	National Private Placement Regime
NURS	Non-UCITS Retail Scheme
REIT	Real Estate Investment Trust
RVECA	Registered Venture Capital Fund
SEF	Social Enterprise Fund
SYSC	Systems and Controls sourcebook
SUP	Supervision sourcebook
UCITS	Undertakings for Collective Investment in Transferable Securities
UKLR	UK Listing Rules
VCT	Venture Capital Trust

Appendix 2

Draft Handbook text

ALTERNATIVE INVESTMENT FUNDS INSTRUMENT 2026

Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions:

(1) the following sections of the Financial Services and Markets Act 2000 ("the Act"):

(a) section 137A (The FCA's general rules);
(b) section 137T (General supplementary powers);
(c) section 139A (Power of the FCA to give guidance);
(d) section 247 (Trust scheme rules);
(e) section 248 (Scheme particular rules);
(f) section 261I (Contractual scheme rules);
(g) section 261J (Contractual scheme particulars rules); and
(h) paragraph 23 (Fees) of Part 3 (Penalties and Fees) of Schedule 1ZA (The Financial Conduct Authority);

(2) regulation 6 (FCA rules) of the Open-Ended Investment Companies Regulations 2001 (SI 2001/1228);

(3) the following regulations in the [Alternative Investment Fund Managers Regulations 2026 (SI XXXX/XXXX):

(a) regulation 18 (Directions to RVECA and SEF Managers to provide information);
(b) regulation 41 (Material change to information provided to FCA); and
(c) regulation 59 (FCA rules specifying information and reporting requirements)]

[*Editor's note*: the final title of the regulations, the SI number and all the cross-references to the regulations in the instrument will be inserted before the instrument is made]; and

(4) the other rule and guidance making powers listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA's Handbook.

B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on [*date*].

Amendments to the Handbook

D. The modules of the FCA's Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2) below.

(1)	(2)
Glossary of definitions	Annex A
Alternative Investment Funds sourcebook (ALTS)	Annex B
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex C
Threshold Conditions sourcebook (COND)	Annex D
General Provisions sourcebook (GEN)	Annex E
Fees manual (FEES)	Annex F
Conduct of Business sourcebook (COBS)	Annex G
Environmental, Social and Governance sourcebook (ESG)	Annex H
Supervision manual (SUP)	Annex I
Securitisation sourcebook (SECN)	Annex J
Recognised Investment Exchanges sourcebook (REC)	Annex K

Revocation of the Investment Funds sourcebook (FUND)

E. The FCA revokes the rules and guidance in the Investment Funds sourcebook (FUND).

Revocation of the Collective Investment Schemes Information Guide (COLLG)

F. The FCA revokes the guidance in the Collective Investment Scheme Information Guide (COLLG).

Making of the Alternative Investment Funds sourcebook (ALTS)

G. The FCA makes the rules and gives the guidance in Annex B to this instrument.

H. The Alternative Investment Funds sourcebook (ALTS) is added to the Specialist sourcebooks block within the Handbook, immediately before the Access to Cash sourcebook (ATCS).

Revocation of Commission Delegated Regulation

I. The FCA revokes the following Commission Delegated Regulation:

Commission Delegated Regulation (EU) No. 694/2014 of 17 December 2013 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to regulatory technical standards determining types of alternative investment fund managers.

Notes

J. In the Annexes to this instrument, the notes (indicated by "*Editor's note*:") are included for the convenience of readers but do not form part of the legislative text.

Citation

K. This instrument may be cited as the Alternative Investment Funds Instrument 2026.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

Insert the following new definitions in the appropriate alphabetical position. The text is not underlined.

additional core AIFM functions	to the extent they are *AIFM management functions*, any of the following: (a) valuation by a third-party valuer appointed under *ALTS* 6.2.11R(1); (b) regulatory compliance monitoring; and (c) *marketing*.
AIF portfolio transaction	a transaction to *buy* or *sell* an *investment* which is entered into for or on behalf of an *AIF*.
AIFM's best interests rule	*ALTS* 3.3.2R (Best interests rule for UK AIFMs).
AIFM classification	in relation to an *authorised UK AIFM*, the *AIFM's* classification under the *rules* in *ALTS* 2.3 (AIFM classification) as: (a) a *small UK AIFM*; (b) a *medium UK AIFM*; or (c) a *large UK AIFM*.
AIFM Regulations	the [Alternative Investment Fund Managers Regulations 2026 (SI XXXX/XXXX)].
ALTS	the Alternative Investment Funds sourcebook.
authorised UK AIFM	a *UK AIFM* with a *Part 4A permission* to carry on the *regulated activity* of *managing an AIF*.
carried interest vehicle	a vehicle that is a *residual CIS* which: (a) is an employee participation scheme or employee savings scheme available exclusively to employees or former employees of an *AIFM*; or

(b) is available exclusively to employees or former employees of an *AIFM* in which its employees invest only a nominal amount of capital to share in the profits of the *AIFM* as compensation for the management and operation of the *AIF*.

closed-ended AIF has the meaning given in *ALTS* 2.2.2R (Meaning of 'closed-ended AIF').

excluded entity a *residual CIS* which is excluded from being an *AIF* by [regulation 3(3) to (6)] of the *AIFM Regulations*.

exempt UK AIFM a *UK AIFM* which benefits from the exclusion in [regulation 8] of the *AIFM Regulations*.

full-scope Gibraltar AIFM an *AIFM* which has permission under Part 7 of the Financial Services Act 2019 of Gibraltar to carry on the regulated activity of managing one or more AIFs.

Gibraltar AIF an *AIF* which is authorised or registered under the national law in Gibraltar, or has its registered office, head office or (where the *AIF* is a limited partnership registered under the Limited Partnerships Act 1907) principal place of business in Gibraltar.

Gibraltar AIFM a *full-scope Gibraltar AIFM* which is exercising its entitlement under the *Gibraltar Order* to establish a *branch* or provide services in the *UK*.

joint venture vehicle a *residual CIS* in which either:

(a) (i) excluding borrowing, all the capital used by the vehicle has been contributed by the *persons* participating in the joint venture;

(ii) none of the *persons* participating in the joint venture has raised capital from one or more third parties with a view to investing it in the joint venture; and

(iii) excluding borrowing, none of the capital contributions transferred or committed to the joint venture was directly or indirectly raised from a third party with a view to investment; or

(b) (i) the *persons* participating in the joint venture invest capital for themselves rather than on behalf of any third parties; and

(ii) the *AIF* is managed by the participants jointly and not by a third party or only by some of the participants.

large AIFM	has the meaning given in *ALTS* 2.3.15R (Large AIFMs and large UK AIFMs).
large UK AIFM	has the meaning given in *ALTS* 2.3.16R (Large AIFMs and large UK AIFMs).
leveraged closed-ended AIF	a *closed-ended AIF* that is not an *unleveraged closed-ended AIF*.
medium AIFM	has the meaning given in *ALTS* 2.3.13R (Medium AIFMs and medium UK AIFMs).
medium UK AIFM	has the meaning given in *ALTS* 2.3.14R (Medium AIFMs and medium UK AIFMs).
net asset value	the value of the assets of a *fund*, after the deduction of the *fund's* liabilities.
observed market price	(in *ALTS*) the price at which an asset is bought or sold in the market and which is readily available and observable to market participants.
open-ended AIF	has the meaning given in *ALTS* 2.2.1R (Meaning of 'open-ended AIF').
professional investor	has the meaning given in [regulation 39] of the *AIFM Regulations* which is, in summary, an investor who would be considered to be a *professional client* within the meaning of *COBS* 3.5 (Professional clients).
regulated market closed-ended investment company	a company which is: (a) a *closed-ended AIF*; and (b) an issuer of *equity shares* admitted to trading on a *regulated market* either: (i) to which *UKLR* 6.6, *UKLR* 11.4 and *UKLR* 11.7 apply; or (ii) that: (A) has published a statement on its website confirming that it will disclose the

information that must be included in the annual financial report of a *company* that is subject to the *rules* in (b)(i) to investors; and

(B) makes and continues to make such disclosures.

regulation 49 AIF an *AIF* which is managed by a *third country AIFM* and in respect of which the *AIFM*:

(a) has given written notice to the *FCA* under [regulation 49] of the *AIFM Regulations* (Marketing of AIFs managed by third country AIFMs) to *market* the *AIF* in the *UK*; and

(b) is required to comply with the conditions specified in [regulation 49(3)(b)] in relation to the *AIF*.

residual CIS a *collective investment scheme* that is not:

(a) a *UK UCITS*; or

(b) an *AIF*.

retail investor has the meaning given in [regulation 39] of the *AIFM Regulations* which is, in summary, an investor who is not a *professional investor*.

risk management function (in relation to an *AIFM*) those parts of the organisational structure of an *authorised UK AIFM* relating to the performance of risk management which an *AIFM* is required to establish and maintain under (as applicable):

(a) for a *small UK AIFM*, *ALTS* 5.3.2R (Establishment and maintenance of risk management function);

(b) for a *medium UK AIFM*, *ALTS* 5.4.2R (Establishment and maintenance of risk management function); or

(c) for a *large UK AIFM*, *ALTS* 5.5.2R (Establishment and maintenance of risk management function).

SEF or RVECA manager an *AIFM* which is a *SEF manager*, an *RVECA manager* or both.

single investor vehicle (a) Subject to (b) and (c), a *residual CIS* which is prevented from raising capital from more than one investor by the national law of the country or territory where it is established, by the *instrument constituting the fund*, or by any other legally binding provision.

(b) Subject to (c), a *limited partnership* in which only a single limited partner makes a substantive contribution and a general partner makes a nominal contribution is not considered to raise capital from more than one investor.

(c) A vehicle in which the sole investor or limited partner invests capital which it has raised from more than one *person* with a view to investing it for the benefit of them does not fall within (a) or (b).

small AIFM has the meaning given in *ALTS* 2.3.11R (Small AIFMs and small UK AIFMs).

small third country AIFM has the meaning given in *ALTS* 10.3.2R (Small third country AIFMs).

small UK AIFM has the meaning given in *ALTS* 2.3.12R (Small AIFMs and small UK AIFMs).

special arrangement an arrangement that arises as a direct consequence of the illiquid nature of the assets of an *open-ended AIF* or an open-ended *residual CIS* which impacts the specific redemption rights of investors in a type of *unit* of the *fund* and which is a bespoke or separate arrangement from the general redemption rights of investors.

standalone AIF an *AIF* which satisfies (a) and (b):

(a) The *AIF* has no *sub-funds*.

(b) The *AIF's instrument constituting the fund* does not enable it to have any *sub-funds*.

terms of investment any or all of the following documents, as applicable to a particular *unauthorised AIF* or *unregulated collective investment scheme*:

(a) the *instrument constituting the fund*;

(b) the prospectus;

(c) the offering *documents*;

(d) the *documents* containing the information required by *ALTS* 9 (Pre-contractual information for investors); and

(e) any terms of business or other binding contractual documents between the *AIFM* or *operator* of the *fund*,

	the *fund* and the investors in the *fund* that relate to how the *fund* will be managed or operated.
third country AIF	an *AIF* which is neither a *UK AIF* nor a *Gibraltar AIF*.
third country AIFM	an *AIFM* which: (a) has its registered office *overseas*; and (b) is not a *full-scope Gibraltar AIFM*.
umbrella AIF	an *AIF* which has an *instrument constituting the fund* that enables it to have one or more *sub-funds*.
unleveraged closed-ended AIF	a *closed-ended AIF* which: (a) does not employ *leverage*; or (b) only employs *leverage* embedded in *derivatives* used for currency and interest rate hedging purposes where the *derivatives*: (i) do not aim to generate a return; (ii) offset specific risks; and (iii) result in a verifiable reduction of market risk for the *AIF*.
valuation methodology	a methodology used by an *authorised UK AIFM* to value one or more assets or liabilities of an *AIF*.
valuation policy	a policy established under *ALTS* 6.2.12R (Valuation policies and procedures: general obligation) by an *authorised UK AIFM* to carry out the valuation of an *AIF's* assets and liabilities.
valuation procedure	a procedure established under *ALTS* 6.2.12R (Valuation policies and procedures: general obligation) by an *authorised UK AIFM* to carry out the valuation of an *AIF's* assets and liabilities.

Amend the following definitions as shown.

AIF custodial assets	[*Editor's note:* any further amendments to this Glossary term will be consulted on separately] ~~[Note: recital 100 and articles 88 (Financial instruments to be held in custody) and 89(3) (Safe-keeping duties with regard to assets held in custody) of the *AIFMD level 2 regulation*.]~~

AIFM investment firm [*Editor's note:* any amendments to this Glossary term will be consulted on separately]

AIFM management functions the ~~management~~ following functions and activities of an *AIFM* ~~listed in *FUND* 1.4.7G.~~:

(a) the *AIFM investment management functions* of:

(i) portfolio management; and

(ii) risk management; and

(b) other functions and activities that an *AIFM* may additionally perform in the course of the collective management of an *AIF*:

(i) fund operation and the provision of investor services;

(A) legal and fund management accounting services;

(B) customer enquiries;

(C) valuation and pricing, including tax returns;

(D) regulatory compliance monitoring;

(E) maintenance of unit-/shareholder register;

(F) distribution of income;

(G) unit/share issues and redemptions;

(H) contract settlements, including certificate dispatch; and

(I) record keeping;

(ii) *marketing*; and

(iii) activities relating to the assets of *AIFs*, namely:

(A) services necessary to meet the fiduciary duties of the *AIFM*;

(B) facilities management;

(C) real estate administration activities;

(D) advice to undertakings on capital structure, industrial strategy and related matters;

(E) advice and services relating to mergers and the purchase of undertakings; and

(F) other services connected to the management of the *AIF* and the companies and other assets in which it has invested.

alternative investment fund

has the meaning given in [regulation 3] of the *AIFM Regulations* (Meaning of "AIF") which is, in summary, a collective investment undertaking, including ~~investment compartments thereof~~ a *sub-fund* of such an undertaking, which:

…

~~[Note: article 4(1)(a) of *AIFMD*]~~

alternative investment fund manager

has the meaning given in [regulation 4(1)] of the *AIFM Regulations* (Meaning of "AIFM", "managing an AIF", "external AIFM" and "internal AIFM") which is, in summary, a legal person whose regular business is performing *AIFM investment management functions* for one or more ~~*AIF*~~ *AIFs*.

~~[Note: article 4(1)(b) of *AIFMD*)]~~

branch

…

(i) (in relation to an *AIFM*):

…

~~[Note: article 4(1)(c) of *AIFMD*]~~

close links

(1) (in relation to *MiFID business*, the operation of a data reporting service or in ~~*FUND*~~ *ALTS*) a situation in which two or more persons are linked by:

…

[Note: article 4(1)(35) of *MiFID* ~~and article 4(1)(c) of *AIFMD*~~]

…

collective portfolio management firm

[*Editor's note:* any amendments to this Glossary term will be consulted on separately]

collective portfolio management investment firm	[*Editor's note:* any amendments to this Glossary term will be consulted on separately]
compliance requirements for SMCR firms	any of the following requirements: … (e) ~~article 61 of the *AIFMD level 2 regulation* (Permanent compliance function)~~ <u>for a *medium UK AIFM* or a *large UK AIFM*, *SYSC* 6.1.1R, *SYSC* 6.1.3R and *SYSC* 6.1.4R</u>.
counterparty risk	(in *COLL* and ~~*FUND*~~ <u>*ALTS*</u>) the risk of loss for a *UCITS* or an *AIF* resulting from the fact that the counterparty to a transaction may default on its obligations prior to the final settlement of the transaction's cash flow.
depositary	[*Editor's note:* any amendments to this Glossary term will be consulted on separately]
established	(1) … (b) for *AIFs*~~,~~<u>:</u> <u>(i) (except in relation to an *AIF* that is a *limited partnership*)</u> 'being authorised or registered in' or, if the *AIF* is not authorised or registered, 'having its registered office in'; or <u>(ii) (in relation to an *AIF* that is a *limited partnership*) the country in which the *AIF* is authorised or registered or, if the *AIF* is not authorised or registered, the country in which it has its principal place of business; or</u> (c) … ~~[Note: article 4(1)(j) of *AIFMD*]~~ (2) … <u>(3) (in *ALTS*) (in relation to a *residual CIS*) the country or jurisdiction in which the *residual CIS* has its registered office or head office or is otherwise domiciled.</u>

executive procedures [*Editor's note:* any amendments to this Glossary term will be consulted on separately]

external AIFM (in accordance with [regulation 4(3)(a)] of the ~~*AIFMD UK regulation*~~ *AIFM Regulations* ("Meaning of "AIFM", "managing an AIF", "external AIFM" and "internal AIFM")) an *AIFM* appointed by, or on behalf of, an *AIF* and which, through that appointment, is responsible for managing the *AIF*.

feeder AIF …

~~[Note: article 4(1)(m) of *AIFMD*]~~

financial entity …

(2) (in *MAR* 10) any of the following:

…

(h) an *alternative investment fund* managed by an *AIFM*:

…

(iii) registered as such pursuant to the ~~*AIFMD UK regulation*~~ *AIFM Regulations*;

…

…

governing body (1) the board of *directors*, committee of management or other governing body of a *firm*, *safeguarding institution*, *relevant institution* or *recognised body*, including, in relation to a *sole trader*, the *sole trader*.

(2) (in *ALTS*) the body with ultimate decision-making authority in an *authorised UK AIFM*, comprising the supervisory and the managerial functions, or only the managerial function if the 2 functions are separated.

Home State …

(13) (for an *AIF*) the *EEA State* in which:

…

~~[Note: article 4(1)(p) of *AIFMD*]~~

	(14)	(for an *AIFM*) the *EEA State* in which the *AIFM* has its registered office. ~~[Note: article 4(1)(q) of *AIFMD*]~~
	…	
Host State	…	
	(5)	(for an *AIFM*) means: … ~~[Note: article 4(1)(r) of *AIFMD*]~~
	…	
instrument constituting the fund	…	
	(bc)	(for an *AIF* other than an *ICVC*, an *AUT* or an *ACS*) the ~~fund rules,~~ instrument of incorporation, the deed or other constituting documents of such an *AIF*;
	…	
internal audit requirements for SMCR firms	any of the following requirements:	
	…	
	(b)	*SYSC* 6.2 (Internal audit); or
	(c)	*SYSC* 6.2.1R~~; or~~.
	…	
	(e)	~~article 62 of the *AIFMD level 2 regulation* (Permanent internal audit function).~~ [deleted]
internally managed AIF	(in accordance with [regulation 4(3)(b)] of the ~~*AIFMD UK regulation*~~ *AIFM Regulations* (Meaning of "AIFM", "managing an AIF", "external AIFM" and "internal AIFM")) an *AIF* where the legal form permits internal management and where the *AIF's* governing body chooses not to appoint an *external AIFM*.	
leverage	(1)	(in accordance with [regulation 2] of the *AIFM Regulations* (Interpretation) and in relation to an *AIF*) any method by which an *AIFM* increases the exposure of an *AIF* it manages whether through borrowing of cash or

securities, or leverage embedded in *derivative* positions or by any other means.

(2) (in relation to a *residual CIS*) any method by which the exposure of a *residual CIS* is increased, whether through borrowing of cash or securities, or leverage embedded in *derivative* positions or by any other means.

~~[Note: article 4(1)(v) of *AIFMD*]~~

liquidity risk …

(2) (except in *COLL* and *ALTS*) the risk that a *firm*, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

manager …

(4) (in *ESG*) in addition to (1) and (1A):

…

(c) a ~~*small authorised UK AIFM*~~ *small UK AIFM*; ~~and~~

(d) a ~~*full-scope UK AIFM.*~~ *medium UK AIFM*; and

(e) a *large UK AIFM*.

managing an AIF (a) the *regulated activity*, specified in article 51ZC of the *Regulated Activities Order*, which is, in summary performing at least risk management or portfolio management for an *AIF*.

(b) in accordance with article 51Z(4) and (5) of the *Regulated Activities Order*, where a *person* performs at least risk management or portfolio management for an *AIF* and also carries on:

(i) one or more of the additional activities listed in Schedule 7 to the *Regulated Activities Order* for that *AIF*; or

(ii) one or more other activities in connection with, or for the purposes of, the management of that *AIF*,

		those additional or other activities are included in the *regulated activity*.
manufacture	…	
	(7)	…
	(8)	(in *ALTS*) creating, developing and/or designing an *AIF* or the *sub-fund* of an *AIF*.
market risk	(1)	(in *COLL* and ~~*FUND*~~ *ALTS*) the risk of loss for a *UCITS* or *AIF* resulting from fluctuation in the market value of positions in the *fund's* portfolio attributable to changes in market variables, such as interest rates, foreign exchange rates, equity and commodity prices or an issuer's credit worthiness.
	(2)	(except in *COLL* and ~~*FUND*~~ *ALTS*) (in relation to a *firm*) the risks that arise from fluctuations in values of, or income from, assets or in interest or exchange rates.
marketing	…	
	(2)	…
		~~[Note: article 4(1)(x) of *AIFMD*]~~
master AIF	…	
		~~[Note: article 4(1)(y) of *AIFMD*]~~
MiFID investment firm	[*Editor's note:* any amendments to this Glossary term will be consulted on separately]	

[*Editor's note:* the amendments to the Glossary term 'NAV' shown below, and wherever this term appears in this instrument, take into account the definition of this term suggested in the consultation paper 'Updating the regime for Money Market Funds' (CP23/28) as if it were made final.]

NAV	(1)	(in *MMFS*) the ~~value of the assets~~ *net asset value* of an *MMF*~~, after the deduction of the *MMF's* liabilities~~.
	(2)	(in *ALTS*) as applicable, the *net asset value* of an *AIF* or a *residual CIS*.
operational risk	(1)	(in *COLL* and ~~*FUND*~~ *ALTS*) the risk of loss for a *UCITS* or *AIF* resulting from inadequate internal processes and

failures in relation to the people and systems of the *management company* or *AIFM* or from external events, and it includes legal and documentation risk and risk resulting from the trading, settlement and valuation procedures operated on behalf of the *fund*.

…

periodic statement a report which a *firm* is required to provide to a *client* pursuant to:

(a) *COBS* 16.3 (Periodic reporting) where the *firm* is carrying on *designated investment business* other than:

(i) *MiFID, equivalent third country or optional exemption business*;

(ii) *managing an AIF*; or

(iii) *establishing, operating or winding up a collective investment scheme*;

(b) *COBS* 16A.4.1R where the *firm* is carrying on *MiFID, equivalent third country or optional exemption business*~~.~~; or

(ba) *ALTS* 10.4.1R where the *firm* is *managing an AIF* or *establishing, operating or winding up a collective investment scheme*.

personal transaction (1) a trade in a *designated investment*, or in *COBS* 11.7A only, a trade in a *financial instrument*, effected by or on behalf of a *relevant person*, where at least one of the following criteria are met:

~~(1)~~ (a) that *relevant person* is acting outside the scope of the activities ~~he~~ they carried out in that capacity;

~~(2)~~ (b) the trade is carried out for the account of any of the following *persons*:

~~(a)~~ (i) the *relevant person*;

~~(b)~~ (ii) the spouse or civil partner of the *relevant person* or any partner of that *person* considered by national law as equivalent to a spouse;

~~(c)~~ (iii) a dependent child or stepchild of the *relevant person*;

~~(d)~~ (iv) any other relative of the *relevant person* who has shared the same household as that *person* for at least one year on the date of the *personal transaction* concerned;

~~(e)~~ (v) any *person* with whom ~~he has~~ they have *close links*;

~~(f)~~ (vi) a *person* whose relationship with the *relevant person* is such that the *relevant person* has a direct or indirect material interest in the outcome of the trade, other than a fee or commission for the execution of the trade.

[Note: article 16(2) of *MiFID*]

(2) (in relation to an *authorised UK AIFM*) also includes a trade in a *financial instrument* or other asset effected by, on behalf of, or for the account of, any of the *persons* specified in (1)(b).

pre-contractual materials (in *ESG*) one of the following (as applicable):

…

(2) (if not within (1)) in relation to ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM*, the prior disclosure of information required by ~~*FUND* 3.2.2R~~ *ALTS* 9.3 (Pre-contractual information for professional investors) or *ALTS* 9.4 (Pre-contractual information for retail investors).

prime brokerage firm …

~~[Note: article 4(1)(af) of *AIFMD*]~~

public product-level sustainability report a report comprising Part A (where applicable) and Part B, produced in accordance with *ESG* 5.5.1R to *ESG* 5.5.12R in respect of the following insofar as it is a *sustainability product*:

…

(2) an *unauthorised AIF* which:

(a) is managed by an *authorised UK AIFM*; and

(b) is a *UK AIF* ~~managed by a *full-scope UK AIFM* or a *small authorised UK AIFM* which is~~ listed

		on a *recognised investment exchange*; this includes an *investment trust*.
regulatory system	…	
	(2)	…
	(3)	in addition to (1), the arrangements for regulating an *authorised UK AIFM* or a *Gibraltar AIFM* in or under the *AIFM Regulations*.
relevant person	…	
	(2)	(otherwise) any of the following:
		…
		(d) a natural person who is directly involved in the provision of services to the *firm* or its *appointed representative* (or where applicable, *tied agent*) under:
		(i) an *outsourcing* arrangement; or
		(ii) (in the case of an *authorised UK AIFM* or a *management company*) a delegation arrangement to third parties, for the purpose of the provision by the firm of *regulated activities*, (in the case of an *authorised UK AIFM*) *AIFM management functions* or (in the case of a *management company*) *collective portfolio management*.
	…	
risk control requirements for SMCR firms	any of the following requirements:	
	…	
	(f)	~~articles 38 to 45 of the *AIFMD level 2 regulation* (Risk management)~~ *ALTS* 5 (Risk management).
senior management	…	
	(5)	…
	(6)	(in *ALTS*) the *persons* who effectively conduct the business of an *authorised UK AIFM* in accordance with

		SYSC 4.2 and, as the case may be, the executive member or members of the *governing body*.
Single Market Directives	[*Editor's note*: any amendments to this Glossary term will be consulted on separately]	
small AIFM	~~an *AIFM* which meets the conditions in regulation 9 (meaning of "small AIFM") of the *AIFMD UK regulation*~~] has the meaning in *ALTS* 2.3.12R (Small AIFMs and small UK AIFMs).	
SRD asset manager	[*Editor's note*: any amendments to this Glossary term will be consulted on separately]	
sub-fund	…	
	(b)	(in relation to a ~~*fund*~~ *collective investment scheme* that is not an *authorised fund* or an *EEA UCITS scheme*) any part of that *scheme* that is equivalent to (a).
	(c)	(in accordance with [regulation 2] of the *AIFM Regulations* in relation to an *AIF* which is not a *collective investment scheme*) where the property of an *AIF* is divided into separate pools, each such pool.
supervisory authority	(1)	(for a *non-UK AIF*) the national authority or authorities of the *State* empowered by law or regulation to supervise *AIFs* in that *State*. ~~[Note: article 4(1)(al) of *AIFMD*]~~
	(2)	~~(in accordance with article 4(1)(am) of *AIFMD*)~~ (for a *non-UK AIFM*) the national authority or authorities of the *State* empowered by law or regulation to supervise *AIFMs* in that *State*. ~~[Note: article 4(1)(am) of *AIFMD*]~~
sustainability product	any of the following:	
	…	
	(2)	an *unauthorised AIF* that is a managed by a ~~*full-scope UK AIFM* or a *small authorised UK AIFM*~~ an *authorised UK AIFM*, unless it is: …
TCFD product	any of the following:	
	…	

(5) an *unauthorised AIF* managed by ~~a *full-scope UK AIFM* or a *small authorised UK AIFM*~~ an *authorised UK AIFM*, unless it is:

…

UK AIF an *AIF* that is:

…

(b) not an *authorised fund* but has its registered office ~~or~~, head office, or (where the *AIF* is a limited partnership registered under the Limited Partnerships Act 1907) principal place of business in the *UK*~~;~~.

UK AIFM an *AIFM established* in the *UK* ~~and with a *Part 4A permission* to carry on the *regulated activity* of *managing an AIF*~~.

UK AIFM regime ~~*FUND*~~ *ALTS*, other *rules* in the *FCA Handbook* which~~, when made, implemented *AIFMD*, the *AIFMD level 2 regulation*, and the *AIFMD UK regulation*~~ apply to *authorised UK AIFMs*, relevant provisions of the *Act* and any requirements imposed by or under the *AIFM Regulations*.

unauthorised AIFM a *person* who is not an *authorised person* but who is:

(a) a ~~*small registered UK AIFM*~~ *SEF or RVECA manager*; or

…

(d) a ~~*small non-UK AIFM*~~ *third country AIFM* that is entitled to *market* an *AIF* in the *United Kingdom* following a notification under [regulation ~~58~~ 49] of the ~~*AIFMD UK regulation*~~ *AIFM Regulations* (Marketing of AIFs managed by third country AIFMs); or

(e) ~~a *above-threshold non-UK AIFM* to which the requirement at regulation 59(3) of the *AIFMD UK regulation* applies.~~ [deleted]

(f) …

(g) an *exempt UK AIFM*.

unitholder …

(c) …

(d) (in relation to a *fund* that is an *AIF* and is not a *collective investment scheme*) the *person* who is entered on the appropriate record of the *AIF* as the holder of that *unit*.

Delete the following definitions. The text is not struck through.

above-threshold non-UK AIFM	a *non-UK AIFM* that is not a *small AIFM*.
AIFMD BTS	means the *UK* version of Commission Delegated Regulation (EU) No. 694/2014 supplementing Directive 2011/61/EU of the European Parliament and of the Council with regard to regulatory technical standards determining types of alternative investment fund managers, which is part of *UK* law by virtue of the *EUWA*.
AIFMD level 2 regulation	the *UK* version of Commission delegated regulation (EU) No 231/2013 supplementing Directive 2011/16/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision, which is part of *UK* law by virtue of the *EUWA*.
AIFMD UK regulation	the Alternative Investment Fund Managers Regulations 2013 (SI 2013/1773)
EEA AIF	an *AIF* which: (a) is authorised or registered in an *EEA State* under the applicable national law; or (b) is not authorised or registered in an *EEA State* but has its registered office or head office in an *EEA State*.
EEA AIFM	an *AIFM* which has its registered office in an *EEA State*.
full-scope EEA AIFM	an *EEA AIFM* which is authorised by its *Home State* in accordance with article 6(1) of *AIFMD*.
full-scope UK AIFM	a *UK AIFM* which: (a) is not a *small AIFM*; or (b) is a *small AIFM* but has exercised the option to meet the full requirements applying to a full-scope *AIFM*.
non-EEA AIF	an *AIF* which is not a *UK AIF* or an *EEA AIF*.
non-EEA AIFM	an *AIFM* which is not a *UK AIFM* or an *EEA AIFM*.

non-listed company	a *company* which has its registered office in the UK and the *shares* of which are not admitted to trading on a UK regulated market, as defined in article 2(1)(13A) of the *MiFI Regulations*. [Note: article 4(1)(ac) of *AIFMD*]
small authorised UK AIFM	a *UK AIFM* which: (a) is a *small AIFM*; and (b) has not exercised the option to meet the full requirements applying to a full-scope *AIFM*.
small non UK AIFM	a *non UK AIFM* that is a *small AIFM*.
small registered UK AIFM	a *small AIFM* that is registered by the *FCA* in accordance with regulation 10 of the *AIFMD UK regulation*.

Annex B

The Alternative Investment Funds Sourcebook (ALTS)

This Annex makes the new Alternative Investment Funds Sourcebook (ALTS). All the text is new.

1 Introduction and application of ALTS

1.1 Application and purpose

Application to authorised UK AIFMs

1.1.1 R (1) Subject to (2), this sourcebook applies to:

(a) a *large UK AIFM*;

(b) a *medium UK AIFM*; and

(c) a *small UK AIFM*,

when managing an *AIF*.

(2) This sourcebook does not apply to the management of:

(a) an *authorised AIF*; or

(b) a *recognised scheme*.

1.1.2 G *COLL* contains the *rules* that apply in relation to the management and operation of *authorised AIFs* and *recognised schemes*.

1.1.3 R The general application set out in *ALTS* 1.1.1R is modified in the chapters to this sourcebook for particular purposes, including those relating to the type of *firm*, the location of the *AIF*, and whether the *AIF* is being *marketed* in the *UK*.

Application to residual CIS operators

1.1.4 R The following chapters also apply to a *residual CIS operator*:

(1) *ALTS* 2 (UK AIFMs and AIFs: key concepts);

(2) *ALTS* 9 (Pre-contractual information for investors); and

(3) *ALTS* 10 (Reporting and notifications to investors).

Application to regulated market closed-ended investment companies

1.1.5 R The *rules* in this sourcebook apply to the *authorised UK AIFM* of a *regulated market closed-ended investment company* in accordance with

ALTS 1.4 (Application of ALTS to a regulated market closed-ended investment company).

Application to SEF or RVECA managers

1.1.6 G (1) The *rules* in this sourcebook do not generally apply to *SEF or RVECA managers* when acting in that capacity. However, *ALTS* 13 (Regulatory reporting) is relevant to such *AIFMs* and *ALTS* 12 (Securitisation) refers to requirements in *SECN* that do apply to them.

(2) Nevertheless, a *SEF or RVECA manager* may also be an *authorised UK AIFM* or a *residual CIS operator* and this sourcebook will apply to the *AIFM* when acting in the capacity of such a *firm*.

Application to depositaries

1.1.7 R The *rules* in *ALTS* 8 (Depositaries) apply to the *depositary* of an *AIF* managed by an *authorised UK AIFM*.

1.1.8 R [Left intentionally blank]

Application to third country AIFMs

1.1.9 G The following chapters apply to a *third country AIFM* in relation to a *regulation 49 AIF*:

(1) *ALTS* 9 (Pre-contractual information for investors);

(2) *ALTS* 10 (Reporting and notifications to investors);

(3) *ALTS* 13 (Regulatory reporting); and

(4) *ALTS* 14 (National Private Placement Regime).

Purpose

1.1.10 G (1) This sourcebook sets out the requirements that apply to *authorised UK AIFMs* when managing *AIFs*. It also sets out some of the requirements that apply to *residual CIS operators* when operating *residual CISs*.

(2) The purpose of these requirements is to advance the *FCA's* objectives of securing an appropriate degree of protection for *consumers*, and protecting and enhancing the integrity of the *UK financial system*, and to promote effective competition in the interests of *consumers* in the markets for regulated financial services.

1.2 Structure of the Alternative Investment Fund Managers sourcebook

1.2.1 G *ALTS* is structured as follows:

Chapter	Contents
ALTS 1	Introduction and application of ALTS
ALTS 2	UK AIFMs and AIFs: key concepts
ALTS 3	General conduct of business and organisational requirements
ALTS 4	Delegation
ALTS 5	Risk management
ALTS 6	Valuation
ALTS 7	Fund liquidity
ALTS 8	Depositaries
ALTS 9	Pre-contractual information for investors
ALTS 10	Reporting and notifications to investors
ALTS 11	Prime brokers
ALTS 12	Securitisation
ALTS 13	Regulatory reporting
ALTS 14	National Private Placement Regime

1.3 Types of UK AIFM

Purpose

1.3.1 G The purpose of this section is to explain at a high level the 3 different categories of *UK AIFM*. The *rules* that determine which category of *UK AIFM* a *firm* falls within are set out in *ALTS* 2 (UK AIFMs and AIFs: key concepts).

Definitions and categories of UK AIFM

1.3.2 G In the *Handbook*, an *authorised UK AIFM* is a legal *person*:

(1) the regular business of which is performing *AIFM investment management functions* for one or more *AIFs*;

(2) that is *established* in the *UK*; and

(3) that has *Part 4A permission* to carry on the *regulated activity* of *managing an AIF*.

1.3.3 G An *authorised UK AIFM* must be one of the following:

(1) a *small UK AIFM* – this is an *authorised UK AIFM* which manages *AIFs* with an aggregate *NAV* of less than £750 million and which has not elected to be a *medium UK AIFM* or a *large UK AIFM*;

(2) a *medium UK AIFM* – this is an *authorised UK AIFM* which either:

(a) manages *AIFs* with an aggregate *NAV* of £750 million to £5 billion and which has not elected to be a *large UK AIFM*; or

(b) is a *small AIFM* (an *AIFM* which manages *AIFs* with an aggregate *NAV* of less than £750 million) which has elected to be a *medium UK AIFM*; or

(3) a *large UK AIFM* – this is an *authorised UK AIFM* which either:

(a) manages *AIFs* with an aggregate *NAV* of more than £5 billion; or

(b) manages *AIFs* with an aggregate *NAV* of £5 billion or less but which has elected to be a *large UK AIFM*.

1.3.4 G The *UK AIFM regime* provides for 3 further categories of *AIFM* that are *established* in the *UK* but are not authorised under the *Act* and, as a result, are not *authorised UK AIFMs*:

(1) A *SEF manager* manages *SEFs* and is registered under [regulation 9] of the *AIFM Regulations* (Registration of RVECA and SEF Managers). To be a *SEF manager* the *AIFM* must manage *AIFs* below the thresholds set out in [regulation 7] of the *AIFM Regulations* (Threshold condition for authorisation exemption) . A *SEF manager* benefits from an exclusion in the *Regulated Activities Order* which means they do not need *Part 4A permission* to carry on the *regulated activity* of *managing an AIF* in relation to the *SEF*.

(2) An *RVECA manager* manages *RVECAs* and is registered under [regulation 9] of the *AIFM Regulations* (Registration of RVECA and SEF Managers). To be an *RVECA manager* the *AIFM* must manage *AIFs* below the thresholds set out in [regulation 7] of the *AIFM Regulations* (Threshold condition for authorisation exemption). An *RVECA manager* benefits from an exclusion in the *Regulated Activities Order* which means they do not need *Part 4A permission* to carry on the *regulated activity* of *managing an AIF* in relation to the *RVECA*.

(3) An *exempt UK AIFM* is not an *authorised person* and benefits from an exemption in [regulation 8] of the *AIFM Regulations* (Exemption

for below threshold internally managed investment companies). *Exempt UK AIFMs* are not subject to our *rules*. In summary, and in accordance with the *AIFM Regulations*, to be an *exempt UK AIFM*:

(a) the *AIFM* must:

(i) be a *UK AIFM*;

(ii) be an *internally managed AIF* that is a body corporate and not a *collective investment scheme*; and

(iii) not be an *external AIFM* in relation to any other *AIF*;

(b) the *AIFM* must meet the assets under management condition in [regulation 7] of the *AIFM Regulations* (Threshold condition for authorisation exemption);

(c) the *internally managed AIF* must be listed on a market which:

(i) is a *UK RIE*; or

(ii) an *MTF* which is managed by a *UK RIE*;

(d) none of the individuals responsible for the management or operation of the *AIFM*:

(i) can have been convicted of any offence involving fraud or dishonesty, or any indictable offence; or

(ii) be subject to a prohibition order; and

(e) grounds do not exist which would permit or require a court to make a disqualification order within the meaning of section 1(1) of the Company Directors Disqualification Act 1986(b) against an individual responsible for the management or operation of the *AIFM*.

1.4 Application of ALTS to a regulated market closed-ended investment company

Application

1.4.1 R This section applies to an *authorised UK AIFM* of a *regulated market closed-ended investment company*.

Applicable requirements

1.4.2 R This sourcebook applies to an *authorised UK AIFM* of a *regulated market closed-ended investment company* apart from:

(1) *ALTS* 9 (Pre-contractual information for investors); and

(2) *ALTS* 10 (Reporting and notifications to investors).

Responsibility for compliance with the rules in ALTS and collaboration with an investment company board

1.4.3 G (1) A *regulated market closed-ended investment company* may be managed by an *external AIFM* or may be an *internally managed AIF*.

(2) Where the *regulated market closed-ended investment company* is managed by an *external AIFM*:

(a) the *AIFM* is responsible for compliance with the *rules* in *ALTS* in relation to the *AIFM investment management functions* and any other *AIFM management functions* for which it has contractually accepted responsibility, and the board of *directors* or equivalent body will monitor and manage the performance of that *AIFM*, and may be subject to other *rules*; and

(b) the *AIFM* should take reasonable steps to ensure effective collaboration with the board of *directors* or equivalent body in relation to any delegation or sub-delegation of *AIFM management functions* to third parties, including in relation to:

(i) reviewing the performance of, and relationships with, such third parties; and

(ii) the escalation of issues relating to such arrangements.

1.5 Application of rules to authorised UK AIFMs managing non-UK AIFs not marketing in the UK

Applicable requirements

1.5.1 G (1) An *authorised UK AIFM* of a *non-UK AIF* that is not *marketed* in the *UK* is required to comply with all the *rules* and other requirements that apply to such an *authorised UK AIFM* apart from:

(a) *ALTS* 8 (Depositaries);

(b) *ALTS* 10 (Reporting and notifications to investors); and

(c) *ALTS* 14 (National Private Placement Regime).

(2) The *AIFM* may manage a *non-UK AIF* only if there are appropriate cooperation arrangements in place between the *FCA* and the *supervisory authorities* of the country where the *non-UK AIF* is *established*.

1.5.2 G The *FCA* publishes a list of the appropriate cooperation arrangements that are in place for the purposes of *ALTS* 1.5.1G(2). The list is available at: [*Editor's note*: insert link].

Authorised UK AIFM wishing to market non-UK AIFs in the UK

1.5.3 G If an *authorised UK AIFM* wishes to *market* in the *UK* a *non-UK AIF* that it manages, the *AIFM* must comply with the relevant requirements, as explained in *ALTS* 14 (National Private Placement Regime).

2 UK AIFMs and AIFs: key concepts

2.1 Application and purpose

Application to UK AIFMs

2.1.1 R This chapter applies to an *authorised UK AIFM*.

Purpose

2.1.2 G The *rules* in this chapter help to secure an appropriate degree of protection for *consumers* and to promote and enhance market integrity by setting out how an *authorised UK AIFM* is required to determine its *AIFM classification* and to establish whether an *AIF* is an *open-ended AIF* or a *closed-ended AIF*. These classifications set the scope of the *rules* in *ALTS* 5 (Risk management), *ALTS* 6 (Valuation) and *ALTS* 7 (Fund liquidity).

2.2 Open-ended and closed-ended AIFs

Meaning of 'open-ended AIF'

2.2.1 R (1) An *AIF* is an 'open-ended AIF' where, before the *AIF's* liquidation phase or winding-down starts:

(a) the investors are entitled to have their *units* repurchased or redeemed out of the *AIF's* assets; and

(b) such repurchase or redemption is in accordance with the procedures and frequency set out in the *AIF's terms of investment*.

(2) For the purpose of determining whether an *AIF* falls within (1), the following are to be disregarded:

(a) a decrease in the *AIF's* capital in connection with distributions made in accordance with the *AIF's terms of investment*, including one that has been authorised by a resolution of the *shareholders* or *unitholders*; and

(b) the transferability and negotiability of an *AIF's units* on the secondary market where these are not repurchased or redeemed by the *AIF*.

Meaning of 'closed-ended AIF'

2.2.2 R A 'closed-ended AIF' is an *AIF* that is not an *open-ended AIF*.

Changes to an AIF's redemption policy

2.2.3 R Where a change in an *AIF's* redemption policy has the effect of changing whether the *AIF* is an *open-ended AIF* or a *closed-ended AIF*, the *AIFM* must comply with the *rules* that apply to such an *AIF*.

2.3 AIFM classification

Application to an authorised UK AIFM

2.3.1 R This section applies to an *authorised UK AIFM*.

Application to a firm which is an authorised UK AIFM and a residual CIS operator

2.3.2 R (1) Where a *firm* acts as both:

(a) an *authorised UK AIFM* for one or more *AIFs*; and

(b) a *residual CIS operator* for one or more *residual CISs*,

the *firm* must determine its *AIFM classification* by aggregating the *NAV* of both the *AIFs* managed by it and the *residual CISs* operated by it in accordance with the *rules* as modified by (2).

(2) The *rules* in this section apply to a *firm* in (1) with the following modifications:

(a) a reference to an '*AIFM*' is to be read as a reference to the *firm* when acting as:

(i) the *AIFM* of an *AIF*; and

(ii) the *residual CIS operator* of a *residual CIS*;

(b) a reference to an *AIFM* which 'manages' an *AIF* is to be read as a reference to the *firm* when, as appropriate:

(i) it manages *AIFs*; and

(ii) it operates *residual CISs*;

(c) a reference to an '*AIF*' is to be read as a reference to:

(i) an *AIF* managed by the *firm*; and

(ii) a *residual CIS* operated by the *firm*;

(d) a reference to an *AIF* which is 'managed' by an *AIFM* is to be read as a reference to:

(i) an *AIF* managed by the *firm*; and

(ii) a *residual CIS* operated by the *firm*;

(e) a reference to an '*open-ended AIF*' managed by a *firm* includes a reference to an open-ended *residual CIS* operated by the *firm*;

(f) a reference to an '*closed-ended AIF*' managed by a *firm* includes a reference to a closed-ended *residual CIS* operated by the *firm*; and

(g) a reference to '*AIFM management functions*' is to be read as a reference to any functions provided by a *residual CIS operator* which relate to the operation of the *residual CIS*.

2.3.3 G (1) Subject to (2), unless an *AIFM* elects to comply with the *rules* applicable to a larger class of *authorised UK AIFM*, the aggregate *NAV* of the *AIFs* managed by the *AIFM* determines whether the *AIFM* is a *small UK AIFM*, a *medium UK AIFM* or a *large UK AIFM*.

(2) Where a *firm* acts as both an *AIFM* for an *AIF* and a *residual CIS operator* for a *residual CIS*, the *firm's AIFM classification* is determined by the aggregate *NAV* of:

(a) the *AIFs* managed by the *firm*; and

(b) the *residual CISs* operated by the *firm*,

unless the *firm* elects to comply with the *rules* applicable to a larger class of *authorised UK AIFM*.

Calculation of aggregate NAV of AIFs and AIFM classification

2.3.4 R An *AIFM* must:

(1) calculate the aggregate *NAVs* of the *AIFs* managed by the *AIFM* in accordance with *ALTS* 2.3.6R to *ALTS* 2.3.8R; and

(2) determine its size in accordance with *ALTS* 2.3.9R and *ALTS* 2.3.10R.

Frequency of calculation

2.3.5 R An *authorised UK AIFM* must carry out the calculation and determination required by *ALTS* 2.3.4R:

(1) whenever there is a material change to the volume or value of the *firm's* business which may impact its *AIFM classification*;

(2) whenever there is a significant change in the value of assets being managed by the *firm* in its capacity as an *AIFM* or *residual CIS operator*; and

(3) in relation to an open-ended *fund*, at least once a month or at such lesser frequency of valuation as permitted by *ALTS* 6.2.5R and required by *ALTS* 6.2.6R (Frequency of valuations and calculation of NAV per unit).

Step 1: Identification of all AIFs

2.3.6 R (1) An *AIFM* must identify the *AIFs* for which it is the *AIFM*.

(2) For the purposes of (1), an *AIFM* must:

(a) include every *AIF* for which it has delegated functions to another *person*; and

(b) exclude any *AIF* for which the *AIFM* is carrying on *AIFM management functions* for another *AIFM* or *person* under a delegation arrangement.

(3) For the purposes of (1), an *AIFM* is the *AIFM* of an *AIF* whether it manages the *AIF* directly, or indirectly through a *company* or other *person* with which the *AIFM* is linked by common management or control, or by a substantive direct or indirect holding.

Step 2: Identification and valuation of assets and liabilities

2.3.7 R The *AIFM* must:

(1) identify all of the assets and liabilities of each *AIF* identified under *ALTS* 2.3.6R; and

(2) value those assets and liabilities in accordance with *ALTS* 6.2.2R (Valuation of an AIF's assets and liabilities).

Step 3: Calculation and aggregation of NAVs of AIFs

2.3.8 R The *AIFM* must:

(1) calculate the *NAV* for each *AIF* identified under *ALTS* 2.3.6R averaged over the most recent quarter of a calendar year using the

values of the assets and liabilities determined in accordance with *ALTS* 2.3.7R; and

(2) aggregate the mean *NAVs* of all those *AIFs*.

Step 4: Determination of AIFM size

2.3.9 R The *AIFM* must then compare the resulting aggregate *NAV* in *ALTS* 2.3.8R(2) against the thresholds set out in the table in *ALTS* 2.3.10R to determine its size.

AIFM classification ranges

2.3.10 R This table belongs to *ALTS* 2.3.9R.

	(A) **AIFM size**	**(B)** **Aggregate NAV of all AIFs managed by AIFM**
(1)	Small AIFM	Below £750 million
(2)	Medium AIFM	£750 million to £5 billion
(3)	Large AIFM	Over £5 billion

Small AIFMs and small UK AIFMs

2.3.11 R A 'small AIFM' is an *AIFM* which manages *AIFs* with an aggregate *NAV* below the value specified in column (B) of the table in *ALTS* 2.3.10R(1).

2.3.12 R An *AIFM* is a 'small UK AIFM' if it:

(1) is an *authorised UK AIFM*;

(2) is a *small AIFM*; and

(3) is not:

(a) a *medium UK AIFM*; or

(b) a *large UK AIFM*.

Medium AIFMs and medium UK AIFMs

2.3.13 R A 'medium AIFM' is an *AIFM* which manages *AIFs* with an aggregate *NAV* within the range specified in column (B) of the table in *ALTS* 2.3.10R(2).

2.3.14 R An *AIFM* is a 'medium UK AIFM' if it:

(1) is an *authorised UK AIFM*;

(2) is either:

(a) a *medium AIFM*; or

(b) a *small AIFM* which has elected to be a *medium UK AIFM*; and

(3) is not a *large UK AIFM*.

Large AIFMs and large UK AIFMs

2.3.15 R A 'large AIFM' is an *AIFM* which manages *AIFs* with an aggregate *NAV* above the value specified in column (B) of the table in *ALTS* 2.3.10R(3).

2.3.16 R An *AIFM* is a 'large UK AIFM' if it:

(1) is an *authorised UK AIFM*; and

(2) is:

(a) a *large AIFM*; or

(b) a *small AIFM* or a *medium AIFM* which has elected to be a *large UK AIFM*.

Compliance with applicable rules

2.3.17 R Subject to *ALTS* 2.3.18R:

(1) a *small UK AIFM* must comply with all of the *rules* and requirements that apply to *small UK AIFMs*;

(2) a *medium UK AIFM* must comply with all of the *rules* and requirements that apply to *medium UK AIFMs*; and

(3) a *large UK AIFM* must comply with all of the *rules* and requirements that apply to *large UK AIFMs*.

Electing a different AIFM classification

2.3.18 R (1) (a) Subject to (3), a *small AIFM* may elect to be:

(i) a *medium UK AIFM* (see *ALTS* 2.3.14R (Medium AIFMs and medium UK AIFMs)); or

(ii) a *large UK AIFM* (see *ALTS* 2.3.16R (Large AIFMs and large UK AIFMs)).

(b) Subject to (3), a *medium AIFM* may elect to be a *large UK AIFM* (see *ALTS* 2.3.16R (Large AIFMs and large UK AIFMs)).

(2) (a) Subject to (2)(b) and (3), an *authorised UK AIFM* may elect to change its *AIFM classification* to that of a smaller *AIFM classification* where:

(i) the aggregate *NAV* of any *open-ended AIFs* under an *authorised UK AIFM's* management, averaged over the most recent quarter of a calendar year; plus

(ii) the aggregate *NAV* of any *closed-ended AIFs* under the *AIFM's* management, where relevant, averaged over the most recent quarter of a calendar year,

is lower than the corresponding range for the *AIFM* specified in column (B) of the table in *ALTS* 2.3.10R.

(b) The aggregate *NAV* of all the *AIFs* managed by the *AIFM* must be within or below the corresponding range for the new *AIFM classification* (see column (B) of the table in *ALTS* 2.3.10R).

(3) An *authorised UK AIFM* may not elect to have a different *AIFM classification* under (1) or (2) more than once in a calendar year.

(4) Subject to (5), the *AIFM* must ensure that it complies with the *rules* and other requirements that apply to *UK AIFMs* with the same *AIFM classification* notified under *ALTS* 2.3.20R(3) as follows:

(a) immediately, if the *AIFM* elects to change its *AIFM classification* to that of a smaller *AIFM classification*; and

(b) if the *AIFM* elects to change its *AIFM classification* to that of a larger *AIFM classification*:

(i) within 12 *months* of the notification in *ALTS* 2.3.20R(3) in relation to a requirement to appoint a *depositary* where no such requirement applied under the previous *AIFM classification*; and

(ii) within 6 *months* of the notification in *ALTS* 2.3.20R(3) in relation to all other requirements.

(5) Where an *AIFM's AIFM classification* changes more than once in a calendar year, the time period specified in (4) starts to run at the beginning of the next calendar year.

Where a change of AIFM classification is required

2.3.19 R (1) This *rule* applies where the sum of:

(a) the aggregate *NAV* of any *open-ended AIFs* under an *authorised UK AIFM's* management, averaged over the most recent quarter of a calendar year; plus

(b) the aggregate *NAV* of any *closed-ended AIFs* under the *AIFM's* management, where relevant, averaged over the most recent quarter of a calendar year,

is greater than the corresponding range for the *AIFM* specified in column (B) of the table in *ALTS* 2.3.10R.

(2) Subject to (3) below, the *AIFM* must ensure that it complies with the *rules* and other requirements that apply to *UK AIFMs* with the same *AIFM classification* required to be notified under *ALTS* 2.3.20R(3):

(a) within 12 *months* of the notification required by *ALTS* 2.3.20R(3) in relation to a requirement to appoint a *depositary* where no such requirement applied under the previous *AIFM classification*; and

(b) within 6 *months* of the notification required by *ALTS* 2.3.20R(3) in relation to all other requirements.

(3) Where an *AIFM's AIFM classification* changes more than once in a calendar year, the time period specified in (2) starts to run at the beginning of the next calendar year.

(4) Where the mean of the aggregate *NAV* of *AIFs* managed by a *small AIFM* falls within the range specified for *medium AIFMs* in *ALTS* 2.3.10R(2), the *AIFM* may elect to be a *large UK AIFM* (see *ALTS* 2.3.18R(1)(b)).

Notification of AIFM classification

2.3.20 R An *authorised UK AIFM* must notify the *FCA* of its *AIFM classification* in accordance with the *rules* in *SUP* 15 (Notifications to the FCA):

(1) immediately when it determines its *AIFM classification* without making an election under *ALTS* 2.3.18R;

(2) immediately on making an election under *ALTS* 2.3.18R; and

(3) immediately on becoming aware of its new *AIFM classification* under *ALTS* 2.3.19R.

3 General conduct of business and organisational requirements

3.1 Application and purpose

Application

3.1.1 R This chapter applies to an *authorised UK AIFM*.

Purpose

3.1.2 G The *rules* in this chapter set standards around controls, processes and oversight for *UK authorised AIFMs*, that help advance our *statutory objective* of securing an appropriate degree of protection for *consumers*, including the fair treatment of the investors in an *AIF*. By setting standards around record-keeping of transactions, the *rules* also advance our integrity objective to protect and enhance the integrity of the *UK financial system*.

3.2 Appointment of single AIFM and acting as an internally managed AIF

Application

3.2.1 R This section applies to an *authorised UK AIFM*.

Single AIFM

3.2.2 R An *authorised UK AIFM* must ensure that for each *AIF* it is appointed to manage, it is:

(1) the only *AIFM* of that *AIF*; and

(2) responsible for ensuring compliance with the *UK AIFM regime* in relation to the *AIFM management functions* which it carries on for the *AIF*.

Internally managed AIFMs

3.2.3 R An *internally managed AIF* which is an *authorised UK AIFM* must not engage in any activities other than *AIFM management functions* in respect of that *AIF*.

3.3 Acting honestly, fairly and professionally

Application

3.3.1 R This section applies to an *authorised UK AIFM* unless otherwise specified.

Best interests rule for UK AIFMs

3.3.2 R (1) An *authorised UK AIFM* must:

(a) act honestly, fairly and with due skill care and diligence in conducting its activities in relation to any *AIF* it manages;

(b) act in the best interests of any such *AIF* and the investors of the *AIF*;

(c) treat all investors in the *AIF* fairly; and

(d) ensure that the *AIF* and any investors in the *AIF* are not charged undue costs.

(2) If the *authorised UK AIFM* affords preferential treatment to one or more investors in the *AIF*, the *AIFM* must ensure that:

(a) such treatment does not result in an overall material disadvantage to other investors; and

(b) the preferential treatment is disclosed in the *AIF's terms of investment*.

(3) An *authorised UK AIFM* must:

(a) consider whether any action it proposes to take might reasonably be expected to adversely affect the stability and integrity of the market; and

(b) avoid taking any action which does so.

3.3.3 R An *authorised UK AIFM* must ensure that every *AIF* managed by the *AIFM* invests in assets in accordance with applicable laws and the *AIF's terms of investment*.

Fair treatment of investors

3.3.4 R (1) An *authorised UK AIFM* must organise its structure and controls, including its decision-making procedures, to ensure the fair treatment of the investors in the *AIFs* managed by the *AIFM*.

(2) Where one or more investors in an *AIF* is afforded preferential treatment, the *AIFM* must ensure such treatment does not materially prejudice the interests of any other investor in the *AIF*.

Knowledge, expertise and commitment of the governing body

3.3.5 R An *authorised UK AIFM* must be satisfied on reasonable grounds that:

(1) its *governing body* possesses adequate collective knowledge, skills and experience to be able to understand:

(a) the *AIFM's* activities;

(b) for each *AIF* for which it is the *AIFM*, the assets in which the *AIF* is or may be invested; and

(c) the main risks involved in such activities and assets;

(2) the members of its *governing body* can and do commit sufficient time to perform their functions properly;

(3) each member of its *governing body* acts with honesty, integrity and independence of mind; and

(4) the necessary resources are devoted to the induction and training of members of its *governing body*.

Strategies for the exercise of voting rights

3.3.6 R (1) A *large UK AIFM* of an *unauthorised AIF* must develop effective strategies for determining when and how voting rights attached to the ownership of the *AIF's* assets are to be exercised to the exclusive benefit of the *AIF* concerned and the *AIF's* investors.

(2) The *AIFM* must ensure that the strategy referred to in (1) determines measures and procedures for:

(a) monitoring relevant corporate events;

(b) ensuring that the exercise of voting rights is in accordance with the investment policy of the relevant *AIF*; and

(c) preventing or managing any conflicts of interest arising from the exercise of voting rights.

(3) The *AIFM* must make available to the investors in the *AIF* at their request:

(a) a summary description of the strategies; and

(b) details of the actions taken on the basis of those strategies.

3.4 Execution of AIF portfolio transactions

Application

3.4.1 R This section applies to an *authorised UK AIFM*.

Handling AIF portfolio transactions

3.4.2 R (1) An *authorised UK AIFM* must have procedures and arrangements which ensure that:

(a) *AIF portfolio transactions* are executed promptly, fairly and expeditiously;

(b) *AIF portfolio transactions* are recorded and allocated promptly and accurately;

(c) *financial instruments*, money or other assets received in settlement of the executed *AIF portfolio transactions* are promptly and correctly delivered to, or registered in, the account of the relevant *AIF*; and

(d) subject to (2), otherwise comparable *AIF portfolio transactions* are executed sequentially and promptly.

(2) An *AIFM* need not execute comparable *AIF portfolio transactions* in accordance with (1)(d) if:

(a) the characteristics of the *AIF portfolio transaction* or prevailing market conditions make this impracticable; or

(b) the interests of the *AIF* or of the investors in the *AIF* require otherwise.

3.4.3 R An *authorised UK AIFM* must not misuse information relating to pending *AIF portfolio transactions* and must take all reasonable steps to prevent the misuse of such information by a *relevant person*.

Aggregation and allocation of AIF portfolio transactions

3.4.4 R (1) An *authorised UK AIFM* may only execute an *AIF portfolio transaction* in aggregate with a transaction:

(a) to *buy* or *sell* an *investment* that is entered into for or on behalf of another *fund* or a *client*; or

(b) when dealing on own account,

if the conditions in (2) are satisfied.

(2) The conditions are that:

(a) it can be reasonably expected that such aggregation will not work overall to the disadvantage of any *AIF*, *fund* or *client* whose transaction is to be aggregated; and

(b) the *AIFM* has established and implemented an *AIF portfolio transaction* allocation policy.

(3) The *AIF portfolio transaction* allocation policy must provide in sufficiently precise terms for the fair allocation of aggregated *AIF portfolio transactions* and other transactions to *buy* or *sell investments* for another *fund* or *client*, or on own account, including:

(a) how the volume and price of such transactions determine allocations; and

(b) the treatment of partial executions.

3.4.5 R (1) This *rule* applies where an *authorised UK AIFM* aggregates an *AIF portfolio transaction* with one or more other transactions to *buy* or *sell investments* which is partially executed (the 'partially executed transaction').

(2) Where the partially executed transaction involves an *AIF portfolio transaction* and a transaction to *buy* or *sell investments* for or on behalf of another *fund* or *client*, the *AIFM* must allocate the related transactions in accordance with its *AIF portfolio transaction* allocation policy.

(3) (a) Where the partially executed transaction involves:

(i) an *AIF portfolio transaction* or a transaction to *buy* or *sell investments* for another *fund* or *client*; and

(ii) a transaction for its own account,

the *AIFM* must allocate the related trades to the *AIF*, *fund* or *client* in priority over those for its own account.

(b) However, the *AIFM* may allocate the transaction for its own account proportionally in accordance with its *AIF portfolio transaction* allocation policy if the *AIFM* is able to demonstrate to the *AIF*, *fund* or *client* on reasonable grounds that it would not have been able to carry out the transaction on such advantageous terms without aggregation, or at all.

Recording of AIF portfolio transactions

3.4.6 R (1) (a) An *authorised UK AIFM* must ensure that a record of information is produced without delay for each *AIF portfolio transaction* of an *AIF* that it manages.

(b) The record of information must be sufficient to reconstruct the details of the order and the executed *AIF portfolio transaction* if different and include the information in (2) or (3).

(2) Where an *AIF portfolio transaction* takes place on an *execution venue*, the record of information must include:

(a) the name or other designation of the *AIF* and of the *person* acting for the account of the *AIF*;

(b) the name or identifier of the *AIF's* asset;

(c) where relevant, the quantity;

(d) the price;

(e) the type of *AIF portfolio transaction* (whether the transaction involves *buying* or *selling* an *investment*);

(f) for orders, the date and exact time of the transmission of the order and the name or other designation of the *person* to whom the order was transmitted, or for transactions, the date and exact time of the decision to deal and the execution of the transaction;

(g) where applicable, the name of the *person* transmitting the order or executing the transaction;

(h) where applicable, the reasons for the revocation of an order; and

(i) for executed transactions, the counterparty and *execution venue* identification.

(3) Where an *AIF portfolio transaction* by an *AIF* takes place outside an *execution venue*, the record of information must include:

(a) the name or other designation of the *AIF*;

(b) the legal and other documentation that forms the basis of the *AIF portfolio transaction*, including in particular the agreement as executed; and

(c) the price.

3.5 Subscription and redemption orders

Application

3.5.1 R This section applies to an *authorised UK AIFM*.

Reporting obligations

3.5.2 R (1) Subject to *ALTS* 3.5.3R(1), where an *authorised UK AIFM* carries out a subscription or a redemption order from an investor, it must promptly provide the investor with the essential information in *ALTS* 3.5.4R concerning the execution of the order or the acceptance of the subscription offer.

(2) The essential information must be provided by means of a *durable medium*.

3.5.3 R (1) An *authorised UK AIFM* need not comply with the obligation in *ALTS* 3.5.2R where:

(a) another *person* is required to provide the investor with a confirmation concerning the execution of the subscription or redemption order; and

(b) the confirmation contains the essential information in *ALTS* 3.5.4R and is provided by means of a *durable medium*.

(2) The exemption in (1) applies only where the other *person* complies with its obligations to provide the investor with a confirmation concerning the execution of the subscription or redemption order.

3.5.4 R For the purposes of *ALTS* 3.5.2R and *ALTS* 3.5.3R, the essential information must include:

(1) the identification of the *AIFM*;

(2) the name of the investor or the identification provided by the *person* placing the order;

(3) the date and time of receipt of the order;

(4) the date of execution;

(5) the identification of the *AIF*; and

(6) the gross value of the order, including charges for subscription or the net amount after charges for redemptions.

3.5.5 R An *authorised UK AIFM* must supply an investor, upon request, with information about the status of their subscription or redemption order and (where relevant) the acceptance of their subscription offer.

Recording of subscription and redemption orders

3.5.6 R (1) An *authorised UK AIFM* must take all reasonable steps to ensure that every subscription and redemption order it receives relating to *units* in an *AIF* that it manages is recorded without undue delay after receipt.

(2) The record must include information on the following:

(a) the relevant *AIF*;

(b) the *person* giving or transmitting the order;

(c) the *person* receiving the order;

(d) the date and time of receipt of the order;

(e) the terms and means of payment;

(f) the type of the order;

(g) the date of execution of the order;

(h) the number of *units* or equivalent amounts subscribed or redeemed;

(i) the subscription or, where relevant, redemption price for each *unit* or, where relevant, the amount of capital committed and paid;

(j) the total subscription or redemption value of the *units*; and

(k) the gross value of the order, including charges for subscription, or the net amount after charges for redemption.

3.6 Additional record keeping requirements: AIF portfolio transactions and subscription and redemption orders

Application

3.6.1 R This section applies to an *authorised UK AIFM*.

Record keeping requirements

3.6.2 R (1) Subject to (2) and (3), an *authorised UK AIFM* must ensure the retention of the records referred to in *ALTS* 3.4.6R and *ALTS* 3.5.6R for a period of at least 5 years.

(2) Where required to do so by the *FCA*, an *authorised UK AIFM* must ensure that the records referred to in *ALTS* 3.4.6R and *ALTS* 3.5.6R are retained for such longer period as may be specified to enable the *FCA* to carry out its supervisory or enforcement functions.

(3) Before ceasing to be an *authorised person*, an *authorised UK AIFM* must ensure that the records referred to in (1) are retained for the outstanding term of the 5-year period either:

(a) by making such arrangements as are necessary to retain the records itself for such period; or

(b) if it transfers its responsibilities in relation to the *AIF* to another *AIFM*, by arranging for those records to be accessible to that other *AIFM*.

(4) An *authorised UK AIFM* must retain the records referred to in *ALTS* 3.4.6R and *ALTS* 3.5.6R in a medium that allows the *FCA* to access the information, and in such a form and manner that:

(a) the *FCA* is able to access the records readily and to reconstitute each key stage of the processing of each *AIF portfolio transaction*;

(b) it is possible for any corrections or other amendments, and the contents of the records prior to such corrections or amendments, to be easily ascertained; and

(c) it is not possible for the records to be otherwise amended or manipulated or altered.

Requirement to make appropriate arrangements for suitable electronic systems

3.6.3 R (1) An *authorised UK AIFM* must arrange for suitable electronic systems that ensure the timely and proper recording of each *AIF portfolio transaction* or subscription or, where relevant, redemption order.

(2) An *AIFM* must ensure:

(a) a high standard of security during the electronic data processing; and

(b) the integrity and confidentiality of the recorded information.

4 Delegation

4.1 Application and purpose

Application

4.1.1 R (1) This chapter applies to the *authorised UK AIFM* of:

(a) a *UK AIF* which is an *unauthorised AIF*; and

(b) a *non-UK AIF*,

in relation to the delegation of those *AIFM management functions* for which it is responsible.

(2) This chapter does not apply to the delegation of supporting activities such as administrative or technical functions.

4.1.2 G The *rules* in this chapter apply to the delegation of *AIFM management functions* generally but make different provision for:

(1) *AIFM management functions*;

(2) *additional core AIFM functions*;

(3) *AIFM investment management functions*; and

(4) separately, the *AIFM investment management function* of portfolio management.

Purpose

4.1.3 G (1) The purpose of the *rules* in this chapter is to set out the basis on which an *authorised UK AIFM* may delegate those *AIFM management functions* for which it is responsible. An *authorised UK AIFM* is always responsible for carrying on *AIFM investment management functions* but need not carry out the other *AIFM management functions*.

(2) Given the potential for harm to the *AIF* and its investors, the delegation of *additional core AIFM functions*, *AIFM investment management functions* and portfolio management are subject to greater controls than the other *AIFM management functions*.

(3) Whenever an *authorised UK AIFM* delegates the *AIFM management functions* for which it is responsible to a third party, it remains liable for the proper performance of the delegated functions and compliance with *rules* and other legal requirements.

4.2 General provisions relating to delegation

Letter-box entities

4.2.1 R An *authorised UK AIFM* must not delegate its *AIFM management functions* to the extent that, in essence, it can no longer be considered to be the *AIFM* of the *AIF* and to the extent that it becomes a letter-box entity.

4.2.2 R (1) The circumstances in which an *authorised UK AIFM* is deemed to be a letter-box entity and is no longer considered to be managing an *AIF* include where:

(a) the *AIFM* no longer retains the necessary expertise and resources to supervise the delegated functions and activities effectively and manage the risks associated with the delegation;

(b) the *AIFM* no longer has the power to:

(i) take decisions in key areas which fall under the responsibility of the *senior management*; or

(ii) perform *senior management* functions,

in particular in relation to the implementation of the general investment policy and investment strategies;

(c) the *AIFM* loses its contractual rights to inquire, inspect, have access to or give instructions to its delegates, or the exercise of such rights becomes impossible in practice; and

(d) the *AIFM* delegates the performance of *AIFM investment management functions* to an extent that exceeds by a substantial margin the *AIFM investment management functions* performed by the *AIFM* itself (see (2)).

(2) When considering whether it has delegated the performance of *AIFM investment management functions* to an extent that exceeds by a substantial margin those which it performs itself, an *authorised UK AIFM* must assess its entire delegation structure, taking into account not only the assets managed under delegation but also the following qualitative criteria:

(a) the types of assets the *AIF*, or the *AIFM* acting on behalf of the *AIF*, is invested in and the importance of the assets managed under delegation for the risk and return profile of the *AIF*;

(b) the importance of the assets under delegation for the achievement of the aims of the *AIF* in accordance with its investment policy;

(c) the geographical and sectoral spread of the *AIF's* investments;

(d) the risk profile of the *AIF*;

(e) the type of investment strategies pursued by the *AIF* or the *AIFM* acting on behalf of the *AIF*;

(f) the types of functions and activities delegated in relation to those retained; and

(g) the configuration of delegates and their sub-delegates, their geographical sphere of operation and their corporate structure, including whether the delegation is conferred on an *affiliated company* of the *AIFM*.

AIFM liability

4.2.3 G (1) [Regulation 6] of the *AIFM Regulations* (Liability following delegation) provides that any liability of an *authorised UK AIFM* to an *AIF* which it manages, or to the investors of such an *AIF*, relating to the activities carried on by the *AIFM* when *managing an AIF* is not affected by:

(a) the delegation of a relevant function to another *person*; or

(b) by any sub-delegation or further sub-delegation of such a function.

(2) A relevant function for these purposes is one or more of the following:

(a) an *AIFM investment management function*; or

(b) any other *AIFM management function* which the *AIFM* carries on for the *AIF*.

4.3 Delegation of functions

General requirements for delegation of AIFM management functions

4.3.1 R When delegating *AIFM management functions*, an *authorised UK AIFM* must ensure that:

(1) the delegate has sufficient expertise and resources to perform the relevant function;

(2) the *persons* who conduct the business of the delegate are of sufficiently good repute and experience;

(3) the delegation does not prevent the *FCA* from supervising the *AIFM* effectively; and

(4) the delegation does not prevent the *AIFM* from acting, or the *AIF* from being managed, in the best interests of its investors.

Ongoing review of delegation arrangements

4.3.2 R (1) An *authorised UK AIFM* which delegates an *AIFM management function* must establish procedures for reviewing the services provided by:

(a) each delegate;

(b) each sub-delegate; and

(c) any other *person* to whom the function is further sub-delegated.

(2) The *AIFM* must review the provision of those services on an ongoing basis and in accordance with the procedures in (1).

Delegation of investment management functions and additional core AIFM functions

4.3.3 R Where an *authorised UK AIFM* delegates an *AIFM investment management function* or an *additional core AIFM function*, the *AIFM* must ensure that:

(1) it is able to justify its entire delegation structure with objective reasons;

(2) the delegate is selected with all due care;

(3) it is (and can demonstrate that it is) able to:

(a) monitor the delegated activity effectively at any time;

(b) give further instructions to the delegate at any time; and

(c) withdraw the delegation with immediate effect when this is in the interest of investors,

in accordance with the written agreement referred to in *ALTS* 4.3.5R; and

(4) the delegate is required to disclose to the *AIFM* any development that may have a material adverse impact on the delegate's ability to carry out the delegated activity effectively.

4.3.4 G For the purpose of *ALTS* 4.3.3R(1), the 'objective reasons' on which an *authorised UK AIFM* may justify its delegation structure include:

(1) optimising of business functions and processes;

(2) cost savings;

(3) the expertise of the delegate in specific markets or investments, or the provision of services for operating *AIFs*; and

(4) access of the delegate to global trading capabilities.

Arrangements for delegation recorded in written agreement

4.3.5 R An *authorised UK AIFM* must ensure that the arrangements for the delegation of *AIFM investment management functions* and *additional core AIFM functions* are recorded by means of a written agreement concluded between the *AIFM* and the delegate which:

(1) comprehensively sets out the respective rights and obligations of the *AIFM* and the delegate under the *regulatory system*; and

(2) clearly allocates those rights and obligations between the *AIFM* and the delegate.

Notifying the FCA of delegation arrangements

4.3.6 R An *authorised UK AIFM* must notify the *FCA* of its arrangements for delegating *AIFM investment management functions* in accordance with the *rules* in *SUP* 15 (Notification requirements).

Delegation of AIFM investment management functions: conflicts of interest

4.3.7 R An *authorised UK AIFM* must assess whether the delegation of one or more *AIFM investment management functions* could conflict with the interests of the *AIF* or the investors in the *AIF*.

4.3.8 G (1) The *AIFM's* assessment in *ALTS* 4.3.7R should include consideration of whether the *AIFM* and the delegate:

(a) are *affiliated companies*; and

(b) have any other arrangement or contractual relationship which is not directly related to the delegation.

(2) Where a conflict of interest exists, *SYSC* 10 (Conflicts of interest) requires an *authorised UK AIFM* to identify, manage, monitor and disclose conflicts of interest.

Restrictions on delegation of AIFM investment management functions

4.3.9 R An *authorised UK AIFM* must not delegate or consent to the delegation of *AIFM investment management functions* to:

(1) the *depositary* or a delegate of the *depositary*; or

(2) any other *person* whose interests may conflict with those of the *AIF* or the investors of the *AIF*, unless:

(a) that *person* has functionally and hierarchically separated the performance of its *AIFM investment management functions* from its other potentially conflicting functions and activities; and

(b) the potential conflicts of interest are properly identified, managed, monitored and disclosed to the investors of the *AIF*.

4.3.10 R (1) Subject to (3), when delegating *AIFM investment management functions* relating to *specified investments*, an *authorised UK AIFM* must ensure that the delegation is conferred on a *person* who is authorised or registered for the purpose of asset management and subject to supervision.

(2) Where the delegation of *AIFM investment management functions* is conferred on an *overseas* delegate who falls within (1), a co-operation arrangement must be in place between the *FCA* and the relevant *supervisory authorities* in the relevant jurisdiction.

(3) An *authorised UK AIFM* may confer *AIFM investment management functions* on a *person* who does not fall within (1) provided the *person* does not need to be authorised or registered or subject to

supervision to perform the delegated function in the jurisdiction where it is being carried on.

4.3.11 G For the purpose of *ALTS* 4.3.10R(1), the following entities are deemed to be authorised or registered for the purpose of asset management and subject to supervision:

(1) an *authorised person* with the appropriate *Part 4A permission*; and

(2) where the delegation is conferred on an *overseas* entity, a *person* who is authorised or registered for the purpose of asset management and supervised by an *overseas regulator* in the relevant jurisdiction.

4.3.12 R An *authorised UK AIFM* must ensure that any *person* to whom the *AIFM* delegates *AIFM investment management functions* has an *LEI*.

[*Editor's note*: the Glossary term 'LEI' is introduced by the Glossary (Cryptoassets) Instrument 2026 (FCA 2026/35), which comes into force on 25 October 2027.]

Delegation of portfolio management

4.3.13 R Where an *authorised UK AIFM* delegates the *AIFM investment management function* of portfolio management, the *AIFM* must:

(1) instruct the delegate on the implementation of the investment policy;

(2) monitor whether the delegate complies with the investment policy on an ongoing basis; and

(3) take appropriate action where the delegate does not.

Further delegation of functions by a delegate

4.3.14 R (1) This *rule* applies where an *authorised UK AIFM* has delegated an *AIFM management function* to a delegate, and where the function is sub-delegated or further sub-delegated to another *person*.

(2) An *authorised UK AIFM* must ensure that a delegate or sub-delegate is required to obtain the *AIFM's* consent before any arrangements for sub-delegating the relevant *AIFM management function* to another *person* become effective.

(3) When a *person* sub-delegates the relevant *AIFM management function* to another *person*, the *AIFM* must also:

(a) (where the sub-delegation relates to *AIFM investment management functions*) immediately notify the *FCA* of the sub-delegation arrangements in accordance with the *rules* in *SUP* 16 (Reporting requirements); and

(b) (to the extent it applies to the function or activity) comply with *ALTS* 4.3.1R, *ALTS* 4.3.3R, *ALTS* 4.3.9R, *ALTS* 4.3.10R and *ALTS* 4.3.12R in relation to the sub-delegation, as if:

(i) a reference to 'delegate' was a reference to a 'sub-delegate'; and

(ii) a reference to 'delegation' was a reference to 'sub-delegation'.

(4) In relation to any further sub-delegation of its functions, an *authorised UK AIFM* must also:

(a) comply with (3)(a); and

(b) ensure that a delegate or sub-delegate complies with (2) and (3)(b).

5 Risk management

5.1 Application and purpose

Application

5.1.1 R This chapter applies to an *authorised UK AIFM* in relation to *unauthorised AIFs* managed by it in accordance with the detailed provisions in each section.

5.1.2 G (1) The application of this chapter is summarised in the table in (3).

(2) The sections specified in the relevant entries in the table in (3) apply to a *UK AIFM* described in column (A) when it is managing an *AIF* of a type described in column (B).

(3) This table belongs to (1).

Type of AIFM (A)	**Applicable sections according to type of AIF (B)**	
	Unleveraged closed-ended AIF	**AIF that is not an unleveraged closed-ended AIF**
Small UK AIFM	*ALTS* 5.2	*ALTS* 5.2 and *ALTS* 5.3
Medium UK AIFM	*ALTS* 5.2	*ALTS* 5.2 and *ALTS* 5.4
Large UK AIFM	*ALTS* 5.2	*ALTS* 5.2 and *ALTS* 5.5

Option to apply stricter requirements

5.1.3 R Where an *authorised UK AIFM* is subject to *rules* relating to its management of:

(1) an *unleveraged closed-ended AIF*; and

(2) another *AIF* that is not an *unleveraged closed-ended AIF*,

the *AIFM* may comply with the *rules* relating to the management of the *AIF* in (2) when it is managing the *AIF* in (1).

Purpose

5.1.4 G (1) The *rules* and *guidance* in this chapter set out standards of risk management appropriate to *authorised UK AIFMs* of different sizes and *AIFs* of different types. They aim to set minimum standards of risk management to secure an appropriate degree of protection for investors and to protect and enhance the integrity of the *UK financial system*.

(2) The *rules* set appropriate standards of governance, independence and oversight that apply to *risk management functions* and reflect the need for proportionality for *AIFMs* of different sizes.

5.2 All authorised UK AIFMs: high-level risk management requirements for all AIFs

Application

5.2.1 R This section applies to an *authorised UK AIFM* when managing an *AIF*.

Identifying risks

5.2.2 R An *authorised UK AIFM* must take reasonable steps to identify the material risks to:

(1) an *AIF*; and

(2) its assets and (where relevant) liabilities.

Monitoring and managing risks

5.2.3 R An *authorised UK AIFM* must take reasonable steps to monitor and manage the risks identified under *ALTS* 5.2.2R.

5.2.4 R An *authorised UK AIFM* must ensure that:

(1) its management of risk is appropriate and proportionate to the risks it is taking for, or on behalf of, each *AIF* it manages; and

(2) it identifies, monitors and manages the risks to market integrity relating to its management of each *AIF* as well as its other activities.

5.2.5 G In identifying and monitoring the risks to market integrity, an *AIFM* should consider whether its activities could create risks for the functioning of markets or to their disruption, including those risks associated with:

(1) the size of the positions of an *AIF*, together with those of any other *funds* or investment mandates managed or operated by the *AIFM* or *affiliated companies*, compared to the size of the markets in which the *AIFM* is carrying on business;

(2) (where relevant) the use of *leverage* by the *AIF*, together with *leverage* used by any other *funds* or investment mandates managed or operated by the *AIFM* or *affiliated companies*, in circumstances where it becomes necessary to unwind positions rapidly; and

(3) the use of models or other automated activities.

Due diligence when selecting investments

5.2.6 R An *authorised UK AIFM* must carry out a level of research and due diligence that is appropriate to the type of asset selected for the *AIF*, and ensure it has sufficient knowledge and a reasonable understanding of such *investments*.

5.2.7 G Where an *authorised UK AIFM* manages an *AIF* that invests in assets that cannot easily be bought or sold – for example, because of restrictions in terms, or because the decision to invest is normally preceded by a period of negotiation – the *AIFM* should undertake appropriate levels of due diligence before investing.

5.3 Small UK AIFMs: AIFs that are not unleveraged closed-ended AIFs

Application

5.3.1 R This section applies to a *small UK AIFM* in relation to every *AIF* managed by the *AIFM* that is not an *unleveraged closed-ended AIF*.

Establishment and maintenance of risk management function

5.3.2 R (1) A *small UK AIFM* must establish and maintain a *risk management function*.

(2) Subject to (3), the *AIFM* must ensure that the *risk management function* is functionally and hierarchically independent from the portfolio management function.

(3) A *small UK AIFM* need not comply with (2) where this would not be proportionate, taking into account the nature, scale and complexity of the *AIFM's* business.

Authority of the risk management function

5.3.3 R A *small UK AIFM* must ensure that the *risk management function* has the authority to take such action as is necessary and appropriate to manage all of the material risks identified under *ALTS* 5.2.2R (Identifying risks).

Risk management systems, processes and controls

5.3.4 R A *small UK AIFM* must ensure that the *risk management function* has risk management systems, processes and controls that enable it to identify, measure, monitor and manage each of the material risks identified under *ALTS* 5.2.2R (Identifying risks).

Setting risk limits

5.3.5 G (1) A *small UK AIFM* should set, where relevant, risk limits for an *AIF* in relation to each of the material risks identified under *ALTS* 5.2.2R (Identifying risks).

(2) Where an *AIFM* sets a risk limit, the limit should be quantitative unless it would be unreasonable for it to be quantitative.

(3) The risk limits should cover at least the following risks:

(a) *market risks*;

(b) credit risks;

(c) liquidity risk*s*;

(d) *counterparty risks*; and

(e) *operational risks*.

5.4 Medium UK AIFMs: AIFs that are not unleveraged closed-ended AIFs

Application

5.4.1 R This section applies to a *medium UK AIFM* in relation to every *AIF* managed by the *AIFM* that is not an *unleveraged closed-ended AIF*.

Establishment and maintenance of risk management function

5.4.2 R (1) A *medium UK AIFM* must establish and maintain an independent *risk management function*.

(2) The *risk management function* must be functionally and hierarchically separate from the portfolio management function.

Authority of the risk management function

5.4.3 R A *medium UK AIFM* must ensure that the *risk management function* has the authority to take such action as is necessary and appropriate to manage all of the material risks identified under *ALTS* 5.2.2R (Identifying risks).

Risk management systems, processes and controls and policies

5.4.4 R (1) A *medium UK AIFM* must ensure that the *risk management function* has risk management systems, processes and controls that enable it to identify, measure, monitor and manage each of the material risks identified under *ALTS* 5.2.2R (Identifying risks).

(2) The *AIFM* must have a risk management policy that sets out:

(a) how the *AIFM* identifies, measures and monitors the material risks to each *AIF*;

(b) how the *AIFM* will comply with the rules in this chapter;

(c) how the *AIFM* safeguards the independence of the *risk management function*; and

(d) when and how the *risk management function* will act to manage material risks.

Managing conflicts of interest

5.4.5 R A *medium UK AIFM* must manage the conflicts of interest associated with the independent performance of the *risk management function*.

Managing leverage

5.4.6 R (1) Where relevant, a *medium UK AIFM* must:

(a) set a maximum level of *leverage* for each *AIF*; and

(b) manage the *AIF* in line with the maximum level of *leverage* set.

(2) The maximum level of *leverage* must be reasonable, taking into account all relevant matters, including:

(a) the *AIF's* investment strategy;

(b) the sources of the *AIF's leverage*; and

(c) the exposures of the *AIF* to individual counterparties.

5.4.7 G The maximum level of *leverage* will be relevant whenever an *AIF* uses *leverage* for investment purposes.

Setting risk limits

5.4.8 R (1) A *medium UK AIFM* must set risk limits for every *AIF* in relation to each of the material risks identified under *ALTS* 5.2.2R (Identifying risks).

(2) A risk limit must be quantitative, unless it would be unreasonable for it to be quantitative.

(3) The risk limits for each *AIF* must cover at least the following risks:

(a) *market risks*;

(b) credit risks;

(c) liquidity risk*s*;

(d) *counterparty risks*; and

(e) *operational risks*.

Measuring risks

5.4.9 R A *medium UK AIFM* must:

(1) using reliable data, measure the risks of its investment positions and their contribution to the overall risk profile of an *AIF*;

(2) periodically conduct back-tests to check if the risk measurements in (1) remain valid;

(3) periodically conduct appropriate stress tests and scenario analyses; and

(4) take appropriate action to address any risks to the *AIF* that it identifies.

Reviews of risk management function, its policies, systems, processes and controls

5.4.10 R A *medium UK AIFM* must periodically review:

(1) the effectiveness of its *risk management function*; and

(2) the *risk management function's* policy, systems, processes and controls.

5.5 Large UK AIFMs of AIFs other than unleveraged closed-ended AIFs

Application

5.5.1 R This section applies to a *large UK AIFM* in relation to every *AIF* managed by the *AIFM* that is not an *unleveraged closed-ended AIF*.

Establishment and maintenance of risk management function

5.5.2 R (1) A *large UK AIFM* must establish and maintain an independent *risk management function*.

(2) The *risk management function* must be functionally and hierarchically separate from the *AIFM's* other operating units (which includes the portfolio management function).

(3) The functional and hierarchical separation of the *risk management function* from the *AIFM's* other operating units in (2) is achieved where the *AIFM* ensures:

(a) that a *person* responsible for the performance of another *AIFM* operating unit does not supervise a *person* engaged in the performance of the *risk management function*;

(b) that no *person* engaged in the performance of the *risk management function* is engaged in the performance of activities within the *AIFM's* other operating units; and

(c) compliance with *SYSC* 19AA.2.6R and *SYSC* 19AA.2.7R (Control functions).

[*Editor's note:* SYSC 19AA.2.6R and SYSC 19AA.2.7R, referred to in ALTS 5.5.2R(3)(c), are proposed to be introduced by the consultation 'Remuneration: Solo-regulated firms' rules reform' (CP26/27).]

Authority of the risk management function

5.5.3 R A *large UK AIFM* must ensure that the *risk management function* has the authority to take such action as is necessary and appropriate to manage all of the material risks identified under *ALTS* 5.2.2R (Identifying risks).

Risk management systems, processes and controls and policies

5.5.4 R (1) A *large UK AIFM* must ensure that the *risk management function* has risk management systems, processes and controls that enable it to identify, measure, monitor and manage each of the material risks identified under *ALTS* 5.2.2R (Identifying risks).

(2) The *AIFM* must have a risk management policy that sets out:

(a) how the *AIFM* identifies, measures and monitors the material risks to each *AIF*;

(b) how the *AIFM* will comply with the *rules* in this chapter;

(c) how the *AIFM* safeguards the independence of the *risk management function*; and

(d) when and how the *risk management function* will act to manage material risks.

Managing conflicts of interest

5.5.5 R (1) A *large UK AIFM* must manage the conflicts of interest associated with the independent performance of the *risk management function*.

(2) To ensure that conflicts of interest are appropriately managed, a *large UK AIFM* must ensure that:

(a) decisions taken by the *risk management function* are based on data which is reliable and can be independently verified by the *risk management function*;

(b) the *risk management function* is subject to independent review to ensure that decisions are being arrived at independently;

(c) the *risk management function* is represented in the *governing body* at least with the same authority as the portfolio management function; and

(d) any conflicting duties are properly separated.

Managing leverage

5.5.6 R (1) Where relevant, a *large UK AIFM* must:

(a) set a maximum level of *leverage* for each *AIF*; and

(b) manage the *AIF* in line with the maximum level of *leverage* set.

(2) The maximum level of *leverage* must be reasonable, taking into account all relevant matters, including:

(a) the *AIF's* investment strategy;

(b) the sources of the *AIF's leverage*; and

(c) the exposures of the *AIF* to individual counterparties.

5.5.7 G The maximum level of *leverage* will be relevant whenever an *AIF* uses *leverage* for investment purposes.

Setting risk limits

5.5.8 R (1) A *large UK AIFM* must set risk limits for every *AIF* in relation to each of the material risks identified under *ALTS* 5.2.2R (Identifying risks).

(2) A risk limit must be quantitative, unless it would be unreasonable for it to be quantitative.

(3) The risk limits for each *AIF* must cover at least the following risks:

(a) *market risks*;

(b) credit risks;

(c) liquidity risk*s*;

(d) *counterparty risks*; and

(e) *operational risks*.

Compliance with risk limits

5.5.9 R A *large UK AIFM* must ensure that the *risk management function*:

(1) monitors compliance with the risk limits required by *ALTS* 5.5.8R;

(2) addresses any risks that are outside the *AIF's* risk limits; and

(3) reports regularly to the *AIFM's senior management* and its *governing body* on the risks to the *AIF* managed by the *firm*.

Measuring risks

5.5.10 R A *large UK AIFM* must:

(1) using reliable data, measure the risks of its investment positions and their contribution to the overall risk profile of an *AIF*;

(2) periodically conduct back-tests to check if the risk measurements in (1) remain valid;

(3) periodically conduct appropriate stress tests and scenario analyses; and

(4) take appropriate action to address any risks to the *AIF* that it identifies.

Reviews of risk management function, its policies, systems, processes and controls

5.5.11 R (1) A *large UK AIFM* must review:

(a) the effectiveness of its *risk management function*; and

(b) the *risk management function's* policies, systems, processes and controls.

(2) The *AIFM* must ensure that the review required by (1) takes place:

(a) whenever a material change has occurred; and

(b) regularly and, in any event, at least once a year.

(3) A *large UK AIFM* must ensure that the performance of the *risk management function* is reviewed periodically by:

(a) the internal audit function; or

(b) if such a function has not been established, by an independent external *person* appointed by the *governing body*.

5.5.12 G In *ALTS* 5.5.11R(2)(a), a material change would include changes arising from:

(1) internal and external events; and

(2) changes to the investment policy or strategy of an *AIF* which forms a material part of the *AIFM's* business.

Risk committees and the risk management function

5.5.13 R Where a *large UK AIFM* has established a risk committee, the *AIFM* must ensure that the committee is appropriately resourced and its non-independent members do not have undue influence over the performance of the *risk management function*.

6 Valuation

6.1 Introduction and application

Application to AIFMs

6.1.1 R This chapter applies to an *authorised UK AIFM* in relation to every *unauthorised AIF* managed by the *AIFM*.

6.1.2 G Every provision in this chapter applies to all *authorised UK AIFMs* unless otherwise specified. Where a provision does not apply as a *rule* to a particular type of *AIFM*, it may nevertheless apply as *guidance*.

Purpose and explanation

6.1.3 G (1) The *rules* in this section are designed to advance the *FCA's statutory objective* of securing an appropriate degree of protection for *consumers* while respecting the need for proportionality between different sizes of *AIFM*.

(2) The *rules* require an *authorised UK AIFM* to ensure that an *AIF's* assets and liabilities are valued properly and in good faith. This enables the *AIFM* to calculate an accurate *NAV* of the *AIF* per *unit*.

(3) An *AIFM* may conduct the valuation itself, or it may appoint an independent third-party valuer to assist the *AIFM* in carrying out its obligations. Where an *AIFM* uses a third-party valuer to carry out or assist it with carrying out a valuation, the *AIFM* remains responsible for ensuring compliance with the regulatory requirements relating to valuation.

(4) The *rules* in this chapter require an *authorised UK AIFM* to establish policies and procedures for valuing an *AIF's* assets and liabilities. This is to ensure that the valuation of the assets and liabilities is fair and appropriate and that assets and liabilities are valued at their fair value. Given their greater size and resources, *medium UK AIFMs* and *large UK AIFMs* are subject to further requirements. *Small UK AIFMs* should have regard to these additional rules as *guidance* on their obligations.

6.2 General rules for the valuation of all AIFs

Application

6.2.1 R The *rules* and *guidance* in this section apply to every *authorised UK AIFM* unless otherwise specified.

Valuation of an AIF's assets and liabilities

6.2.2 R (1) An *authorised UK AIFM* must ensure that a valuation of an *AIF's* assets and liabilities is carried out for each *unauthorised AIF* that it manages.

(2) The valuation must be carried out:

(a) properly and in good faith;

(b) impartially;

(c) with due skill, care and diligence; and

(d) in accordance with *FCA rules* and any other applicable legal requirements of the jurisdiction in which the *AIF* is *established*.

(3) The valuation must ensure that the *AIF's* assets and liabilities are valued:

(a) at their fair value; and

(b) on a fair and appropriate basis.

(4) To ensure that the *AIF's* assets and liabilities are valued at their fair value for the purposes of (3)(a):

(a) the *AIF's* assets must be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction; and

(b) the *AIF's* liabilities must be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

6.2.3 G A *small UK AIFM* should have regard to *ALTS* 6.3.5R (Consistent application of, and changes to, valuation policies, procedures and methodologies) as if it was *guidance* on what constitutes a 'fair and appropriate basis' for the purpose of *ALTS* 6.2.2R(3)(b).

Calculation of the NAV per unit

6.2.4 R (1) An *authorised UK AIFM* must ensure that an *AIF's NAV* per *unit* is calculated based on a valuation which meets the requirements in *ALTS* 6.2.2R.

(2) The *AIF's NAV* per *unit* must be calculated in accordance with *FCA rules* and any other applicable legal requirements of the jurisdiction in which the *AIF* is *established*.

Frequency of valuations and calculation of NAV per unit

6.2.5 R An *authorised UK AIFM* must ensure that:

(1) a valuation of an *AIF's* assets and liabilities as required by *ALTS* 6.2.2R; and

(2) a calculation of the *AIF's NAV* per *unit* as required by *ALTS* 6.2.4R,

are carried out at least once a year and at such other frequency as may be necessary to comply with *FCA rules*.

6.2.6 R In addition to complying with *ALTS* 6.2.5R, the *authorised UK AIFM* of an *open-ended AIF* must ensure that:

(1) the *NAV* per *unit* is calculated as often as investors are able to *buy* or subscribe for, or *sell* or redeem *units* in the *AIF*;

(2) *financial instruments* in which the *AIF* has invested are valued every time the *NAV* per *unit* is calculated; and

(3) the *AIF's* other assets and liabilities are valued more frequently than once a year whenever there is evidence that the last valuation no longer represents the asset's fair value.

Making NAV per unit available to investors

6.2.7 R An *authorised UK AIFM* must make the *NAV* per *unit* available to an *AIF's* investors as often as it is calculated.

Conflicts of interest relating to valuation

6.2.8 R An *authorised UK AIFM* must:

(1) identify any actual or potential conflicts of interest which arise from, during or are otherwise associated with the valuation process; and

(2) take all appropriate steps to manage and mitigate the risks of such conflicts adversely affecting the *AIF's* investors.

6.2.9 G At a minimum, for a *small UK AIFM* and a *medium UK AIFM*, the appropriate steps in *ALTS* 6.2.8R(2) would include the following:

(1) the valuation of an *AIF's* assets and liabilities is carried out separately from the portfolio management function;

(2) the portfolio management function does not make the final determination about the valuation of any of the *AIF's* assets or liabilities; and

(3) the remuneration policy for the *AIFM's* employees or payments for services provided by a third-party valuer mitigates the risk of undue influence on those carrying out the valuation.

Large UK AIFMs: independent valuation and remuneration

6.2.10 R A *large UK AIFM* must ensure that:

(1) a valuation of an *AIF's* assets and liabilities is carried out independently of the *AIFM's* portfolio management function;

(2) the portfolio management function does not make the final determination about the valuation of any of the *AIF's* assets or liabilities; and

(3) the remuneration policy for the *AIFM's* employees or payments for services provided by a third-party valuer mitigates the risk of undue influence on those carrying out the valuation.

Use of third-party valuers

6.2.11 R (1) An *authorised UK AIFM* may delegate to a third-party valuer:

(a) the valuation of any of the *AIF's* assets or liabilities; or

(b) the valuation of all of the *AIF's* assets and liabilities and the calculation of the *NAV* per *unit* based on the valuation,

in accordance with the *rules* in *ALTS* 4 (Delegation).

(2) The *AIFM* must ensure that the third-party valuer is independent of the *AIFM* and that, throughout the period of its appointment, the valuer:

(a) has the knowledge, skills and experience to value the relevant assets and (if applicable) liabilities;

(b) has sufficient personnel and technical resources;

(c) is able to act independently of the *AIFM*; and

(d) has procedures to safeguard the performance of a proper and independent valuation.

(3) Where an *AIFM* appoints a third-party valuer, it must:

(a) provide the valuer with all the information necessary to enable them to perform the valuation; and

(b) not seek to exert undue influence on them.

(4) The *AIFM* is responsible to the *AIF* for any valuation functions delegated to a third-party valuer.

Valuation policies and procedures: general obligation

6.2.12 R (1) An *authorised UK AIFM* must have *valuation policies* and *valuation procedures* and use them to carry out the valuation of an *AIF's* assets and liabilities in accordance with *FCA rules* and any legal requirements of the jurisdiction where the *AIF* is *established*.

(2) The *AIFM* must regularly review those policies and procedures to ensure that they comply with (1) on an ongoing basis.

6.2.13 G (1) To the extent it is relevant and proportionate for them to do so, a *small UK AIFM* may find *ALTS* 6.3.2R (Contents of the valuation policies and procedures) to *ALTS* 6.3.6R (Valuation models) helpful as *guidance* on *ALTS* 6.2.12R.

(2) A *medium UK AIFM* should have regard to *ALTS* 6.3.3R (Contents of the valuation policies and procedures) and *ALTS* 6.3.6R (Valuation models) as if they were *guidance* on *ALTS* 6.2.12R.

Accounting policies and procedures

6.2.14 R (1) The accounting policies and procedures employed by an *authorised UK AIFM* must be aligned with the *AIFM's best interests rule*.

(2) (a) The *AIFM* must ensure that accounting records are kept in such a way that all the *AIF's* assets and liabilities can be directly identified at all times.

(b) When an *AIF* has more than one *sub-fund*, the *AIFM* must ensure that separate accounts are kept for each *sub-fund*.

6.2.15 R An *authorised UK AIFM* must employ accounting and *valuation policies* and *valuation procedures* so as to ensure that the *NAV* of each *AIF* is accurately calculated on the basis of the applicable accounting rules and standards.

6.3 Valuation policies, procedures, methodologies and models: further rules

Application

6.3.1 R Unless otherwise stated, the *rules* in this section apply to:

(1) a *medium UK AIFM*; and

(2) a *large UK AIFM*.

Contents of the valuation policies and procedures

6.3.2 R In relation to each *AIF* managed by a *medium UK AIFM* or a *large UK AIFM*, the *AIFM* must ensure that the *valuation policies* and *valuation procedures* set out:

(1) how each type or category of asset and liability is to be valued;

(2) the *valuation methodology* to be used whenever an asset or liability is valued on a basis other than an *observed market price*, and the source of any assumptions or inputs to the *valuation methodology* (see also *ALTS* 6.3.4R);

(3) if relevant, the process for the appointment and use of a third-party valuer; and

(4) the governance processes for, and any restrictions or conditions associated with:

(a) a change to a *valuation methodology* used for any of the *AIF's* assets or liabilities; or

(b) a material change to the assumptions or inputs used for a *valuation methodology* relating to any one of the *AIF's*

assets or liabilities, or for the *AIF's* assets and liabilities generally.

6.3.3 R In addition, a *large UK AIFM* must ensure that:

(1) where the *AIFM* carries out the valuation itself, the *valuation policies* set out the safeguards for the independent performance of the valuation, including measures to prevent or restrain a *person* from exercising inappropriate influence over the way in which those conducting a valuation carry out their valuation activities;

(2) the *valuation policies* set out the roles and responsibilities of all the parties involved in the valuation process, including the *AIFM's senior management*;

(3) the *valuation procedures* reflect the organisational structure set out in the *valuation policies*; and

(4) the *valuation policies* and *valuation procedures* address at least the following:

(a) the competence and independence of individuals who are responsible for carrying out the valuation of the *AIF's* assets and liabilities;

(b) the controls over the selection of valuation inputs, sources, valuation models and *valuation methodologies*;

(c) the escalation channels for resolving differences in the value of any of the *AIF's* assets or liabilities;

(d) whether and how any adjustments related to the size and liquidity of positions or to changes in market conditions may be made;

(e) the appropriate time for closing the books for valuation purposes;

(f) the appropriate frequency for valuing an *AIF's* assets and liabilities; and

(g) a review process for where there is a material risk of an inappropriate valuation.

Valuation on a basis other than observed market prices

6.3.4 R A *medium UK AIFM* and a *large UK AIFM* must record the inputs and assumptions that determine a valuation whenever an *AIF's* assets or liabilities are valued on a basis other than *observed market prices*.

Consistent application of, and changes to, valuation policies, procedures and methodologies

6.3.5 R A *medium UK AIFM* and a *large UK AIFM* must ensure that:

(1) *valuation policies*, *valuation procedures* and *valuation methodologies* are applied consistently over time and across all *AIFs* that the *AIFM* manages; and

(2) if there is a change to a *valuation policy*, *valuation procedure* or *valuation methodology* for a specific *AIF* asset or category of asset, the *AIFM* must ensure that this is recorded and approved in writing by its *senior management*.

Valuation models

6.3.6 R If a *large UK AIFM* uses a valuation model to value an *AIF's* assets or liabilities, the *AIFM* must ensure that:

(1) prior to the model's use:

(a) it considers and records both the reasons for using the model and any limitations associated with it;

(b) the model is independently validated;

(c) the model is approved by *senior management*; and

(2) in any valuation that uses the model, it records the underlying data and assumptions, and the rationale for using them.

7 Fund liquidity

7.1 Application and purpose

Application

7.1.1 R This chapter applies to an *authorised UK AIFM* when managing any *unauthorised AIF* that is not an *unleveraged closed-ended AIF*.

7.1.2 G The liquidity risk management *rules* are set out in:

(1) *ALTS* 7.2 for *small UK AIFMs*; and

(2) *ALTS* 7.3 for *medium UK AIFMs* and *large UK AIFMs*.

Purpose

7.1.3 G (1) This chapter sets out the minimum standards of liquidity risk management appropriate to *authorised UK AIFMs* of different sizes and *AIFs* of different types. It aims to advance the *FCA's statutory objectives* by securing an appropriate degree of protection for

investors and by protecting and enhancing the integrity of the *UK* financial system.

(2) *Open-ended AIFs*, as well as *closed-ended AIFs* that employ *leverage*, have obligations to other *persons* that must be met on time out of an *AIF's* assets. This requires the *AIFM* to ensure that liquidity is properly managed and that an appropriate liquidity risk management framework is applied to each *AIF* at all times. In the case of an *open-ended AIF*, the policy for investor redemptions should be aligned to the *AIF's* investment policy and strategy and its liquidity managed accordingly.

(3) Features of an *AIF* liquidity risk management framework will normally include, as a minimum, a risk monitoring and escalation process, a programme of stress testing, and the ability to use appropriate liquidity management tools to address actual or perceived risks of a liquidity shortage.

References to 'liquidity management tools'

7.1.4 R In this chapter, a reference to a 'liquidity management tool' should be construed as a tool or measure applied by an *AIFM* to manage the liquidity of the *AIF* in the interests of all investors. The tool or measure may be applied in normal circumstances, such as an anti-dilution tool, or in exceptional circumstances to control or limit dealing in *units*, including but not limited to deferral of dealing in *units*, suspension of dealing or the creation of a side pocket.

7.2 Small UK AIFMs: liquidity risk management

Application

7.2.1 R This section applies to a *small UK AIFM* when managing any *unauthorised AIF* other than an *unleveraged closed-ended AIF*.

Alignment of investment strategy, liquidity profile and redemption policy

7.2.2 R (1) When *manufacturing* an *open-ended AIF*, a *small UK AIFM* must ensure that the *AIF's* redemption policy is consistent with its intended investment strategy.

(2) The *AIFM* must ensure on an ongoing basis that the *open-ended AIF's* investment strategy and liquidity profile remain consistent with the redemption policy and any other obligations of the *AIF*.

7.2.3 G (1) In *ALTS* 7.2.2R, the investment strategy, liquidity profile and redemption policy of the *AIF* are not aligned if:

(a) the *AIFM* considers it reasonably likely that it will not be able to comply with its obligation to investors (however described or specified) to repurchase or redeem *units* (see *ALTS* 2.2.1R(1) (Meaning of 'open-ended AIF')), both in

normal and exceptional circumstances and in a manner consistent with the fair treatment of all *AIF* investors; or

(b) the liquidity profile of the *AIF* makes it reasonably foreseeable that in normal circumstances the *AIF's* assets may need to be sold at a significant price discount to their expected market values so as to meet redemption requests or any other obligations arising from the *AIF's* investment policy and strategy; or

(c) the *AIF* has significant exposure to *inherently illiquid assets* (see (2)) and redemptions are not subject to a notice period or similar means of restricting the liquidity provided to investors.

(2) An *AIF* has significant exposure to *inherently illiquid assets* where at least 50% in value of the *AIF's* assets is invested in *inherently illiquid assets*.

Liquidity risk management framework

7.2.4 R (1) A *small UK AIFM* of an *open-ended AIF* or a *leveraged closed-ended AIF* must have a framework of liquidity risk management systems, processes and controls which ensure that, in relation to each such *AIF*, the *AIFM*:

(a) has an appropriate knowledge and understanding of the liquidity of the assets in which the *AIF* has invested or intends to invest, so that it can effectively monitor the *AIF's* liquidity risk;

(b) manages the liquidity profile of the *AIF's* investments so as to enable the *AIF* to meet its obligations to investors, counterparties, or any other third parties;

(c) conducts stress tests and takes the results into account in accordance with *ALTS* 7.2.11R;

(d) applies appropriate escalation measures to address anticipated or actual liquidity shortages or other adverse events which could affect the liquidity profile of the *AIF*; and

(e) is able to measure and assess the quantitative and qualitative risks of the *AIF's* positions and intended investments, including the cumulative contribution which smaller holdings may have on the overall liquidity profile of the *AIF*.

(2) The framework in (1) must be appropriate to each *AIF's* size, investment policy and strategy, liquidity profile and investor base.

(3) The *AIFM* must apply the framework in (1) when the *AIF* is being *manufactured* and on an ongoing basis thereafter.

[*Editor's note*: the annex referred to in ALTS 7.2.5G is proposed to be introduced by the consultation paper 'Enhancing fund liquidity risk management' (CP25/38). The numbering has been updated here to account for COLL 6 Annex 4, which was introduced by the Collective Investment Schemes Sourcebook (Use of Distributed Ledger Technology in Authorised Funds) Instrument 2026 (FCA 2026/24).]

7.2.5 G When designing and implementing a liquidity risk management framework, a *small UK AIFM* should have regard to *COLL* 6 Annex 5 (Guidance notes on liquidity risk management) as if it applied to the *AIFM* in relation to the relevant *AIF*.

Monitoring and managing liquidity risk

7.2.6 R (1) In monitoring and managing the liquidity risk of an *AIF* that is an *open-ended AIF* or a *leveraged closed-ended AIF*, a *small UK AIFM* must regularly assess the liquidity of the *AIF's* assets in the market relative to the redemption terms of the *AIF*.

(2) In monitoring and managing the liquidity risk of an *AIF* in accordance with (1), the *AIFM* must also regularly assess:

(a) the timeframe in which an *AIF's* assets can be liquidated without a significant price discount and their sensitivity to other *market risks* or factors;

(b) (where relevant) the trading volume and sensitivity of prices or spreads of individual *AIF* assets in normal and exceptional liquidity conditions;

(c) (for any *AIF* that is an *open-ended AIF*) the profile of the *AIF's* investor base, including the size of each investor's investment relative to the size of the *AIF*; and

(d) where the *AIF* has significant exposure to *inherently illiquid assets*, the distinct liquidity risks which may arise from the illiquid nature of these assets, including that:

(i) the *buying* and *selling* of these assets could take a considerable period of time; and

(ii) the price achieved for such an asset may be materially different to its valuation.

7.2.7 G In accordance with *ALTS* 5.2.4R, a *small UK AIFM* should consider the liquidity risks associated with each *AIF*, any interactions between that *AIF* and the *AIFM's* other *AIFs* as well as the *AIFM's* other activities.

Liquidity management tools

7.2.8 R (1) A *small UK AIFM* must have in place liquidity management tools and other arrangements to manage an *open-ended AIF's* liquidity both in normal and exceptional circumstances.

(2) The *AIFM* must ensure that its choice takes account of any exposure to *inherently illiquid assets*.

7.2.9 R (1) A *small UK AIFM* must use liquidity management tools when it is in the best interests of the *AIF* and its investors.

(2) A *small UK AIFM* must consider its obligations under the *AIFM's best interests rule* when deciding how to use liquidity management tools.

7.2.10 G Among other things, the *AIFM's best interests rule* requires an *authorised UK AIFM* to consider whether any action it proposes to take might reasonably be expected to adversely affect the stability and integrity of the market and avoid taking any action which does so.

Stress testing

7.2.11 R (1) A *small UK AIFM* of:

(a) an *open-ended AIF*; or

(b) a *leveraged closed-ended AIF*,

must conduct stress tests to help assess and monitor the liquidity risk of the *AIF*.

(2) The *AIFM* must conduct stress tests which assume both normal and exceptional liquidity scenarios.

(3) The stress tests carried out by the *AIFM* must be conducted on the basis of reliable and up-to-date information in quantitative terms or, where this is not appropriate, in qualitative terms.

(4) The *AIFM* must act in line with the *AIFM's best interest rule* in response to the results of any stress tests.

(5) The *AIFM* must conduct the stress tests at least once a year.

Conflicts of interest

7.2.12 R In addition to the requirements of *SYSC* 10 (Conflicts of interest), a *small UK AIFM* of an *open-ended AIF* must identify, manage and monitor conflicts of interest arising, or which may foreseeably arise, such as:

(1) between investors who wish to redeem their *units* and investors who wish to retain their *units*; and

(2) between investors whose differing rights of participation in the *AIF* require the *AIFM* to make decisions about liquidity in order to manage those rights.

7.3 Liquidity risk management: medium and large UK AIFMs

Application

7.3.1 R This section applies to a *medium UK AIFM* and a large *UK AIFM* when managing any *unauthorised AIF* other than an *unleveraged closed-ended AIF*.

Alignment of investment strategy, liquidity profile and redemption policy

7.3.2 R (1) When *manufacturing* an *open-ended AIF*, a *medium UK AIFM* and a *large UK AIFM* must ensure that the *AIF's* redemption policy is consistent with its investment strategy.

(2) The *AIFM* must ensure on an ongoing basis that the *open-ended AIF's* investment strategy and liquidity profile remain consistent with the redemption policy and any other obligations of the *AIF*.

7.3.3 G (1) In *ALTS* 7.3.2R, the investment strategy, liquidity profile and redemption policy of the *AIF* are not aligned if:

(a) the *AIFM* considers it reasonably likely that it will not be able to comply with its obligation to investors (however described or specified) to redeem *units* (see *ALTS* 2.2.1R(1) (Meaning of 'open-ended AIF')), both in normal and exceptional circumstances and in a manner consistent with the fair treatment of all *AIF* investors;

(b) the liquidity profile of the *AIF* makes it reasonably foreseeable that in normal circumstances the *AIF's* assets may need to be sold at a significant price discount to their expected *market values* so as to meet redemption requests or any other obligations arising from the *AIF's* investment strategy; or

(c) the *AIF* has significant exposure to *inherently illiquid assets* (see (2)) and redemptions are not subject to a notice period or similar means of restricting the liquidity provided to investors.

(2) An *AIF* has significant exposure to *inherently illiquid assets* where at least 50% in value of the *AIF's* assets is invested in *inherently illiquid assets*.

Investment by an AIF in other open-ended funds

7.3.4 R (1) Subject to (3), where an *open-ended AIF* invests in *units* of another open-ended *fund*, a *medium UK AIFM* and a *large UK AIFM* must assess how the liquidity of the *AIF* may be affected by the extent to which:

(a) the redemption policies of those *funds*; and

(b) the assets in which they invest,

align with the redemption terms of the relevant *open-ended AIF*.

(2) The *AIFM* must review the impact of the other *fund's* redemption policies on the *AIF* periodically and upon any changes to those redemption policies.

(3) This *rule* does not apply to an *AIFM* to the extent that the *units* of an open-ended *fund* in which the *open-ended AIF* is investing are actively traded on an investment exchange in the *UK* or *overseas*.

Liquidity risk management framework

7.3.5 R (1) A *medium UK AIFM* and a *large UK AIFM* must have a framework of liquidity risk management systems, processes and controls for every *open-ended AIF* and *leveraged closed-ended AIF* which ensure that, in relation to each such *AIF*, the *AIFM*:

(a) has an appropriate knowledge and understanding of the liquidity of the assets in which the *AIF* has invested or intends to invest, so that it can effectively monitor the *AIF's* liquidity risk;

(b) manages the liquidity profile of the *AIF's* investments so as to enable the *AIF* to meet its obligations to investors, counterparties, or any other third parties;

(c) conducts stress tests and takes the results into account in accordance with *ALTS* 7.3.14R;

(d) applies appropriate escalation measures to address anticipated or actual liquidity shortages or other adverse events which could affect the liquidity profile of the *AIF*; and

(e) is able to measure and assess the quantitative and qualitative risks of the *AIF's* positions and intended investments, including the cumulative contribution which smaller holdings may have on the overall liquidity profile of the *AIF*.

(2) The framework in (1) must be appropriate to the *AIF's* size, investment policy and strategy, liquidity profile and investor base.

(3) The *AIFM* must apply the framework in (1) when the *AIF* is *manufactured* and on an ongoing basis thereafter.

(4) The *AIFM* must ensure that the framework in (1) is appropriately documented.

[*Editor's note*: the annex referred to in ALTS 7.3.6G is proposed to be introduced by the consultation paper 'Enhancing fund liquidity risk management' (CP25/38). The numbering has been updated here to account for COLL 6 Annex 4, which was introduced by the Collective Investment Schemes Sourcebook (Use of Distributed Ledger Technology in Authorised Funds) Instrument 2026 (FCA 2026/24).]

7.3.6 G When designing and implementing a liquidity risk management framework, a *medium UK AIFM* and a *large UK AIFM* should have regard to *COLL* 6 Annex 5 (Guidance notes on liquidity risk management) as if it applied to the *AIFM* in relation to the relevant *AIF*.

Monitoring and managing liquidity risk

7.3.7 R (1) In monitoring and managing the liquidity risk of an *AIF* that is an *open-ended AIF* or a *leveraged closed-ended AIF*, a *medium UK AIFM* and a *large UK AIFM* must regularly assess the liquidity of the *AIF's* assets in the market relative to the redemption terms of the *AIF*.

(2) In monitoring and managing the liquidity risk of an *AIF* in accordance with (1), the *AIFM* must also regularly assess:

(a) the timeframe in which the *AIF's* assets can be liquidated without a significant price discount and their sensitivity to other *market risks* or factors;

(b) (where relevant) the trading volume and sensitivity of prices, or spreads of individual *AIF* assets in normal and exceptional liquidity conditions;

(c) (for any *AIF* that is an *open-ended AIF*) the profile of the *AIF's* investor base, including the size of each investor's investment relative to the size of the *AIF*; and

(d) where the *AIF* has significant exposure to *inherently illiquid assets*, the distinct liquidity risks which may arise from the illiquid nature of these assets, including that:

(i) the *buying* and *selling* of these assets could take a considerable period of time; and

(ii) the price achieved for such an asset may be materially different to its valuation.

7.3.8 G In accordance with *ALTS* 5.2.4R, a *medium UK AIFM* and a *large UK AIFM* should consider the liquidity risks associated with each *AIF*, any interactions between that *AIF* and the *AIFM's* other *AIFs* as well as the *AIFM's* other activities.

Liquidity risk limits

7.3.9 G (1) A *medium UK AIFM* and a *large UK AIFM* should implement and maintain adequate risk limits for the liquidity or illiquidity of an *AIF* that is an *open-ended AIF* or a *leveraged closed-ended AIF* consistent with the *AIF's* underlying obligations and redemption policy, and in accordance with the *rules* on risk limits in *ALTS* 5.4.8R or *ALTS* 5.5.8R (as applicable).

(2) In determining what risk limits are adequate, the *AIFM* should take into account the nature, scale and complexity of the *AIF*, its investor profile and the assets in which it invests.

(3) In determining what action is appropriate where the risk limits are exceeded or likely to be exceeded, an *AIFM* should consider activating its liquidity management tools or any other arrangements in place for managing the liquidity of the *AIF*.

Liquidity management tools

7.3.10 R (1) A *medium UK AIFM* and a *large UK AIFM* must have in place liquidity management tools and other arrangements to manage the liquidity of an *open-ended AIF* both in normal and exceptional circumstances.

(2) The *AIFM* must ensure that its choice takes account of any exposure to *inherently illiquid assets*.

7.3.11 R (1) A *medium UK AIFM* and a *large UK AIFM* must use liquidity management tools when it is in the best interests of the *AIF* and its investors.

(2) The *AIFM* must consider its obligations under the *AIFM's best interests rule* when deciding how to use liquidity management tools.

7.3.12 G Among other things, the *AIFM's best interests rule* requires an *authorised UK AIFM* to consider whether any action it proposes to take might reasonably be expected to adversely affect the stability and integrity of the market and avoid taking any action which does so.

7.3.13 R A *medium UK AIFM* and a *large UK AIFM* must have documented policies and procedures in place which set out:

(1) the circumstances in which the liquidity management tools and other arrangements in *ALTS* 7.3.10R may be used;

(2) the controls or internal processes which are attached to the use of those tools and arrangements; and

(3) how the *AIFM* will provide for the fair treatment of all investors in the *AIF* when using the tools.

Stress testing

7.3.14 R (1) A *medium UK AIFM* and a *large UK AIFM* of:

(a) an *open-ended AIF*; or

(b) a *leveraged closed-ended AIF*,

must conduct stress tests to help it assess and monitor the *AIF's* liquidity risk.

(2) The *AIFM* must conduct stress tests which assume both normal and exceptional liquidity scenarios.

(3) The stress tests carried out by the *AIFM* must:

(a) be conducted on the basis of reliable and up-to-date information in quantitative terms or, where this is not appropriate, in qualitative terms;

(b) where appropriate, simulate a shortage of liquidity of the assets in the *AIF* and atypical redemption requests both separately and together;

(c) cover *market risks* and any resulting impact, including on margin calls, collateral requirements or credit lines; and

(d) account for valuation sensitivities under stressed conditions.

(4) The *AIFM* must act in line with the *AIFM's best interest rule* in response to the results of any stress test.

(5) The *AIFM* must conduct stress tests:

(a) at least once a year; and

(b) more frequently if appropriate to the nature of the *AIF*, taking into account the *AIF's* investment policy and strategy (including the use of *leverage*, where relevant), liquidity profile, investor-type and redemption policy of the *AIF*.

[*Editor's note*: the annex referred to in ALTS 7.3.15G(1) is proposed to be introduced by the consultation paper 'Enhancing fund liquidity risk management' (CP25/38). The numbering has been updated here to account for COLL 6 Annex 4, which was introduced by the Collective Investment Schemes Sourcebook (Use of Distributed Ledger Technology in Authorised Funds) Instrument 2026 (FCA 2026/24).]

7.3.15 G (1) A *medium UK AIFM* and a *large UK AIFM* should take into account the *guidance* at *COLL* 6 Annex 6 (Guidance notes on liquidity stress testing in UCITS schemes and non-UCITS retail schemes) when carrying out stress tests under *ALTS* 7.3.14R as if it applied to the *AIFM*.

(2) An *AIFM* may determine that its liquidity stress testing can be carried out as part of the stress testing required by *ALTS* 5.4.9R(3) or *ALTS* 5.5.10R(3) (as applicable).

Conflicts of interest

7.3.16 R In addition to the requirements of *SYSC* 10 (Conflicts of interest), a *medium UK AIFM* and a *large UK AIFM* of an *open-ended AIF* must identify, manage and monitor conflicts of interest arising, or which may foreseeably arise, such as:

(1) between investors who wish to redeem their *units* and investors who wish to retain their *units*; and

(2) between investors whose differing rights of participation in the *AIF* require the *AIFM* to make decisions about liquidity in order to manage those rights.

Review of liquidity risk management framework

7.3.17 R (1) A *medium UK AIFM* must periodically review the effectiveness of the liquidity risk management framework.

(2) A *large UK AIFM* must periodically review the effectiveness of the liquidity risk management framework:

(a) whenever a material change has occurred; and

(b) regularly and, in any event, at least once a year.

7.3.18 G (1) In *ALTS* 7.3.17R(2), a material change would include changes arising from:

(a) internal and external events; and

(b) changes to the objectives or investment strategy of an *AIF* which forms a material part of the *AIFM's* business.

(2) The review of the liquidity risk management system in *ALTS* 7.3.17R may form part of the review undertaken of the *risk management function* under *ALTS* 5.4.10R or *ALTS* 5.5.11R.

8 Depositaries

[*Editor's note:* proposals will be consulted on separately]

9 Pre-contractual information for investors

9.1 Introduction

Application to authorised UK AIFMs

9.1.1 R (1) Subject to (2), this chapter applies to the *authorised UK AIFM* of:

(a) a *UK AIF*; and

(b) a *non-UK AIF* which is *marketed* in the *UK*.

(2) This chapter does not apply in relation to:

(a) an *authorised AIF*;

(b) an *AIF* that is a *recognised scheme*; or

(c) an *AIF* that is a *regulated market closed-ended investment company*.

Application to residual CIS operators

9.1.2 R (1) Subject to (2), this chapter applies to the *residual CIS operator* of a *residual CIS*.

(2) This chapter does not apply in relation to a *residual CIS* which is:

(a) a *carried interest vehicle*;

(b) an *excluded entity*;

(c) a *joint venture vehicle*; or

(d) a *single investor vehicle*.

9.1.3 R [Left intentionally blank]

Application to AIFMs marketing AIFs under the National Private Placement Regime

9.1.4 G (1) By virtue of the *AIFM Regulations*, this chapter also applies to a *third country AIFM* in relation to a *regulation 49 AIF*.

(2) Accordingly, where a provision in this chapter refers to a '*firm*', it should also be construed as a reference to such an *AIFM*.

(3) In accordance with [regulation 49] of the *AIFM Regulations* (Marketing of AIFs managed by third country AIFMs), a *third country AIFM* is required to comply with the *rules* in this chapter not just during the *marketing* phase but from the date on which the *AIFM* gives the *FCA* notice of its intention to *market* an *AIF* in the *UK*, until:

(a) (if an investor buys *units* in the *AIF* resulting from *marketing* permitted because of the notification) the date on which the final such investor disposes of such *units*; or

(b) (if there is no acquisition of *units* in the *AIF* resulting from such *marketing*) the date on which the *AIFM* ceases *marketing* the *AIF*.

Purpose

9.1.5 G This chapter helps in achieving the *statutory objective* of protecting *consumers* by ensuring that *consumers* have access to relevant, up-to-date and detailed information about a *fund* before investing. The *rules* require *firms* to meet the reasonable demands of different types of *consumers* for information about the *fund*.

Overview of this chapter

9.1.6 G This chapter is structured as follows:

(1) *ALTS* 9.2 (General disclosure requirements and interpretation) applies generally in relation to the pre-contractual information made available to investors under the *rules* in this chapter;

(2) *ALTS* 9.3 (Pre-contractual information for professional investors) applies where a *fund* is made available to a *professional investor*; and

(3) *ALTS* 9.4 (Pre-contractual information for retail investors) applies where a *fund* is made available to a *retail investor*.

9.2 General disclosure requirements and interpretation

Investor information to be accurate, clear, fair and not misleading

9.2.1 R A *firm* must:

(1) have due regard to the information needs of investors; and

(2) ensure that pre-contractual information made available to a *person* under the *rules* in this chapter is accurate, clear, fair and not misleading.

Investor information to be consistent with other fund-related information

9.2.2 R A *firm* must ensure that any information made available to a *person* under the *rules* in this chapter is consistent with any other information communicated by or on behalf of the *firm* in relation to the relevant *fund*.

References to making information available

9.2.3 R Where a *rule* in this chapter requires a *firm* to 'make available' information to an investor, or information to be 'made available' to an investor, the information must be provided:

(1) in a *durable medium*; or

(2) by means of a website that meets the *website conditions*.

Providing further information

9.2.4 R Where an investor in a *fund* makes a reasonable request for further information about the *fund*, the *firm* must:

(1) provide the information to the investor; and

(2) make it available to other investors in the *fund*.

Overlap with PRM requirements

9.2.5 R Where a *fund*, or a *firm* on behalf of a *fund*, is required to publish a *prospectus* under *PRM* 1.4.1R in connection with the raising of capital for the *fund*, only information referred to in *ALTS* 9.3.2R, *ALTS* 9.3.5R, *ALTS* 9.3.6R, *ALTS* 9.4.1R and *ALTS* 9.4.2R that is additional or materially different to that contained in the *prospectus* needs to be disclosed, either separately or as additional information to the *prospectus*.

Other information to be made available to investors

9.2.6 G An *authorised UK AIFM* may be required to disclose other information to investors under the *regulatory system*, including information relating to payments for *research* (see *COBS* 18 Annex 1) and information relating to the use or otherwise of a *sustainability label* (see *ESG* 4).

9.3 Pre-contractual information for professional investors

Making information available prior to investment

9.3.1 R Subject to *ALTS* 9.2.5R (Overlap with PRM requirements), a *firm* must take reasonable steps to ensure that the information in:

(1) *ALTS* 9.3.2R (Pre-contractual information relating to investor protection);

(2) *ALTS* 9.3.5R (Pre-contractual information relating to market integrity); and

(3) *ALTS* 9.3.6R (Information relating to the depositary),

is made available to a *professional investor* before they make an investment in a *fund*.

Pre-contractual information relating to investor protection

9.3.2 R A *firm* must make available such information about a *fund* to a *professional investor* that they would reasonably require to understand:

(1) the *fund*;

(2) the activities of the *fund*; and

(2) the merits, risks and costs of investing in it.

9.3.3 G (1) When deciding what information to disclose under *ALTS* 9.3.2R, a *firm* should consider including any information specified in *ALTS* 9.3.4G which is relevant to the *fund* and the investor.

(2) A *firm* should ensure that the information made available under *ALTS* 9.3.2R includes information about the consequences of a *professional investor* being re-categorised as a *retail investor*.

Table: Specified information for professional investors

9.3.4 G This table belongs to *ALTS* 9.3.3G (Pre-contractual information for professional investors).

Specified information for professional investors	
(1)	A description of the investment policy and strategy of the *fund*.
(2)	A description of the types of assets in which the *fund* may invest.
(3)	Any applicable investment restrictions.
(4)	Where the *fund* is a *feeder AIF*, the identity of the *master AIF*, its *AIFM*, its investment policy and strategy and where the *master AIF* and its *AIFM* are *established*.
(5)	The investment techniques that the *AIFM* or *residual CIS operator* may use on behalf of the *fund* including, where relevant, the use of *leverage*.

(6)	If the *fund* is open-ended, a description of investors' rights to request redemption of their holding and how frequently they can exercise those rights.	
(7)	The procedures by which the following may be changed:	
	(a)	the *fund's* investment policy or strategy; and
	(b)	the investment techniques that the *firm* may use (see (5)).
(8)	The risks associated with the *fund*, including investment risks and operational risks.	
(9)	A description of the costs of the *fund*, including any fees, charges and expenses borne by investors.	
(10)	The identities of:	
	(a)	the *AIFM* or *residual CIS operator*;
	(b)	the *fund's depositary* or, if no *depositary* is required, any *person* carrying on safe-keeping functions in relation to the assets of the *fund*;
	(c)	the auditor of the *fund* (if applicable);
	(d)	(in relation to an *AIF*) each *person* to whom an *AIFM investment management function* or an *additional core AIFM function* has been delegated, identifying which function or functions each *person* performs;
	(e)	(in relation to a *residual CIS*) each *person* to whom the *residual CIS operator* has delegated *scheme management activity* functions, identifying which function or functions each *person* performs; and
	(f)	any other *person* providing services which could materially affect the *NAV* of the *fund*,
	and a description of their respective duties and investors' rights to take action against the *person*.	
(11)	In relation to an *AIF,* any preferential treatment afforded to certain investors or groups of investors in the *AIF* (see *ALTS* 3.3.2R(2) (Best interests rule for UK AIFMs).	

Pre-contractual information relating to market integrity

9.3.5 R A *firm* must make available the following information to a *person* before they invest in a *fund*:

(1) a description of how the *fund's* assets are valued;

(2) a description of how the *firm* manages any liquidity risks relating to the *fund*, including (where applicable) the redemption rights of investors in normal and exceptional circumstances and how these may be affected by the use of liquidity management tools;

(3) an overview of the *fund's* assets that are subject to *special arrangements* arising from their illiquid nature, including:

(a) the percentage of the *NAV* represented by such assets as at the end of the last accounting period; and

(b) if appropriate:

(i) whether the *special arrangements* relate to side pockets, gates or other similar arrangements;

(ii) the valuation methodology that applies to those *fund* assets which are subject to *special arrangements*; and

(iii) how management and performance fees apply to those assets;

(4) where the *fund* employs *leverage*:

(a) a statement of whether or not there is a maximum level of *leverage* and, if there is a maximum level, what that level is;

(b) the total amount of *leverage* employed as at the end of the last accounting period or, if a more recent calculation has been carried out, at the most recent date on which total *leverage* was calculated; and

(c) a clear and understandable explanation of how *leverage* has been calculated, using the most appropriate calculation method which best reflects the *AIF's* strategy, exposures and risk profile;

(5) details of any *prime brokerage agreement* or arrangement, and any risks to the *fund* and its investors arising from such agreement or arrangement;

(6) any material conflicts of interest; and

(7) any conflicts that may arise from:

(a) the delegation of:

(i) (in relation to an *AIF*) *AIFM investment management functions* and *additional core AIFM functions*; or

(ii) (in relation to a *residual CIS*) any *scheme management activity* function; and

(b) the delegation of safe-keeping functions by a *depositary* or, if no *depositary* is required, a *person* carrying out safe-keeping functions in relation to the *fund* assets.

Information relating to the depositary

9.3.6 R [*Editor's note:* proposals will be consulted on separately]

9.4 Pre-contractual information for retail investors

Disclosure of information prior to investment by retail investors

9.4.1 R (1) Subject to *ALTS* 9.2.5R (Overlap with PRM requirements), a *firm* must not accept a *retail investor* as an investor in a *fund* unless it has taken reasonable steps to offer and, if requested, provide to the potential *retail investor*, such information about the *fund* that they would reasonably require to understand:

(a) the *fund*;

(b) the activities of the *fund*; and

(c) the merits, risks and costs of investing in it.

(2) In complying with (1), a *firm* must offer and provide at least the specified information in the table in *ALTS* 9.4.2R to the extent it is relevant to the *fund* and the investors.

(3) The information offered and provided under (1) must be:

(a) in a *durable medium*;

(b) clearly identifiable by the *retail investor*; and

(c) easily accessible by the investor.

(4) To the extent that information is required to be disclosed in a *product summary*, only information that supplements the *product summary* (including further detail, explanation or context) needs to be offered and provided under (1).

Table: specified information for retail investors

9.4.2 R This table belongs to *ALTS* 9.4.1R(2).

Specified information for retail investors			
Regulator			
(1)	The *firm's* statutory status in accordance with *GEN* 4 Annex 1 (Statutory status disclosure).		
Fees, costs and charges			
(2)	A description of the costs of the *fund*, including any fees, charges and expenses borne by investors.		
(3)	Details of any circumstances in which an investor may be required to make a further contribution to the *fund*.		
Research and inducements			
(4)	How the *firm* intends to pay for *research*; for example, whether the *firm* proposes to pay for *research* directly, to make joint payments for *research*, or to use a *research* payment account.		
Redemption and exit rights and liquidity management			
(5)	Details of:		
	(a)	investors' rights to request redemption of their holding (if the *fund* is open-ended) or otherwise exit the *fund*, and how frequently they can exercise those rights; and	
	(b)	when and how the *fund* may be terminated.	
(6)	A description of how the *firm* manages any liquidity risks relating to the *fund*, including (where applicable) the redemption rights of investors in normal and exceptional circumstances and how these may be affected by the use of liquidity management tools.		
(7)	An overview of the *fund's* assets that are subject to *special arrangements* arising from their illiquid nature, including:		
	(a)	the percentage of the *NAV* represented by such assets as at the end of the last accounting period; and	
	(b)	if appropriate:	
		(i)	whether the *special arrangements* relate to side pockets, gates or other similar arrangements;
		(ii)	the valuation methodology that applies to those *fund* assets which are subject to *special arrangements*; and

		(iii)	how management and performance fees apply to those assets.
Preferential treatment of investors			
(8)	A description of any preferential treatment afforded to certain investors or groups of investors in a *fund*.		
Investment policy and strategy			
(9)	A description of the investment policy and strategy of the *fund*.		
(10)	A description of the types of assets in which the *fund* may invest.		
(11)	Any applicable investment restrictions.		
(12)	The investment techniques that the *AIFM* or *residual CIS operator* may use on behalf of the *fund* including, where relevant, the use of *leverage*.		
(13)	Where the *fund* employs *leverage*:		
	(a)	a statement of whether or not there is a maximum level of *leverage* and, if there is a maximum level, what that level is;	
	(b)	the total amount of *leverage* employed as at the end of the last accounting period or, if a more recent calculation has been carried out, at the most recent date on which total *leverage* was calculated; and	
	(c)	a clear and understandable explanation of how *leverage* has been calculated, using the most appropriate calculation method which best reflects the *AIF's* strategy, exposures and risk profile.	
(14)	The procedures by which the following may be changed:		
	(a)	the *fund's* investment policy or strategy; and	
	(b)	the investment techniques that the *firm* may use (see (12)).	
(15)	Whether the *fund* may invest in *funds* either managed or advised by the *firm* or by an *associate* of the *firm*.		
Feeder AIFs			
(16)	Where the *fund* is a *feeder AIF*, the identity of the *master AIF*, its *AIFM*, its investment policy and strategy and where the *master AIF* and its *AIFM* are *established*.		
Valuation			

(17)	A description of how the *fund* assets are valued.	
Underwriting commitments		
(18)	Whether and to what extent the *firm* may, for the account of the *fund*, underwrite or sub-underwrite any issue or offer for sale of *securities*.	
(19)	Whether or not the assets of the *fund* may contain *securities* of which any issue or offer for sale was underwritten, managed or arranged by the *firm* or by an *associate* of the *firm* during the preceding 12 *months*.	
Risks associated with the fund		
(20)	The risks associated with the *fund*, including investment risks and operational risks.	
(21)	Where relevant, a statement that fluctuations in exchange rates may affect the gain or loss made on the value of the portfolio of the *fund*.	
Main entities involved in the fund's management and operation		
(23)	The identities of:	
	(a)	the *AIFM* or *residual CIS operator*;
	(b)	the *fund's depositary* or, if no *depositary* is required, any *person* carrying on safe-keeping functions in relation to the *fund* assets;
	(c)	the auditor of the *fund* (if applicable);
	(d)	(in relation to an *AIF*) each *person* to whom an *AIFM investment management function* or an *additional core AIFM function* has been delegated, identifying which function or functions each *person* performs;
	(e)	(in relation to a *residual CIS*) each *person* to whom the *residual CIS operator* has delegated *scheme management activity* functions, identifying which function or functions each *person* performs; and
	(f)	any other *person* providing services which could materially affect the *NAV* of the *fund*,
	and a description of their respective duties and investors' rights to take action against the *person*.	
(24)	Details of any *prime brokerage agreement* or arrangement, and any risks to the *fund* and its investors arising from such agreement or arrangement.	

Conflicts of interest				
(25)	A description of any material conflicts of interest.			
(26)	Any conflicts that may arise from:			
	(a)	the delegation of:		
		(i)	(in relation to an *AIF*) *AIFM investment management functions* and *additional core AIFM functions*; or	
		(ii)	(in relation to a *residual CIS*) any *scheme management activity* function; or	
	(b)	the delegation of safe-keeping functions by a *depositary* or, if no *depositary* is required, a *person* carrying out safe-keeping functions in relation to the assets of the *fund*.		
(27)	If relevant, that the *firm* may act as *principal* in a transaction with the *AIF*.			
Complaints				
(28)	How to complain to the *firm*.			
(29)	A statement that the investors in the *fund* who are *eligible complainants* may subsequently complain directly to the *Financial Ombudsman Service* or, where they are not eligible, information about any other alternative dispute resolution mechanism which may be available to the investor.			
Compensation				
(30)	Whether or not compensation may be available from the *compensation scheme* should the *firm* or *depositary* (if there is one) be unable to meet their liabilities, and information about any other applicable compensation scheme.			
(31)	For each applicable compensation scheme in (30), the extent and level of cover and how further information can be obtained.			

Distance marketing

9.4.3 G *Firms* should also be aware that if they are carrying on distance marketing activity from an establishment in the *UK*, with or for a *consumer* in the *UK*, *COBS* 5.1 (The distance marketing disclosure rules) applies specific requirements for that activity.

10 Reporting and notifications to investors

10.1 Introduction

Application

10.1.1 R (1) Subject to (2), this chapter applies to the *authorised UK AIFM* of:

(a) a *UK AIF*; and

(b) a *non-UK AIF* which is *marketed* in the *UK*.

(2) This chapter does not apply to:

(a) an *authorised AIF*;

(b) a *recognised scheme*; or

(c) the *AIFM* of a *regulated market closed-ended investment company*.

Application to residual CIS operators

10.1.2 R (1) Subject to (2), this chapter applies to the *residual CIS operator* of a *residual CIS*.

(2) This chapter does not apply in relation to a *residual CIS* which is:

(a) a *carried interest vehicle*;

(b) an *excluded entity*;

(c) a *joint venture vehicle*; or

(d) a *single investor vehicle*.

Application to AIFMs marketing AIFs under National Private Placement

10.1.3 R (1) This chapter also applies to a *third country AIFM* in relation to a *regulation 49 AIF* as follows:

(a) this section, *ALTS* 10.4 and *ALTS* 10.5 apply to every such *third country AIFM*;

(b) *ALTS* 10.2 applies to a *third country AIFM* that is not a *small third country AIFM*; and

(c) *ALTS* 10.3 applies to a *small third country AIFM*.

(2) Accordingly, unless the context otherwise requires, where a provision in a section of this chapter refers to a '*firm*', it should also be construed as a reference to such an *AIFM*.

10.1.4 G In accordance with [regulation 49] of the *AIFM Regulations* (Marketing of AIFs managed by third country AIFMs), a *third country AIFM* is required to comply with the *rules* in this chapter not just during the *marketing* phase but from the date on which the *AIFM* gives the *FCA* notice of its intention to *market* an *AIF* in the *UK*, until:

(1) (if an investor buys *units* in the *AIF* resulting from *marketing* permitted because of the notification) the date on which the final such investor disposes of such *units*; or

(2) (if there is no acquisition of *units* in the *AIF* resulting from such *marketing*) the date on which the *AIFM* ceases *marketing* the *AIF*.

Purpose

10.1.5 G (1) This chapter helps in achieving the *statutory objectives* of securing an appropriate degree of protection for *consumers*. It does so by ensuring *consumers* who have invested in a *fund* have access to annual reports and annual summaries and, for *retail investors*, *periodic statements* about the performance and activities of the *fund*.

(2) This chapter also makes provision for investors to be notified on an ad hoc basis where a *fund* restricts or suspends redemptions or creates side pockets, as well as of material changes to pre-contractual information made available or provided under *ALTS* 9 (Pre-contractual information for investors).

Structure of *ALTS* 10

10.1.6 G This chapter is structured as follows:

(1) the remaining provisions of *ALTS* 10.1 set out some general principles relevant to the requirements of this chapter;

(2) *ALTS* 10.2 (Provision and contents of an annual report) applies to *medium UK AIFMs*, *large UK AIFMs* and *third country AIFMs* that are not *small third country AIFMs* and contains the requirements that apply to the preparation of an annual report and making it available to investors in a *fund* (whether *professional investors* or *retail investors*);

(3) *ALTS* 10.3 (Provision and contents of an annual summary) applies to *small UK AIFMs* and *small third country AIFMs* and sets out the requirements that apply to the preparation of annual information and making it available to the investors in a *fund* (whether *professional investors* or *retail investors*);

(4) *ALTS* 10.4 (Periodic reporting for retail investors) contains the additional requirements that apply to the preparation and provision of a *periodic statement* for any *retail investors* in a *fund*; and

(5) *ALTS* 10.5 (Other notifications to investors) sets out more ad hoc requirements for notifying investors (both *professional investors* and *retail investors*) in certain circumstances.

General principles for information made available or provided under this chapter

10.1.7 R (1) A *firm* must:

(a) have due regard to the information needs of investors; and

(b) ensure that information made available to a *person* under the *rules* in this chapter is accurate, clear, fair and not misleading;

(2) Where a *rule* in this chapter requires a *firm* to make information available (however expressed), the information must be made available:

(a) in a *durable medium*; or

(b) by means of a website that meets the *website conditions*.

Other information to be made available to investors

10.1.8 G An *authorised UK AIFM* may be required to disclose other information to investors under the *regulatory system*, including information relating to the acquisition of control of non-listed companies and issuers under the *AIFM Regulations*, information relating to payments for *research* (see *COBS* 18 Annex 1), information relating to the use or otherwise of a *sustainability label* (see *ESG* 5), and information on securities financing transactions and total return swaps (see the *Securities Financing Transactions Regulation*).

10.2 Provision and contents of an annual report

Application

10.2.1 R This section applies to:

(1) a *medium UK AIFM*;

(2) a *large UK AIFM*; and

(3) a *third country AIFM* that is not a *small third country AIFM*.

Preparation and provision

10.2.2 R (1) A *firm* must:

(a) prepare an annual report for each financial year of the *AIF* in accordance with the *rules* in this chapter; and

(b) make the most recent report available on request to:

(i) investors; and

(ii) the *FCA*.

(2) The *firm* must make the annual report available, in line with (1)(b), no later than 6 *months* after the end of the financial year to which it relates.

(3) A *firm* must comply with the requirement in (1) in relation to the end date of the first financial year of the *AIF* following the later of:

(a) the date on which the *FCA* was (or should have been) notified of the commencement of *marketing* of the *AIF* in the *UK*; or

(b) the date on which the *firm's* appointment as the *AIFM* of the *AIF* took effect.

Contents of the annual report

10.2.3 R (1) A *firm* must ensure that the annual report for an *AIF* provides the information about the *fund* that an investor would reasonably require to understand:

(a) the financial standing, performance and activities of the *AIF* over the relevant financial year; and

(b) any material changes to the merits, risks and costs of investing in the *AIF*, including any material change during the relevant financial year to which *ALTS* 10.5.2R (Material changes of information) applies.

(2) The *firm* must ensure that the annual report contains a financial statement which includes:

(a) a balance sheet or statement of assets and liabilities prepared in accordance with the applicable accounting standards, showing in sufficient detail a breakdown of the assets and liabilities of the *AIF*, and the net position reflecting all the *AIF's* assets after the deduction of all its liabilities; and

(b) an income and expenditure account for the financial year prepared in accordance with the applicable accounting standard, showing in sufficient detail a breakdown of the *AIF's* income and expenses, taking into account realised and unrealised gains or losses on the investments.

(3) The *firm* must ensure the annual report contains financial statements audited by one or more *persons* empowered by law to audit accounts under the Companies Act 2006 (or, for a *non-UK AIF*, the international auditing standards in force in the jurisdiction where the *fund* is *established*).

(4) In relation to an *AIF* managed by a *medium UK AIFM* or a *large UK AIFM*, the annual report must include details of the total amount of *remuneration* paid by the *AIFM* to its *material risk takers* for the *AIFM's* most recent financial year, split into fixed and variable remuneration and including, where relevant, any *carried interest* paid by the *AIF*.

(5) In relation to an *open-ended AIF*, the annual report must include the following:

(a) an overview of the *AIF's* assets that are subject to *special arrangements* arising from their illiquid nature and the percentage of such assets;

(b) any new arrangements for managing the liquidity of the *AIF*; and

(c) an overview of any changes to arrangements concerning liquidity, whether or not these are *special arrangements*.

Contents of the annual report: guidance

10.2.4 G (1) In relation to *ALTS* 10.2.3R(2)(a):

(a) the methodology and terminology adopted in relation to the balance sheet or statement of assets and liabilities, and the income and expenditure account, should be consistent over consecutive financial years, in line with the accounting standard applicable, and comply with the legislation and accounting standards and practices where the *AIF* is *established*; and

(b) additional lines or items should be presented in the financial statements, or the notes to the statements, where relevant to enable an understanding of the *AIF's* financial position.

(2) When providing an overview of any *special arrangements* under *ALTS* 10.2.3R(4)(a):

(a) whether the *special arrangements* relate to side pockets, gates or other similar arrangements;

(b) the valuation methodology applied to those *AIF* assets which are subject to *special arrangements*; and

(c) how management and performance fees apply to those assets.

Providing further information

10.2.5 R Where an investor in an *AIF* makes a reasonable request for further information about the activities of the *AIF* over the relevant financial year that is not contained in the annual report, the *firm* must:

(1) provide the information to the investor; and

(2) make it available to other investors in the *AIF*.

Meeting the information needs of professional investors and retail investors

10.2.6 G When providing information to investors under *ALTS* 10.2.3R and *ALTS* 10.2.5R, a *firm* should ensure that it meets the reasonable demands of those types of investor who have invested in the *AIF*. For example, a *professional investor* with experience of investing in *unauthorised AIFs* is likely to have very different needs compared to a *retail investor*.

Making an annual financial report public under DTR or equivalent

10.2.7 R (1) Where an *AIF* is required to make an annual financial report public under *DTR* 4.1.3R (Publication of annual financial reports) or an equivalent provision in the country where the *fund* is *established*, only information referred to in *ALTS* 10.2.3R and *ALTS* 10.2.5R that is additional to the annual financial report needs to be provided to investors on request, either separately or as an additional part of the annual financial report.

(2) Where the information referred to in (1) is provided as an addition to the annual financial report, that report must be made public no later than four months following the end of the financial year, under *DTR* 4.1.3R (Publication of annual financial reports) or an equivalent provision in the country where the *fund* is *established*.

10.3 Provision and contents of an annual summary

Application

10.3.1 R This section applies to:

(1) a *small UK AIFM*;

(2) a *residual CIS operator*; and

(3) subject to *ALTS* 10.3.4R, a *small third country AIFM*.

Small third country AIFMs

10.3.2 R (1) An *AIFM* is a 'small third country AIFM' if it is:

(a) a *third country AIFM*; and

(b) a *small AIFM* (see (2)).

(2) (a) For the purpose of determining whether an *AIFM* is a *small third country AIFM*, *ALTS* 2.3.4R to *ALTS* 2.3.11R apply as

they apply to an *authorised UK AIFM* of an *AIF* subject to the modification in (2)(b).

(b) When valuing the assets and liabilities of the *AIFs* identified under *ALTS* 2.3.6R:

(i) the valuation must be carried out in accordance with the applicable laws of the jurisdiction where the *AIF* is *established*; and

(ii) *ALTS* 2.3.7R(2) (Step 2: Identification and valuation of assets and liabilities) does not apply.

10.3.3 G A *third country AIFM* will be a *small third country AIFM* if the aggregate *NAV* of all the *AIFs* managed by the *AIFM* is below £750 million.

10.3.4 R If a *third country AIFM* complies with the *rules* in *ALTS* 10.2, it need not determine whether it is a *small third country AIFM* or comply with the *rules* in this section.

Preparation and provision

10.3.5 R A *firm* must:

(1) prepare information annually for a *fund* ('annual summary') in accordance with the *rules* in this chapter; and

(2) make the most recent annual summary available on request to:

(a) investors; and

(b) the *FCA*.

Contents of the annual summary

10.3.6 R (1) A *firm* must ensure that the annual summary for a *fund* provides the information about a *fund* that an investor would reasonably require to understand any material changes to the merits, risks and costs of investing in the *fund*, including any material change during the relevant financial year to which *ALTS* 10.5.2R (Material changes of information) applies.

(2) The *firm* must ensure the annual summary contains a financial statement prepared in accordance with appropriate accounting standards.

Providing further information

10.3.7 R Where an investor in a *fund* makes a reasonable request for further information about the activities of the *fund* over the relevant financial year that is not contained in the annual summary, the *firm* must:

(1) provide the information to the investor; and

(2) make it available to other investors in the *fund*.

Meeting the information needs of professional investors and retail investors

10.3.8 G When providing information to investors under *ALTS* 10.3.5R and *ALTS* 10.3.7R, a *firm* should ensure that it meets the reasonable demands of those types of investor who have invested in the *fund*. For example, a *professional investor* with experience of investing in *unauthorised AIFs* or *residual CISs* is likely to have very different needs to a *retail investor*.

Making an annual financial report public under DTR or equivalent

10.3.9 R (1) Where a *fund* is required to make an annual financial report public under *DTR* 4.1.3R (Publication of annual financial reports) or an equivalent provision in the country where the *fund* is *established*, only information referred to in *ALTS* 10.3.5R and *ALTS* 10.3.7R that is additional to the annual financial report needs to be provided to investors on request, either separately or as an additional part of the annual financial report.

(2) Where the information referred to in (1) is provided as an addition to the annual financial report, that report must be made public no later than 4 *months* following the end of the financial year, under *DTR* 4.1.3R (Publication of annual financial reports) or an equivalent provision in the country where the *fund* is *established*.

10.4 Periodic reporting for retail investors

Provision of periodic statement

10.4.1 R (1) Subject to (2), a *firm* must provide to *retail investors* in an *unauthorised AIF* or a *residual CIS*, promptly and at suitable intervals, a statement in a *durable medium* which contains adequate information on the value and composition of the portfolio of the *fund* at the beginning and end of the period of the statement (a 'periodic statement').

(2) A *firm* need not provide a *periodic statement* under (1):

(a) to a *retail investor* ordinarily resident outside the *United Kingdom* if either:

(i) the *firm* has taken reasonable steps to establish that the investor does not wish to receive the statement; or

(ii) the *retail investor* has asked not to receive it; or

(b) if it would duplicate a statement to be provided by someone else.

Record keeping requirements

10.4.2 R (1) A *firm* must make a copy of any *periodic statement* it has provided in accordance with the requirement to prepare and issue *periodic statements* to *retail investors* in the *fund*.

(2) The record must be retained for a minimum period of 5 years.

[*Editor's note*: Any transitional provision relating to *ALTS* 10.4.2R will be consulted on separately.]

Promptness, suitable intervals and adequate information

10.4.3 E (1) A *firm* should act in accordance with the provisions in the table in *ALTS* 10.4.4E (Table: Periodic statements) to fulfil the requirement to prepare and issue *periodic statements* in *ALTS* 10.4.1R(1) indicated in the left-hand column against these provisions.

(2) Compliance with (1) may be relied on as tending to establish compliance with *ALTS* 10.4.1R(1).

(3) Contravention of (1) may be relied on as tending to establish contravention of *ALTS* 10.4.1R(1).

Table: Periodic statements

10.4.4 E This table belongs to *ALTS* 10.4.3E.

Periodic statements: frequency and adequate information		
(1)	**Suitable intervals**	
	A *periodic statement* should be provided at least:	
	(a)	6-*monthly*; or
	(b)	once in any other period, not exceeding 12 *months*, which has been mutually agreed between the *firm* and the investor in the *fund*.
(2)	**Adequate information**	
	A *periodic statement* should contain:	
	(a)	the information set out in *ALTS* 10.4.5E (Table: General contents of a periodic statement); and

	(b)	such information as a *retail investor* who is ordinarily resident outside the *United Kingdom* has on their own initiative agreed with the *firm* as adequate.

Table: General contents of a periodic statement

10.4.5 E This table belongs to *ALTS* 10.4.4E(2)(a).

General contents of periodic statements		
(1)	**Assets comprised in the fund's portfolio**	
	As at the end of the period to which the *periodic statement* relates (the relevant reporting period):	
	(a)	the number, description and value of each asset held by or on behalf of the *fund*; and
	(b)	the amount of cash held by or on behalf of the *fund*.
(2)	**Value of portfolio**	
	(a)	The total value of the portfolio of the *fund* at the beginning and end of the relevant reporting period.
	(b)	Where any assets are shown in a currency other than the usual one used for valuation of the portfolio of the *fund*, the relevant currency exchange rates used.
(3)	**Movement in value of portfolio**	
	(a)	A statement of the difference between the value of the portfolio at the beginning and end of the relevant reporting period, taking into account any matter that affected the value of the *fund's* portfolio during the relevant reporting period, including any asset or income received by the *fund* and any realised and unrealised gains and losses made by the *fund*.
	(b)	An explanation for any movement in the value of the portfolio.
(4)	**Basis of valuation**	
	Where the basis for valuing a particular asset has changed since the previous *periodic statement*, the *firm* must:	
	(a)	identify the *investment* concerned;
	(b)	disclose the new basis of valuation; and

	(c)	explain the reason for the change, including, its effect on the reported value of the *fund's* portfolio.	
(5)	**Assets loaned to third parties or used as security for borrowing**		
	The following:		
	(a)	a summary of any assets in the *fund's* portfolio that, at the end of the relevant reporting period, were:	
		(i)	loaned to a third party; or
		(ii)	used as security for borrowing incurred on behalf of the *fund*, including a description of those assets, their value at the end of the relevant reporting period, and the proportion of the *fund* portfolio by value represented by those assets;
	(b)	the total income (gross of fees and charges payable to the *firm* or its *associates*) received during the relevant reporting period from lending those assets to third parties; and	
	(c)	the total interest paid during the relevant reporting period on borrowing incurred on behalf of the *fund*.	
(6)	**Charges and remuneration**		
	If not previously advised in writing, a statement for the relevant reporting period:		
	(a)	of the aggregate fees and charges of the *firm* and its *associates*; and	
	(b)	of any remuneration received by the *firm* or its *associates* or both from a third party in respect of the transactions entered into, or any other services provided, for the portfolio of the *fund*.	
Notes:			
For the purposes of (1) (Assets comprised in the fund's portfolio), where the *fund* holds land and buildings, it will be sufficient for the *periodic statement* to disclose the number of properties held in successive valuation bands where this is appropriate to the size and composition of the *fund*, rather than the value of each asset in the portfolio.			
The statement to be provided under (3) (Movement in value of portfolio) is not intended to be an indicator of the performance of the portfolio of the *fund*.			

A *firm* may wish to distinguish capital and income, and thereby provide more information than referred to in this table. If the statement includes some measure of performance, the basis of measurement should be stated.

10.5 Other notifications to investors

Activation of side pockets, gates or similar special arrangements, or suspension of redemptions

10.5.1 R A *firm* must make appropriate information available to the investors in an open-ended *fund* as soon as reasonably practicable whenever the *firm*:

(1) activates side pockets, gates or similar *special arrangements*; or

(2) suspends redemptions.

Material changes of information

10.5.2 R (1) In the event of a 'material change' to the pre-contractual information made available, or offered and provided, to investors under *ALTS* 9 (Pre-contractual information for investors), the *firm* must:

(a) make the updated pre-contractual information available to all investors as soon as reasonably practicable; and

(b) take reasonable steps to bring it to the attention of all *retail investors*.

(2) In this chapter, a change to pre-contractual information is to be treated as a 'material change' if there is a substantial likelihood that a reasonable investor, on becoming aware of such information, would reconsider their investment in the *fund*.

References to 'material changes' of information

10.5.3 G (1) Examples of such changes include where the information could impact an investor's ability to exercise their rights in relation to their investment, or otherwise prejudice the interests of one or more investor in the *fund*.

(2) Where there has been a material change to pre-contractual information, it should be included in the next annual report or annual summary for the *fund*.

11 Prime brokers

[*Editor's note:* proposals will be consulted on separately]

12 Securitisation

12.1 Application

12.1.1 R This chapter applies to an *authorised UK AIFM*.

12.1.2 G This chapter is also relevant to a *SEF or RVECA manager*.

[*Editor's note*: further changes to this chapter may be needed to reflect the final provisions of the Alternative Investment Fund Managers Regulations and any consequential changes made to the Securitisation Regulations 2024 (SI 2024/102).]

Summary

12.1.3 G The requirements that apply to a *UK AIFM* (and a *SEF or RVECA manager* [and an *exempt UK AIFM*]) in relation to a *securitisation position* held by an *AIF* which it manages vary depending on the type of *AIFM* and when the *securitisation* was issued.

12.2 Due diligence requirements

Securitisations issued from 1 November 2024

12.2.1 G (1) *SECN* 4 (Due diligence requirements) and the Securitisation Part of the *PRA Rulebook* set out the due diligence provisions that an *AIFM* which is an *institutional investor* must comply with before and while holding a *securitisation position* in respect of all *securitisations* issued after 31 October 2024.

(2) For these purposes, an *institutional investor* includes an *authorised UK AIFM* which manages or *markets* an *AIF* in the *UK* as well as a *SEF or RVECA manager*.

Securitisations issued between 1 January 2019 and 31 October 2024

12.2.2 G (1) The transitional provisions that apply in relation to certain *securitisations* issued between 1 January 2019 and 31 October 2024 are set out in *SECN* 14.3.1R (Conversion of requirements relating to pre-revocation securitisations).

(2) Article 5 (Due-diligence requirements for institutional investors) of the *Securitisation Regulation* continues to apply to these *securitisations* in combination with *ALTS* 12.2.3R.

(3) *ALTS* 12.2.3R applies to an *authorised UK AIFM* to which FUND 3.5.5R would have applied immediately before [*Editor's note*: insert

date on which that *rule* was revoked]. This means that any *authorised UK AIFM* which was or would have needed to be authorised as a 'large UK AIFM' under the Alternative Investment Fund Managers Regulations 2013 (SI 1773/2013) in force immediately before [*Editor's note*: insert date on which those Regulations were revoked].

12.2.3 R (1) Where an *AIFM* to which this *rule* applies manages an *AIF* that is exposed to a *securitisation* which:

(a) falls within *SECN* 14.3.1R (Conversion of requirements relating to pre-revocation securitisations); and

(a) does not meet the requirements provided for in *SECN* and, where applicable, the Securitisation Part of the *PRA Rulebook*,

the *AIFM* must, in the best interests of the investors in the relevant *AIF*, act and take corrective action, if appropriate.

(2) This *rule* applies to an *authorised UK AIFM* to which FUND 3.5.5R applied, or would have applied, immediately before [*Editor's note*: insert the commencement date of this instrument].

Securitisations issued before 1 January 2019

12.2.4 G (1) This *guidance* applies to a *UK AIFM* which was subject to the provisions of the 'AIFMD L2 Regulation' in respect of a *securitisation* which was issued:

(a) between 1 January 2011 and 31 December 2018; and

(b) before 1 January 2011 where new underlying exposures have been added or substituted after 31 December 2014.

(2) The transitional provisions that apply in relation to certain *securitisations* issued before 1 January 2019 are set out in *SECN* 14.2.1R and *SECN* 14.2.2R (Conversion of requirements relating to pre-2019 securitisation).

(3) In (1), the reference to the 'AIFMD L2 Regulation' is to the *UK* version of Commission delegated regulation (EU) No 231/2013 supplementing Directive 2011/16/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision.

13 Regulatory reporting

Application

13.1.1 R (1) Subject to (2), this chapter applies to the *authorised UK AIFM* of:

(a) a *UK AIF*; and

(b) a *non-UK AIF*.

(2) This chapter does not apply in relation to:

(a) an *authorised AIF*; or

(b) a *recognised scheme*.

13.1.2 R This chapter also applies to a *third country AIFM* which is *marketing* an *AIF* in the *UK* under [regulation 49] of the *AIFM Regulations* (Marketing of AIFs managed by third country AIFMs).

13.1.3 D This chapter applies to a *SEF or RVECA manager*.

13.2 Reporting obligations

[*Editor's note*: SUP 16 Annexes 63, 64 and 65 and SUP 16.36, referred to in this section, are proposed to be introduced by the consultation paper 'Fund Reporting for Asset Management Entities' (CP26/26).]

Authorised UK AIFMs

13.2.1 R (1) An *authorised UK AIFM* must regularly report to the *FCA*:

(a) the information specified in *SUP* 16 Annex 63 (Fund reporting for asset management entities essential reporting requirements); and

(b) where applicable:

(i) the information specified in *SUP* 16 Annex 64 (Fund reporting for asset management entities enhanced reporting requirements); and

(ii) the information specified in *SUP* 16 Annex 65 (Fund reporting for asset management entities event-based fund reporting relating to hedge funds); and

(2) The information in (1) must be reported in accordance with *SUP* 16.36 (Fund reporting for asset management entities).

Third country AIFMs

13.2.2 R (1) In relation to a *regulation 49 AIF*, a *third country AIFM* must regularly report to the *FCA*:

(a) the information specified in *SUP* 16 Annex 63 (Fund reporting for asset management entities essential reporting requirements); and

(b) where applicable:

(i) the information specified in *SUP* 16 Annex 64 (Fund reporting for asset management entities - enhanced reporting requirements); and

(ii) the information specified in *SUP* 16 Annex 65 (Fund reporting for asset management entities – event-based fund reporting relating to hedge funds); and

(2) The information in (1) must be reported in accordance with *SUP* 16.36 (Fund reporting for asset management entities).

SEF and RVECA managers

13.2.3 D A *SEF or RVECA manager* must regularly report the information specified in *SUP* 16 Annex 63 (Fund reporting for asset management entities essential reporting requirements) in accordance with *SUP* 16.36 (Fund reporting for asset management entities).

14 National Private Placement Regime

14.1 Application and purpose

Application

14.1.1 G This chapter applies to an *authorised UK AIFM* and a *full-scope Gibraltar AIFM* which intends to *market* in the *UK*:

(1) a *non-UK AIFM*; or

(2) a *feeder AIF* that is a *UK AIF* or a *Gibraltar AIF*, the *master AIF* of which is either:

(a) managed by an *AIFM* that is not an *authorised UK AIFM* or a *full-scope Gibraltar AIFM*; or

(b) a *third country AIF*.

14.1.2 G This chapter also applies to a *third country AIFM* which intends to *market* in the *UK*:

(1) a *UK AIF*;

(2) a *Gibraltar AIF*; or

(3) a *third country AIF*.

Purpose

14.1.3 G The purpose of this chapter is to provide *guidance* on the requirements that apply to the *AIFMs* set out in *ALTS* 14.1.1G and *ALTS* 14.1.2G which intend to *market AIFs* in the *UK*.

14.2 Authorised UK AIFMs and full-scope Gibraltar AIFMs

Application

14.2.1 G This section applies to an *authorised UK AIFM* and a *full-scope Gibraltar AIFM* of:

(1) a *third country AIF*; or

(2) a *feeder AIF* that is a *UK AIF* or a *Gibraltar AIF*, the *master AIF* of which is either:

(a) managed by an *AIFM* that is not an *authorised UK AIFM* or a *full-scope Gibraltar AIFM*; or

(b) a *third country AIF*.

Conditions for marketing AIFs in the UK

14.2.2 G In accordance with the *AIFM Regulations*, an *authorised UK AIFM* and a *full-scope Gibraltar AIFM* may *market* an *AIF* within *ALTS* 14.2.1G(1) or (2) in the *UK* only if:

(1) the *AIFM* has given the *FCA* written notification of its intention to *market* the *AIF*;

(2) the relevant conditions in the *AIFM Regulations* are satisfied; and

(3) the *FCA* has not suspended or revoked the *AIFM's* entitlement to *market* the *AIF*.

14.2.3 G (1) The written notification must be made using the form specified on the *FCA* website: National private placement regime (NPPR).

(2) The *AIFM* is entitled to *market* the *AIF* as soon as a notification containing all of the required information has been sent to the *FCA*.

14.2.4 G (1) The *AIFM's* notification must include a statement from the *AIFM* confirming that:

(a) the *AIFM* complies with the requirements of the *UK AIFM regime* or the Gibraltar regime in respect of that *AIF*;

(b) appropriate cooperation arrangements for the purpose of systemic risk oversight are in place between:

(i) the *FCA* or, if applicable, the Financial Services Commission of Gibraltar; and

(ii) the relevant authority and the supervisory authorities of the relevant *overseas* jurisdiction; and

(c) the *overseas* country where the *non-UK AIF* is *established* is not named on the list of High-Risk jurisdictions subject to a Call for Action published by the Financial Action Task Force as that list has effect from time to time.

(2) The *AIFM* is not required to appoint a *depositary* under the *rules* in *ALTS* 8 (Depositaries) provided the *AIFM*:

(a) ensures that one or more *persons*, other than the *AIFM*, are appointed to carry out the depositary functions duties in *ALTS* 8 (Depositaries); and

(b) informs the *FCA* about the identity of each such *person*.

14.2.5 G (1) As a result of *marketing* an *AIF* in the *UK*, an *authorised UK AIFM* is required to comply with:

(a) all of *ALTS*, except certain sections of *ALTS* 8 (Depositaries); and

(b) such other provisions of the *Handbook* that apply to an *authorised UK AIFM* of a *UK AIF*.

(2) An *authorised UK AIFM* managing a *non-UK AIF* that is not *marketed* in the *UK* should note that the *rules* it needs to comply with will change in relation to that *AIF* as a result of the *AIF* being *marketed*. In particular, the *AIFM* will be subject to the requirements in *ALTS* 10 (Reporting and notifications to investors) and some of the *depositary* provisions in *ALTS* 8 (Depositaries).

Provision of a product summary in accordance with DISC

14.2.6 G The *manufacturer* of an *AIF* which is made available to *retail investors* in the *United Kingdom* will need to prepare a *product summary* in accordance with the requirements in *DISC*.

14.3 Third country AIFMs

Application

14.3.1 G This section applies to a *third country AIFM* that intends to *market* in the *UK* an *AIF* that is:

(1) a *UK AIF*;

(2) a *Gibraltar AIF*; or

(3) a *third country AIF*.

Marketing of AIFs by third country AIFMs

14.3.2 G (1) In accordance with the *AIFM Regulations*, an *AIFM* of the type set out in *ALTS* 14.3.1G may market an *AIF* in the *UK* only if:

(a) it has notified the *FCA* of its intention to *market* the *AIF*;

(b) the relevant conditions in the *AIFM Regulations* are satisfied; and

(c) the *FCA* has not suspended or revoked the *AIFM's* entitlement to *market* the *AIF*.

(2) The *AIFM* is entitled to market the *AIF* as soon as a notification containing all of the required information has been sent to the *FCA*.

14.3.3 G In accordance with [regulation 49] (Marketing of AIFs managed by third country AIFMs) of the *AIFM Regulations* (Marketing of AIFs managed by third country AIFMs), an *AIFM* that is not a *UK AIFM* or a *full-scope Gibraltar AIFM* may *market* an *AIF* managed by it in the *UK* by submitting a notification to the *FCA* using the form specified on the *FCA* website: National private placement regime (NPPR)

14.3.4 G The notification must include a statement from the *AIFM* confirming that:

(1) the *AIFM* complies with the requirements relating to the *marketing* of that *AIF*;

(2) the *AIFM* complies with the requirements of *ALTS* 9 (Pre-contractual information for investors), *ALTS* 10 (Reporting and notifications to investors) and *ALTS* 13 (Regulatory reporting);

(3) appropriate cooperation arrangements for the purpose of systemic risk oversight and in line with international standards are in place between:

(a) the *FCA* or, if applicable, the Financial Services Commission of Gibraltar; and

(b) the supervisory authorities where the *AIFM* is *established* and, if applicable, of the country where the *non-UK AIF* is *established*; and

(4) the *overseas* country where the *AIFM* and if applicable, the *AIF* is *established* is not named on the list of High-risk jurisdictions subject to a Call for Action published by the Financial Action Task Force as that list has effect from time to time.

Ongoing compliance with requirements

14.3.5 G (1) As a result of *marketing* an *AIF* in the *UK*, a *non-UK AIFM* is required to comply with the requirements that apply to a *large UK AIFM* in:

(a) *ALTS* 9 (Pre-contractual information for investors);

(b) *ALTS* 10 (Reporting and notifications to investors); and

(c) *ALTS* 13 (Regulatory reporting),

in so far as such provisions are relevant to the *AIFM* and the *AIF*.

(2) The obligation to comply with these requirements applies from the date on which the *AIFM* gives notification to the *FCA* of its intention to market the *AIF* until:

(a) if an investor's acquisition of *units* in the *AIF* results from *marketing* that is permitted because of the notification, the date on which the final such investor disposes of such *units*; or

(b) if there is no acquisition of *units* in the *AIF* resulting from such *marketing*, the date on which the *AIFM* ceases *marketing* the *AIF*.

(3) A provision of *ALTS* 9 (Pre-contractual information for investors), *ALTS* 10 (Reporting and notifications to investors) or *ALTS* 13 (Regulatory reporting) will not be relevant to a *non-UK AIFM* and the *AIF* it *markets*, if it relates to another provision to which the *AIFM* is not subject.

(4) However, the *AIFM* should comply with the substance of the provisions of *ALTS* 9 (Pre-contractual information for investors), *ALTS* 10 (Reporting and notifications to investors) or *ALTS* 13 (Regulatory reporting) to the extent that these are relevant to the *AIFM* and the *AIF*.

(5) An *AIFM* should comply with the provisions in *ALTS* 10 (Reporting and notifications to investors) in relation to the first financial year end date of the *AIF* following the *AIFM's* notification to the *FCA* of its intention to market the AIF in the *UK*.

(6) Depending on the *NAV* of the *AIF*, a *non-UK AIFM* should report on a quarterly basis to the *FCA* the information in *ALTS* 13 (Regulatory reporting) for each *AIF* that is not *marketed* in the UK if:

(a) that *AIF* is a *master AIF* managed by the *AIFM*;

(b) the *AIFM markets* the *feeder AIF* of that *master AIF* in the *UK*; and

(c) the *feeder AIF* is subject to quarterly reporting under *SUP* 16.

Further guidance on marketing AIFs

14.3.6 G Further *guidance* on *marketing* an *AIF* can be found in *PERG* 8.37 (AIFMD marketing).

Provision of a product summary in accordance with DISC

14.3.7 G The *manufacturer* of an *AIF* which is made available to *retail investors* in the *United Kingdom* will need to prepare a *product summary* in accordance with the requirements in *DISC*.

Sch 1 Record-keeping requirements

Sch 1.1 G (1) This schedule sets out the record-keeping requirements detailed in *ALTS*.

(2) It is not a complete statement of those requirements and should not be relied upon as if it were.

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
ALTS 3.4.6R	*AIF portfolio transactions*	As specified in *ALTS* 3.4.6R	Without delay	5 years or as specified in *ALTS* 3.6.2R.
ALTS 3.5.6R	Subscription and redemption orders	As specified in the *rule*.	Without undue delay	5 years or as specified in *ALTS* 3.6.2R.
ALTS 6.2.14R	Accounting records	As specified in the *rule*.	As implicit in the *rule*	As implicit in the *rule*

ALTS 6.3.4R	The inputs and assumptions for a valuation used by a *medium UK AIFM* or a *large UK AIFMs*	As specified in the *rule*.	Whenever an asset or liability is valued	As implicit in the *rule*
ALTS 6.3.5R	The v*aluation policies*, *valuation procedures* and *valuation methodologies* of a *medium UK AIFM* or a *large UK AIFM*	As specified in the *rule*.	Whenever there is a change to a policy, procedure or methodology	As implicit in the *rule*
ALTS 6.3.6R	A valuation model used by a *large UK AIFM*	As specified in the *rule*.	If a *large UK AIFM* uses a valuation model to value an *AIF's* assets or liabilities, the *AIFM* must record the underlying data and assumptions, and the rationale for using them in any valuation that uses the model.	As implicit in the *rule*

Sch 2 Notification requirements

Sch 2.1 G (1) This schedule sets out the notification requirements detailed in *ALTS* in respect only of notifications to be provided to the *FCA*.

(2) It is not a complete statement of those requirements and should not be relied upon as if it were.

Handbook reference	Subject of notification	Trigger events	Timing
ALTS 2.3.20R(1)	Determination of an *AIFM classification* without making an election under *ALTS* 2.3.	Determining an *AIFM classification* changes without making an election under *ALTS* 2.3.19R.	Immediately on making determination
ALTS 2.3.20R(2)	An election to change an *authorised UK AIFM's AIFM classification* changes under *ALTS* 2.3.	Electing to change in an *authorised UK AIFM's AIFM classification* changes.	Immediately on making election
ALTS 2.3.20R(3)	Where a change in *AIFM classification* is required	A change in *AIFM classification* required by a change to the aggregate *NAV* of the *AIFs* managed by the *AIFM*	Immediately after becoming aware of requirement to change

Sch 3 Fees and other payment requirements

Sch 3.1	G	(1)	*ALTS* does not contain any *rules* that directly impose fees or other payments.
		(2)	*FEES* 3 Annex 2 (Application and notification fees payable in relation to collective investment schemes, recognised schemes, money market funds and AIFs marketed in the UK) sets out the application and notification fees payable by *SEF and RVECA managers*, *authorised UK AIFMs* and *full-scope Gibraltar AIFMs* notifying the *FCA* under [regulation 48] of the *AIFM Regulations* (Marketing of third country AIFs managed by authorised UK AIFMs and authorised Gibraltar AIFMs), and *third country AIFMs* notifying the *FCA* under [regulation 49] of the *AIFM Regulations* (Marketing of AIFs managed by third country AIFMs).
		(3)	*FEES* 4 Annex 4 (relating to periodic fees) sets out the periodic fees payable by *SEF and RVECA managers*, *authorised UK AIFMs* and *full-scope Gibraltar AIFMs* that are *marketing AIFs* in the *UK*, including under [regulations 48 and 49] of the *AIFM Regulations*.

Sch 4 Rights of action for damages

Sch 4.1	G	(1)	The table below sets out the *rules* in *ALTS*, contravention of which by an *authorised person* may be actionable under section 138D of the *Act* (Actions for damages) by a *person* who suffers loss as a result of the contravention.
		(2)	If 'Yes' appears in the column headed 'For private person', the *rule* may be actionable by a *private person* under section 138D (or, in certain circumstances, that *person's* fiduciary or representative: see regulation 6(2) and 6(3)(c) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001/2256)). If 'Yes' appears in the column headed 'Removed', this indicates that the *FCA* has removed the right of action under section 138D(3) of the *Act*. If so, a reference to the *rule* in which the right of action is removed is also given.
		(3)	The column headed 'For other person' indicates whether the *rule* may be actionable by a *person* other than a *private person* (or that *person's* fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of *person* by whom the *rule* may be actionable is given.

Chapter/Appendix	Right of action under section 138D of the Act		
	For private person	Removed	For other person
All *rules* in *ALTS*	Yes	No	No

Sch 5 Rules that can be waived or modified

Sch 5.1 G Where the relevant conditions are met, the *FCA* has a power to waive or modify *rules* under section 138A of the *Act*.

Annex C

Amendments to the Senior Management Arrangements, Systems and Controls sourcebook (SYSC)

In this Annex, underlining indicates new text and striking through indicates deleted text.

[*Editor's note*: This Annex takes into account the proposals and legislative changes suggested in the consultation paper 'Client categorisation and conflicts of interest' (CP25/36) as if they were made final.]

1 Application and purpose

1.1A Application

…

1.1A.1A G [*Editor's note*: for proposed changes to this provision, see consultation paper 'Remuneration: Solo-regulated firms' rules reform' (CP26/27).]

…

1 Annex 1 Detailed application of SYSC

…

1 Annex 1 Part 2

Part 2	**Application of the common platform requirements (SYSC 4 to 10)**		
	Who?		
…			
2.6B	R	Subject to *SYSC* 1 Annex 1 2.6CR, the *common platform requirements* do not apply to a ~~*full-scope UK AIFM*~~ *medium UK AIFM* or a *large UK AIFM* of an *unauthorised AIF* except for:	
		(1)	*SYSC* 4.1.1R to *SYSC* 4.1.2R ~~and~~, *SYSC* 4.1.2BR to *SYSC* 4.1.2DR, *SYSC* 4.1.6AR and *SYSC* 4.1.10-AR;

		(2)	*SYSC* 4.2.1R, *SYSC* 4.2.1BR, *SYSC* 4.2.2R to *SYSC* 4.2.5G, *SYSC* 4.2.7R ~~and~~, *SYSC* 4.2.8G and *SYSC* 4.3.2R;
		(2A)	*SYSC* 5.1.1R, *SYSC* 5.1.2G, *SYSC* 5.1.3G, *SYSC* 5.1.4G, *SYSC* 5.1.4AG, *SYSC* 5.1.5G, *SYSC* 5.1.5AG, *SYSC* 5.1.5BR, *SYSC* 5.1.6R, *SYSC* 5.1.7R (which applies as *guidance*), *SYSC* 5.1.7AG, *SYSC* 5.1.8G, *SYSC* 5.1.9G, *SYSC* 5.1.10G (which is not applicable for the segregation of risk management functions) and *SYSC* 5.1.11G;
		(3)	*SYSC* 6.1.1R, ~~which only applies to the extent that it relates to the obligation to establish, implement and maintain adequate policies and procedures for countering the risk that the *firm* (including its managers and *employees*) might be used to further *financial crime*~~ *SYSC* 6.1.1AG, *SYSC* 6.1.2R and *SYSC* 6.1.3R;
		(4)	*SYSC* 6.1.4R, *SYSC* 6.1.4-AG, *SYSC* 6.1.4-AAG, *SYSC* 6.1.4-ABG and *SYSC* 6.1.5R;
		(4A)	*SYSC* 6.2.1R, *SYSC* 6.2.1BG and *SYSC* 6.2.2G;
		…	
		(6)	*SYSC* 7.1.2CG, *SYSC* 7.1.7BAG and *SYSC* 7.1.7CG; ~~and~~
		(6A)	*SYSC* 8.1.-1AG and *SYSC* 8.1.6R;
		(6B)	*SYSC* 9.1.1R, but only for the requirement to arrange for orderly records to be kept of its business and internal organisation which do not relate to *AIF portfolio transactions* and subscription and redemptions orders (in respect of which, see *ALTS* 3.4 (Execution of AIF portfolio transactions), *ALTS* 3.5 (Subscription and redemption orders) and *ALTS* 3.6 (Additional record keeping requirements: AIF portfolio transactions and subscription and redemption orders)); and
		…	
2.6C	R	[*Editor's note*: any amendments to this provision will be consulted on separately]	

2.6D	R	The *common platform requirements* apply to a ~~*full-scope UK AIFM*~~ *medium UK AIFM* or a *large UK AIFM* of an *authorised AIF* in line with Column A++ in Table A of Part 3.
2.6E	G	The *common platform requirements* apply to ~~*a small authorised UK AIFM*~~ *small UK AIFM* in line with Column B in Table A of Part 3 (unless such a *firm* is also a *common platform firm*, in which case they must comply with Column A).
…		
	Where?	
…		
2.16C	R	The *common platform requirements* apply to a ~~*full-scope UK AIFM*~~ *medium UK AIFM* or a *large UK AIFM* in respect of its management of an *AIF* where carried on from an *establishment* in the *UK*.
2.16E	R	[*Editor's note*: any amendments to this provision will be consulted on separately]
…		

1 Annex
1 Part 3

Part 3	**Tables summarising the application of the common platform requirements to different types of firm**		
3.1	G	The *common platform requirements* apply as described in the following table (subject to the provisions in Part 2 of this Annex (Application of the common platform requirements)).	
		Type of firm	**Common platform requirements**
		…	
		~~*Full-scope UK AIFM*~~ *Medium UK AIFM* or a *large UK AIFM* of an *authorised AIF*	*SYSC* 1 Annex 3.2BR

		…	
		All other *firms* (apart from *insurers*, *managing agents*, the *Society*, ~~*full-scope UK AIFMs*~~ *medium UK AIFMs* or *large UK AIFMs* of *unauthorised AIFs*, *MiFID optional exemption firms* and *third country firms*)	*SYSC* 1 Annex 3.3R
…			
~~Full-scope UK AIFM~~ Medium UK AIFM or large UK AIFM of an authorised AIF			
3.2B	R	For a ~~*full-scope UK AIFM*~~ *medium UK AIFM* or a *large UK AIFM* of an *authorised AIF*, the *common platform requirements* in *SYSC* 4 to *SYSC* 9 apply in accordance with Column A++ in Table A below.	
…			
Other firms			
3.2E	R	*SYSC* 1 Annex 1 3.3R does not apply to the following:	
		…	
		(4)	~~*full-scope UK AIFMs*~~ *medium UK AIFMs* or *large UK AIFMs* of *unauthorised AIFs*;
		…	
…			

Table A: Application of the common platform requirements in SYSC 4 to SYSC 9

1 Annex
Table A

Provision **SYSC 4**	**COLUMN A** **Application to a common**	**COLUMN A+**	**COLUMN A++**	**COLUMN B** **Application to all other firms**

	platform firm other than to a UCITS investment firm	**Application to a UCITS management company**	**Application to a ~~full-scope UK AIFM~~ medium UK AIFM or large UK AIFM of an authorised AIF**	**apart from insurers, UK ISPVs, managing agents, the Society, ~~full-scope UK AIFMs~~ medium UK AIFMs or large UK AIFMs of unauthorised AIFs, MiFID optional exemption firms and third country firms**
…				
SYSC 4.1.1BR	~~Not applicable~~ [deleted]	~~Not applicable~~ [deleted]	~~Rule~~ [deleted]	~~Not applicable~~ [deleted]
…				
SYSC 4.1.2BR	Not applicable	Rule	Rule	Applies as a *rule* to a *small UK AIFM*. ~~Not~~ Otherwise, not applicable
SYSC 4.1.2CR	Not applicable	Rule	Rule	Applies as a *rule* to a *small UK AIFM*. ~~Not~~ Otherwise, not applicable
SYSC 4.1.2DR	Not applicable	Not applicable	Rule	Applies as a *rule* to a *small UK AIFM*. ~~Not~~ Otherwise, not applicable

…				
SYSC 4.1.6R	…	…	…	…
SYSC 4.1.6AR	Not applicable	Not applicable	Rule	Applies as a *rule* to a *small UK AIFM*. Otherwise, not applicable
…				
SYSC 4.1.10R	…	…	…	…
SYSC 4.1.10-AR	Not applicable	Not applicable	Rule	Applies as a *rule* to a *small UK AIFM*. Otherwise, not applicable
…				
SYSC 4.2.1R	Rule	Rule	Rule	Applies as a *rule* to a *small UK AIFM*. ~~Guidance~~ Otherwise, guidance
SYSC 4.2.1AG	…	…	…	…
SYSC 4.2.1BR	Not applicable	Not applicable	Rule	Applies as a *rule* to a *small UK AIFM*. Otherwise, not applicable
SYSC 4.2.2R	Rule	Rule	Rule	Applies as a *rule* to a *small UK AIFM*.

				~~Not~~ Otherwise, not applicable
SYSC 4.2.3G – 4.2.5G	Guidance	Guidance	Guidance	Applies as a *guidance* to a *small UK AIFM*. ~~Not~~ Otherwise, not applicable
…				
SYSC 4.2.7R	Not applicable	Not applicable	Rule	Applies as a *rule* to a *small UK AIFM*. ~~Not~~ Otherwise, not applicable
…				
SYSC 4.3.2R	Not applicable	Rule	~~Not applicable~~ Rule	Guidance but applies as a rule to an *operator of an electronic system in relation to lending*
…				

Provision **SYSC 5**	**COLUMN A** **Application to a common platform firm other than to a UCITS investment firm**	**COLUMN A+** **Application to a UCITS management company**	**COLUMN A++** **Application to a ~~full-scope UK AIFM~~ medium UK AIFM or large UK AIFM of an authorised AIF**	**COLUMN B** **Application to all other firms apart from insurers, UK ISPVs, managing agents, the Society, ~~full-scope UK AIFMs~~ medium UK AIFMs or**

				large UK AIFMs of unauthorised AIFs, MiFID optional exemption firms and third country firms
…				
SYSC 5.1.1R	Rule	Rule	~~Not applicable~~ Rule	Rule
…				
SYSC 5.1.3G	Guidance	Guidance	~~Not applicable~~ Guidance	Guidance
…				
SYSC 5.1.6R	Rule	Rule	~~Guidance~~ Rule	Guidance, but applies as a rule to *small UK AIFMs*
…				

Provision **SYSC 6**	**COLUMN A** **Application to a common platform firm other than to a UCITS investment firm**	**COLUMN A+** **Application to a UCITS management company**	**COLUMN A++** **Application to a ~~full-scope UK AIFM~~ medium UK AIFM or large UK AIFM of an authorised AIF**	**COLUMN B** **Application to all other firms apart from insurers, UK ISPVs, managing agents, the Society, ~~full-scope UK AIFMs~~ medium UK AIFMs or large UK**

				<u>AIFMs</u> of unauthorised AIFs, MiFID optional exemption firms and third country firms
…				
SYSC 6.1.1R	Rule	Rule	Rule ~~but only regarding the obligation to establish, implement and maintain adequate policies and procedures for countering the risk that the *firm* (including its managers and *employees*) might be used to further *financial crime*~~	Rule
…				
SYSC 6.1.2R	Not applicable	Rule	~~Not applicable~~ <u>Rule</u>	Guidance, but applies as a rule to a <u>*small UK AIFM*</u> and an *operator of an electronic*

				system in relation to lending
…				
SYSC 6.1.3R	Not applicable	Rule	~~Not applicable~~ Rule	Guidance, but applies as a rule to a *small UK AIFM* and an *operator of an electronic system in relation to lending*. For *firms* other than a *small UK AIFM* and an *operator of an electronic system in relation to lending*, this provision shall be read with the following additional sentence at the start. "Depending on the nature, scale and complexity of its business, it may be appropriate for a *firm* to have a separate compliance function. Where a *firm* has a separate compliance function, the *firm* should

				also take into account *SYSC* 6.1.3R and *SYSC* 6.1.4R as guidance.”
…				
SYSC 6.1.4R	Not applicable	Rule	~~Not applicable~~ Rule	(1), (3) and (4): Guidance (2): - Rule for all *small UK AIFMs* and *firms* which carry on *designated investment business* with or for *retail clients* or profes*sional client*s. - Guidance for all other *firms*. - Applies as a rule to an *operator of an electronic system in relation to lending*.
…				
SYSC 6.1.5R	Not applicable	Rule	~~Not applicable~~ Rule	- Guidance, but applies as a rule to a *small UK AIFM* and an *operator of an electronic system in relation to lending*

				- "investment services and activities" shall be read as "financial services and activities"
…				
SYSC 6.2.1R	Rule	Rule	~~Not applicable~~ Rule	Guidance, but applies as a rule to a *small UK AIFM* and an *operator of an electronic system in relation to lending*
…				
SYSC 6.2.1BG	~~Guidance applies to *relevant authorised persons* only~~ Applies to an *SMCR firm* to which *SYSC* 6.2.1R applies.	~~Not applicable~~ Applies to an *SMCR firm* to which *SYSC* 6.2.1R applies.	~~Not applicable~~ Applies to an *SMCR firm* to which *SYSC* 6.2.1R applies.	~~Not applicable~~ Applies to an *SMCR firm* to which *SYSC* 6.2.1R applies.
SYSC 6.2.2G	Guidance	Guidance	~~Not applicable~~ Guidance	Guidance
…				

Provision **SYSC 7**	**COLUMN A** **Application to a common platform firm other than to a**	**COLUMN A+** **Application to a UCITS management company**	**COLUMN A++** **Application to a ~~full-scope UK AIFM~~**	**COLUMN B** **Application to all other firms apart from insurers, UK ISPVs,**

	UCITS investment firm		**medium UK AIFM or large UK AIFM of an authorised AIF**	**managing agents, the Society, ~~full-scope UK AIFMs~~ medium UK AIFMs or large UK AIFMs of unauthorised AIFs, MiFID optional exemption firms and third country firms**
…				
SYSC 7.1.2BG	…	…	…	…
SYSC 7.1.2CG	Not applicable	Not applicable	Guidance	Guidance for a *small UK AIFM*. Otherwise, not applicable
…				
SYSC 7.1.7BG	Guidance applicable to a *CRR firm*	Not applicable	~~Guidance~~ Not applicable	Guidance
…				

Provision **SYSC 8**	**COLUMN A** **Application to a common platform firm other than to a UCITS**	**COLUMN A+** **Application to a UCITS management company**	**COLUMN A++** **Application to a ~~full-scope UK AIFM~~ medium UK AIFM or large**	**COLUMN B** **Application to all other firms apart from insurers, UK ISPVs, managing agents, the Society, ~~full-~~**

	investment firm		**UK AIFM of an authorised AIF**	**~~scope UK AIFMs~~ medium UK AIFMs or large UK AIFMs of unauthorised AIFs, MiFID optional exemption firms and third country firms**
…				
SYSC 8.1.-1G	…	…	…	…
SYSC 8.1.-1AG	Guidance for an *authorised UK AIFM* which is a *common platform firm*. Otherwise, not applicable	Not applicable	Guidance	Guidance for a *small UK AIFM* Otherwise, not applicable
…				
SYSC 8.1.6R	Not applicable	Rule for a *UCITS investment firm* in relation to its non-*MiFID business*; otherwise guidance	~~Not applicable~~ Rule	Rule
…				

Provision **SYSC 9**	**COLUMN A** **Application to a common platform firm other than to a UCITS investment firm**	**COLUMN A+** **Application to a UCITS management company**	**COLUMN A++** **Application to a ~~full-scope UK AIFM~~ <u>medium UK AIFM or large UK AIFM</u> of an authorised AIF**	**COLUMN B** **Application to all other firms apart from insurers, UK ISPVs, managing agents, the Society, ~~full-scope UK AIFMs~~ <u>medium UK AIFMs or large UK AIFMs</u> of unauthorised AIFs, MiFID optional exemption firms and third country firms**
…				
SYSC 9.1.1R	Not applicable	Rule	Rule but only for the requirement to arrange for orderly records to be kept of its business and internal organisation which do not relate to ~~portfolio transactions~~ <u>*AIF portfolio transactions*</u> and subscription and	Rule<u>, but for a *small UK AIFM* applies only for the requirement to arrange for orderly records to be kept of its business and internal organisation which do not relate to *AIF portfolio transactions* and subscription and redemptions orders (in</u>

			redemptions orders (in respect of which, see *ALTS* 3.4, *ALTS* 3.5 and *ALTS* 3.6)	respect of which, see *ALTS* 3.4, *ALTS* 3.5 and *ALTS* 3.6)
…				

…

4 General organisational requirements

4.1 General requirements

…

General requirements

4.1.1 R …

[**Note**: article 74(1) of *CRD*, article 16(5) second paragraph of *MiFID*, and article 12(1)(a) of the *UCITS Directive*~~, and article 18(1) of *AIFMD*~~]

…

…

4.1.1A R [*Editor's note*: for proposed changes to this provision, see consultation paper 'Remuneration: Solo-regulated firms' rules reform' (CP26/27).]

4.1.1B R ~~A *full-scope UK AIFM* must, in particular:~~ [deleted]

~~(1) have rules for personal transactions by its *employees* or for the holding or management of investments it invests on its own account;~~

~~(2) ensure that each transaction involving the *AIFs* may be reconstructed according to its origin, the parties to it, its nature, and the time and place at which it was effected; and~~

~~(3) ensure that the assets of the *AIFs* managed by the *AIFM* are invested in accordance with the *instrument constituting the fund* and the legal provisions in force.~~

~~[**Note**: article 18(1) second paragraph of *AIFMD*]~~

…

4.1.2 R [*Editor's note*: for proposed changes to this provision, see consultation paper 'Remuneration: Solo-regulated firms' rules reform' CP26/27).]

…

4.1.2B R For a *management company* or ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM*, the arrangements, processes and mechanisms referred to in *SYSC* 4.1.1R and *SYSC* 4.1.1AR must also take account of the *UCITS schemes* managed by the *management company* or the *AIFs* managed by the ~~*full-scope UK AIFM*~~ *AIFM*.

[**Note**: article 12(1) second paragraph of the UCITS Directive ~~and article 18(1) second paragraph of *AIFMD*~~]

Resources for management companies and AIFMs

4.1.2C R A *management company* and ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM* must have, and employ effectively, the resources and procedures that are necessary for the proper performance of its business activities.

[**Note**: articles 12(1)(a) and 14(1)(c) of the *UCITS Directive* ~~and article 12(1)(c) of *AIFMD*~~]

4.1.2D R ~~A *full-scope UK AIFM*~~ An *authorised UK AIFM* must use, at all times, adequate and appropriate human and technical resources that are necessary for the proper management of *AIFs*.

~~[**Note**: article 18(1) first paragraph of *AIFMD*]~~

~~Subordinate measures relating to provisions implementing article 12(1) of AIFMD~~

4.1.2E G ~~Articles 16 to 29 of the *AIFMD level 2 regulation* provide detailed rules supplementing the *UK* provisions which implemented article 12(1) of *AIFMD*, and articles 57 to 66 of the *AIFMD level 2 regulation* provide detailed *rules* supplementing the *UK* provisions which implemented articles 12 and 18 of *AIFMD*.~~ [deleted]

…

Business continuity

4.1.6 R …

4.1.6A R An *authorised UK AIFM* must have in place appropriate arrangements, having regard to the nature, scale and complexity of its business, to ensure that it can continue to function and meet its regulatory obligations in the event of an unforeseen interruption. These arrangements should be regularly updated and tested to ensure their effectiveness.

…

Regular monitoring: management company

4.1.10 R …

Regular monitoring: authorised UK AIFM

4.1.10-A R An *authorised UK AIFM* must carry out a regular review of its systems and controls.

…

4.2 Persons who effectively direct the business

General requirement

4.2.1 R The *senior personnel* of a *common platform firm*, a *management company*, ~~a~~ ~~*full-scope UK AIFM*~~ an *authorised UK AIFM*, or of the *UK* branch of a *non-UK bank* must be of sufficiently good repute and sufficiently experienced as to ensure the sound and prudent management of the *firm*.

[**Note**: article 9(1)(4) of *MiFID*, article 7(1)(b) of the *UCITS Directive*~~,~~ ~~article 8(1)(c) of *AIFMD*~~ and article 91(1) of *CRD*]

…

Responsibility of senior personnel of an AIFM

4.2.1B R For ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM*, the *senior personnel* must, in complying with *SYSC* 4.2.1R, be sufficiently experienced in relation to the investment strategies pursued by the *AIFs* it manages.

~~[**Note**: article 8(1)(c) of *AIFMD*]~~

Composition of management

4.2.2 R A *common platform firm*, a *management company*, ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM* and the *UK* branch of a *non-UK bank* must ensure that its management is undertaken by at least two persons meeting the requirements laid down in *SYSC* 4.2.1R and:

(a) for ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM*, *SYSC* 4.2.7R; or

…

[**Note**: article 9(6) first paragraph of *MiFID*, article 7(1)(b) of the *UCITS Directive*~~, article 8(1)(c) of *AIFMD*~~ and article 13(1) of *CRD*]

…

4.2.4 G At least two independent minds should be applied to the formulation and implementation of the policies of a *common platform firm*, a *management company*, ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM* and the *UK* branch of a *third country firm*. Where a *firm* nominates just two individuals to direct its business, the *FCA* will not regard them as both effectively directing the business where one of them makes some, albeit significant, decisions relating to only a few aspects of the business. Each should play a part in the decision-making process on all significant decisions. Both should demonstrate the qualities and application to influence strategy, day-to-day policy and its implementation. This does not require their day-to-day involvement in the execution and implementation of policy. It does, however, require involvement in strategy and general direction, as well as knowledge of, and influence on, the way in which strategy is being implemented through day-to-day policy.

4.2.5 G Where there are more than two individuals directing the business of a *common platform firm*, a *management company*, ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM* or the *UK* branch of a *third country firm*, the *FCA* does not regard it as necessary for all of these individuals to be involved in all decisions relating to the determination of strategy and general direction. However, at least two individuals should be involved in all such decisions. Both individuals' judgement should be engaged so that major errors leading to difficulties for the *firm* are less likely to occur. Similarly, each individual should have sufficient experience and knowledge of the business and the necessary personal qualities and skills to detect and resist any imprudence, dishonesty or other irregularities by the other individual. Where a single individual, whether a chief executive, managing *director* or otherwise, is particularly dominant in such a *firm* this will raise doubts about whether *SYSC* 4.2.2R is met.

Alternative arrangements

…

4.2.7 R ~~A *full-scope UK AIFM*~~ A *medium UK AIFM* and a *large UK AIFM* must notify the *FCA* of the names of the *senior personnel* of the *firm* and of every person succeeding them in office.

~~[**Note**: article 8(1)(c) of AIFMD]~~

4.2.8 G Where the *senior personnel* of a ~~*full-scope UK AIFM*~~ *medium UK AIFM* or a *large UK AIFM* will carry out a *FCA governing function* and the *firm* has applied for the *FCA's* approval under section 59 of the *Act*, this will be considered sufficient to comply with *SYSC* 4.2.7R.

…

4.3 Responsibility of senior personnel

…

4.3.2 R A *firm* that is a *management company*, a *medium UK AIFM*, a *large UK AIFM* or an *operator of an electronic system in relation to lending* must ensure that:

…

…

5 Employees, agents and other relevant persons

5.1 Skills, knowledge and expertise

…

Segregation of functions

5.1.6 R A *common platform firm*, an *authorised UK AIFM* and a *management company* must ensure that the performance of multiple functions by its *relevant persons* does not and is not likely to prevent those persons from discharging any particular functions soundly, honestly and professionally.

…

…

6 Compliance, internal audit and financial crime

6.1 Compliance

…

Adequate policies and procedures

…

6.1.2 R A *firm* that is a *management company*, an *authorised UK AIFM* or *an operator of an electronic system in relation to lending* must, taking into account the nature, scale and complexity of its business, and the nature and range of financial services and activities undertaken in the course of that business, establish, implement and maintain adequate policies and procedures designed to detect any risk of failure by the *firm* to comply with its obligations under the *regulatory system*, as well as associated risks, and put in place adequate measures and procedures designed to minimise such risks and to enable the *FCA* to exercise its powers effectively under the *regulatory system*.

…

…

Compliance function

6.1.3 R A *firm* that is a *management company*, an *authorised UK AIFM* or an *operator of an electronic system in relation to lending* must maintain a permanent and effective compliance function which operates independently and which has the following responsibilities:

…

…

6.1.4 R In order to enable the compliance function to discharge its responsibilities properly and independently, a firm that is a *management company*, an *authorised UK AIFM* or an *operator of an electronic system in relation to lending* must ensure that the following conditions are satisfied:

…

…

6.1.4-AA G [*Editor's note*: for proposed changes to this provision, see consultation paper 'Remuneration: Solo-regulated firms' rules reform' (CP26/27).]

…

6.1.5 R A *firm* that is a *management company*, an *authorised UK AIFM* or an *operator of an electronic system* in relation to lending need not comply with *SYSC* 6.1.4R(3) or *SYSC* 6.1.4R(4) if it is able to demonstrate that in view of the nature, scale and complexity of its business, and the nature and range of financial services and activities, the requirements under those *rules* are not proportionate and that its compliance function continues to be effective.

…

…

6.2 Internal audit

6.2.1 R A *firm* that is a *common platform firm*, an *authorised UK AIFM* ~~or~~, a *management company* or an *operator of an electronic system in relation to lending* ~~*management company*~~ must, where appropriate and proportionate in view of the nature, scale and complexity of its business and the nature and range of its financial services and activities or (if it is a *common platform firm*) its *designated investment business*, undertaken in the course of that business, establish and maintain an internal audit function which is separate

and independent from the other functions and activities of the *firm* and which has the following responsibilities:

…

…

7 Risk control

7.1 Risk control requirements

…

Risk assessment

7.1.2C G ~~*Full-scope UK AIFMs*~~ *Authorised UK AIFMs* should be aware that ~~*FUND* 3.7 and articles 38 to 47 of the *AIFMD level 2 regulation* contain~~ there are further requirements in relation to risk management in *ALTS* 5 (Risk management).

…

Risk management

…

7.1.7BA G [*Editor's note*: for proposed changes to this provision, see consultation paper 'Remuneration: Solo-regulated firms' rules reform' (CP26/27).]

…

8 Outsourcing

8.1 General outsourcing requirements

…

Application to ~~an~~ a MiFID optional exemption firm and to a third country firm

8.1.-1 R …

Application to a medium UK AIFM and a large UK AIFM

8.1.-1A G The application of this chapter to a *UK AIFM* is set out in detail in *SYSC* 1 Annex 1, but in summary:

(1) only *SYSC* 8.1.6R applies to a *medium UK AIFM* and a *large UK AIFM* of an *unauthorised AIF* in accordance with *SYSC* 1 Annex 1 2.6BR(6A);

(2) only *SYSC* 8.1.6R applies to a *medium UK AIFM* and a *large UK AIFM* of an *authorised AIF* in accordance with *SYSC* 1 Annex 1 2.6DR and Column A++ in Table A of Part 3 of *SYSC* 1 Annex 1;

(3) certain provisions of *SYSC* 8 apply to an *AIFM investment firm* which is a *medium UK AIFM* or a *large UK AIFM* in respect of its *MiFID business* in line with Column A in Table A of Part 3 of *SYSC* 1 Annex 1; and

(4) certain provisions of this chapter apply to a *small UK AIFM* in line with Column B in Table A of Part 3 of *SYSC* 1 Annex 1, unless the *firm* is also a *common platform firm*, in which case they must comply with Column A.

…

10 Conflicts of interest

10.1 Application

…

General application

10.1.1 R …

(2) This section applies to a ~~*full-scope UK AIFM*~~ *authorised UK AIFM* in relation to:

(a) an *authorised AIF*; and

(b) an *unauthorised AIF* which is managed from an establishment in the *UK*.

…

…

Identifying conflicts

10.1.3 R A *firm* must take all appropriate steps to identify and to prevent or manage conflicts of interest between:

(1) the *firm*, including its managers, employees and *appointed representatives* (or where applicable, *tied agents*), or any *person* directly or indirectly linked to them by *control*, and a *client* of the *firm*;

…

(3) where the *firm* is an ~~*full-scope UK AIFM*~~ *authorised UK AIFM*:

…

…

Types of conflicts

10.1.4 R For the purposes of identifying the types of conflict of interest that arise, or may arise, in the course of providing a service and whose existence may damage the interests of a *client*, a *firm* must take into account, as a minimum, whether the *firm* or a *relevant person*, or a *person* directly or indirectly linked by *control* to the *firm*:

(1) is likely to make a financial gain, or avoid a financial loss, to the potential detriment of the *client* and, in relation to ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM*, an *AIF* or its investors;

…

(2B) in the case of ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM*, (2) also applies where the service or activity is provided to an *AIF*, the investors of an *AIF* or another *client*, and to a transaction which is carried out on behalf of an *AIF* or another *client*;

…

(4) carries on the same business as the *client*; or in the case of a *management company* or ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM*, carries on the same activities for the *UCITS scheme* or *AIF* and for another *UCITS scheme*, *AIF* or *client* or *clients* which are not *UCITS schemes* or *AIFs*;

…

(7) for ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM*, (6) also applies to an inducement which the *AIFM* receives or will receive from a *person* other than the *AIF* or its investors in relation to collective portfolio management activities provided to the *AIF*; or

…

…

Record of conflicts

10.1.6 R …

(2) For ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM*, the duty in (1) also applies to conflicts of interest entailing a material risk of damage to the interests of an *AIF* or its investors.

…

…

Managing conflicts

10.1.7 R …

(2) A *firm* must maintain and operate effective organisational and administrative arrangements with a view to taking all reasonable steps to prevent conflicts of interest as defined in *SYSC* 10.1.3R from adversely affecting the interests of its *clients* (including, in the case of ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM*, investors). This includes segregating, within its own operating environment, tasks and responsibilities which may be regarded as incompatible with each other, or which may generate systematic conflicts of interest.

(3) If arrangements made by a *firm* under this *rule* are not sufficient to ensure, with reasonable confidence, that risks of damage to the interests of a *client* will be prevented, the *firm* must clearly disclose the general nature or sources of conflicts of interest, or both, to the *client* before undertaking business for the *client* in accordance with *SYSC* 10.1.8R(2). This paragraph does not apply to ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM* or a *UCITS management company* (see *SYSC* 10.1.8R(4), (5) and (6)).

…

…

Disclosure of conflicts

10.1.8 R …

(2) Except for a *management company* or ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM*, the disclosure in *SYSC* 10.1.7R(4) must:

…

…

(4) Where ~~a *full-scope UK AIFM's*~~ the arrangements of an *authorised UK AIFM* under *SYSC* 10.1.7R are not sufficient to ensure, with reasonable confidence, that risks of damage to the *fund* or investors in the *fund* are prevented, the *firm* must promptly inform its senior personnel or other competent internal body in order to take any

necessary decision or action to ensure the *firm* acts in the best interests of the *fund* or investors in the *fund*.

(5) (a) ~~A *full-scope UK AIFM*~~ An *authorised UK AIFM* must disclose the following information to the *AIF's* investors:

…

…

…

…

Conflicts policy

10.1.10 R …

(3) The *conflicts of interest policy* must:

…

(c) where the *firm* is ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM* or a *UK UCITS management company*, include circumstances arising from the *firm's* use of delegates, sub-delegates, *external valuers* or counterparties.

…

Subordinate measures for alternative investment fund managers

10.1.27 G ~~Articles 30 to 37 of the *AIFMD level 2 regulation* provide detailed rules supplementing the provisions of article 14 of *AIFMD*.~~ [deleted]

…

10A Recording telephone conversations and electronic communications

10A.1 Application

General application

10A.1.1 R Subject to the exemptions in *SYSC* 10A.1.4R, this chapter applies to a *firm*:

(1) that ~~is a~~:

(a) is a *MiFID investment firm*; or

(b) ~~*full-scope UK AIFM*~~ is an *authorised UK AIFM*; or

(c) ~~*small authorised UK AIFM* or~~ is a *residual CIS operator*; or

…

(e) is a *UCITS management company*; or

(f) is a *MiFID optional exemption firm*, performing activities covered by the exemption; or

(h) is a *third country investment firm*; or

(i) ~~that~~ carries on activities referred to in the *general application rule* related to:

…

(j) ~~that~~ carries on *energy market activity* or *oil market activity*; or

…

(2) that carries on the following activities, in *investments* that are *financial instruments*:

…

(f) *managing an AIF* to the extent that this comprises the function of portfolio management referred to in ~~Annex I of the *AIFMD*~~ article 51ZC of the *Regulated Activities Order*;

…

…

…

[*Editor's note:* For proposed changes relating to the AIFM Remuneration Code, see the consultation paper 'Remuneration: Solo-regulated firms' rules reform' (CP26/27).]

…

21 Risk control: additional guidance

21.1 Risk control: guidance on governance arrangements

Additional guidance on governance arrangements

21.1.1 G (1) This chapter provides additional guidance on risk-centric governance arrangements for effective risk management. It expands upon the general organisational requirements in *SYSC* 2, *SYSC* 3, *SYSC* 4, *SYSC* 7 and ~~*FUND* 3.7~~ *ALTS* 5, and so applies to the same extent as *SYSC* 3.1.1R (for *insurers*, *managing agents* and the *Society*), *SYSC*

4.1.1R (for every other firm) and ~~*FUND* 3.7~~ *ALTS* 5 (Risk management) (for ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM* of an ~~*authorised AIF*~~ *unauthorised AIF*).

…

…

23 Senior managers and certification regime: Introduction and classification

…

23 Annex 1 Definition of SMCR firm and different types of SMCR firms

23
Annex 1

…			
Part Seven: Exclusion from enhanced regime			
…			
7.3	R	A *firm* is excluded from the enhanced regime if its *permission* only covers being the ~~*full-scope UK AIFM*~~ *medium UK AIFM* or *large UK AIFM* of:	
		(1)	an *unauthorised AIF*; or
		(2)	an *authorised AIF* only marketed to investors that are *professional clients*.
…			

…

24 Senior managers and certification regime: Allocation of prescribed responsibilities

…

24 Annex 1 Which FCA-prescribed senior management responsibilities apply to which kind of firm

24
Annex 1

Introduction and exclusions			
…			
1.4	R	The following *FCA-prescribed senior management responsibilities* do not apply to a ~~*full-scope UK AIFM*~~ *medium UK AIFM* and *large UK AIFM* in relation to its *managing an AIF*:	
		…	
…			

…

25 Senior managers and certification regime: Management responsibilities maps and handover procedures and material

…

25.9 Handover procedures and material

Application

…

25.9.3 R This section does not apply to a ~~*full-scope UK AIFM*~~ *medium UK AIFM* or a *large UK AIFM* in relation to ~~its~~ the *AIFM's managing an AIF*.

…

26 Senior managers and certification regime: Overall and local responsibility

…

26.4 Exclusions

…

Exclusion for ~~AIFMD~~ medium UK AIFMs and large UK AIFMs

26.4.18 R A ~~*full-scope UK AIFM*~~ *medium UK AIFM* and a *large UK AIFM* may treat *managing an AIF* as not being part of its *SMCR financial activities* for the purposes of this chapter.

…

27 Senior managers and certification regime: Overall and local responsibility

…

27.8 Definitions of the FCA certification functions

…

Material risk takers

…

27.8.15 R Table: Definition of material risk taker

Type of SMCR firm	Employees included
…	
(6) A *firm* falling within *SYSC* 19B.1 (application provisions for the remuneration code for a ~~fullscope~~ *medium UK AIFM* or *large UK AIFM*)	…
(7) ~~An *above-threshold non-UK AIFM*~~ [deleted]	~~In relation to a *firm* in column (1), the definition of *AIFM Remuneration Code staff* is extended so that it includes *employees* of this kind of *firm* in the same way as it includes *employees* of *firms* in row (6) of this table.~~
…	

…

28 Insurance distribution: specific knowledge, ability and good repute requirements

28.1 Minimum knowledge, ability and good repute requirements for carrying out insurance distribution activities

Application

…

28.1.4 G *Rules* specified in sections *SYSC* 28.2 (knowledge and ability), *SYSC* 28.4 (record-keeping) and *SYSC* 28.5 (other requirements to consider) relate to the requirements in:

…

(3) *SYSC* 3.2.20R, *SYSC* 9.1.1R and *SYSC* 9.1.1AR; and

(4) *TC* 4.2 (Specified requirements for firms carrying on insurance distribution activities)~~; and~~.

(5) ~~article 22 of the *AIFMD level 2 regulation*.~~ [deleted]

…

28.5 Other requirements to consider

28.5.1 G In addition to the requirements in *SYSC* 28:

…

(2) ~~article 22 of the *AIFMD level 2 regulation* and~~ the *competent employees rules* (*SYSC* 3.1.6R and *SYSC* 5.1.1R) set out a high-level competence requirement which every firm has to comply with; and

…

…

Annex D

Amendments to the Threshold Conditions sourcebook (COND)

In this Annex, underlining indicates new text and striking through indicates deleted text.

2 The threshold conditions

…

2.2 Location of offices

Paragraph 2B of Schedule 6 to the Act

…

2.2.2 G Paragraph 2B(1) of Schedule 6 to the *Act* implements article 7(1)(d) of the *UCITS Directive*, paragraphs 2B(1) to 2B(23) of Schedule 6 to the *Act* implement article 5(4) of *MiFID*~~,~~ and paragraph 2B(4) of Schedule 6 to the *Act* implements article 2(1)(10) of the *IDD* ~~and paragraph 2B(7) of Schedule 6 to the *Act* implements article 8(1)(e) of *AIFMD*~~, although the *Act* extends the *threshold condition* set out in paragraph 2B of Schedule 6 of the *Act* to *authorised persons* that are not *PRA-authorised persons* who are outside the scope of these *Single Market Directives*.

2.2.3 G Neither the *UCITS Directive*, *MiFID*, the *IDD*~~, *AIFMD*~~ nor the *Act* define what is meant by a *firm's* 'head office'. This is not necessarily the *firm's* place of incorporation or the place where its business is wholly or mainly carried on. Although the *FCA* will judge each application on a case-by-case basis, the key issue in identifying the head office of a *firm* is the location of its central management and control, that is, the location of:

…

2.2.4 G Paragraph 2B(7) of Schedule 6 to the *Act* provides that if a *person* is seeking to carry on, or is carrying on, the *regulated activity* of *managing an AIF* and is, or upon being granted *Part 4A permission* to carry on that *regulated activity* would be [a *full-scope UK AIFM*] [*Editor's note:* this text will reflect the amendments made to this provision by HMT's final regulations], their head office and registered office must be in the *United Kingdom*.

Annex E

Amendments to the General Provisions (GEN)

In this Annex, underlining indicates new text and striking through indicates deleted text.

Sch 4 Powers exercised

…

Sch 4.3A G **~~Power~~ Powers to make rules or to direct**

The following additional powers and related provisions have been exercised by the *FCA* in *GEN* to direct, require or specify:
…
Regulation 34 (Due-diligence requirements of [small registered UK AIFMs] as institutional investors) of the *Securitisation Regulations 2024* [*Editor's note*: the heading will reflect HMT's final regulations]
…

…

Sch 4.5 G **Powers to issue statements**

The following powers and related provisions in the *Act* have been exercised by the *FCA* to issue the parts of the statements in *GEN*:
…
Section 169(9) (Investigations etc in support of overseas regulator) (including as applied by paragraph 3 of Schedule 6 to the *Payment Services Regulations* and paragraph 3 of Schedule 3 to the *Electronic Money Regulations* and by [regulation ~~71(2) of the *AIFMD UK regulation*~~ 61] of the *AIFM Regulations* (Application of provisions of the Act to unauthorised AIFMs)
…

…

Sch 4.6 G

The following additional powers and related provisions have been exercised by the *FCA* to issue the parts of the statements in *GEN*:
…
~~Regulations 70 (Application of procedural provisions of the Act) and 71 (Application of provisions of the Act to unauthorised AIFMs) of the *AIFMD UK regulation*~~ [Regulations 60 (Application of procedural provisions of the Act) and 61 (Application of provisions of the Act to unauthorised AIFMs)] of the *AIFM Regulations*
…

…

Sch 4.8 G

The following additional powers and related provisions have been exercised by the *FCA* in *GEN* to direct, require or specify:
…
~~Regulations 21 (Disclosure obligations of small registered UK AIFMs), 54 (FCA approval for marketing), 58 (Marketing of AIFs managed by small third country AIFMs) and 60 (Manner and content of notifications) of the *AIFMD UK regulation*~~ [Regulations 18 (Directions to RVECA and SEF Managers to provide information), 40 (Manner and content of notifications) and 49] (Marketing of AIFs managed by third country AIFMs) of the *AIFM Regulations*
…

…

Annex F

Amendments to the Fees manual (FEES)

In this Annex, underlining indicates new text and striking through indicates deleted text.

1 Fees Manual

1.1 Application and Purpose

…

Application

1.1.2 R This manual applies in the following way:

…

(2) *FEES* 1, 2 and 4 apply to:

…

(n) every *AIFM* notifying the *FCA* under ~~regulation 57, 58 and 59 of the *AIFMD UK regulation*~~ [regulations 48 (Marketing of third country AIFs managed by authorised UK AIFMs and Gibraltar AIFMs) and 49] (Marketing of AIFs managed by third country AIFMs) of the *AIFM Regulations* and every *AIFM* which has made such a notification;

…

…

…

3 Application, Notification and Vetting Fees

…

3.2 Obligation to pay fees

…

Method of payment

3.2.5 G (1) (a) The appropriate authorisation or registration fee is an integral part of an application for, or an application for a variation of, a *Part 4A permission* or *approver permission*, authorisation, registration or variation under the *Payment Services Regulations* or the *Electronic Money Regulations*, registration under article 8(1) of the *MCD Order*, authorisation under

regulation 7 of the *DRS Regulations* or verification under regulation 8 of the *DRS Regulations* or notification or registration under the ~~*AIFMD UK regulation*~~ *AIFM Regulations*, registration or certification under the *CRA Regulation*, registration or recognition under *EMIR* or the *Securities Financing Transactions Regulation*, or registration under the *Securitisation Regulations 2024*.

(b) Any application or notification received by the *FCA* without the accompanying appropriate fee, in full and without deduction (see *FEES* 3.2.1R), will not be treated as an application or notification made, incomplete or otherwise, in accordance with section 55U(4), or 55H of the Act or regulation 5(3) or 12(3) of the *Payment Services Regulations* or regulation 5 or 12 of the *Electronic Money Regulations* or ~~regulation 11(1) and 60(a) of the *AIFMD UK regulation*~~ [regulation 40] of the *AIFM Regulations* (Manner and content of notifications), regulation 7(2) of the *DRS Regulations* or article 9 of the *MCD Order*.

…

…

3.2.7 R Table of application, notification, vetting and other fees payable to the FCA

Part 1A: Application, notification and vetting fees		
(1) Fee payer	(2) Fee payable (£) by reference to the pricing category in *FEES* 3 Annex 1AR.	Due date
…		

(da) *Persons* making an application or notification in relation to applications set out in *FEES* 3 Annex 2R: … (v) an *AIFM* notifying the *FCA* of its intention to ~~market~~ *market* an *AIF* in the *UK* under ~~regulation 58 or 59 of the *AIFMD UK regulation*~~ [regulation 49] of the *AIFM Regulations* (Marketing of AIFs managed by third country AIFMs); and (vi) an applicant for registration on the register of ~~*small registered UK AIFM*~~ *RVECA managers* and *SEF managers*.	Category applicable to the application or notification set out in *FEES* 3 Annex 2R	On or before the date the application or notification is made

…

3 Annex 2 Application and notification fees payable in relation to collective investment schemes, recognised schemes, money market funds and AIFs marketed in the UK

3 Annex 2 R

Legislative provision	Nature and purpose of fee	Payable by	Applicable pricing category in FEES 3 Annex 1AR or amount of fee (£)	Umbrella factor (note 1)
…				

Legislative provision	Nature and purpose of fee	Payable by	Applicable pricing category in FEES 3 Annex 1AR or amount of fee (£)	Umbrella factor (note 1)
Part 4 (Alternative Investment Funds: fees payable for making a notification to the FCA to market an AIF)				
~~Regulation 10 of the *AIFMD UK regulation*~~ [Regulation 9] of the *AIFM Regulations* (Registration of RVECA and SEF Managers)	Application for registration on the register of ~~*small registered UK AIFMs*~~ *RVECA managers* and *SEF managers*	the *AIFM*	Category 3	N/A
~~Regulation 57 of the *AIFMD UK regulation*~~ [Regulation 48] of the *AIFM Regulations* (Marketing of third country AIFs managed by authorised UK AIFMs and authorised Gibraltar AIFMs)	On giving notice under ~~regulation 57 of the *AIFMD UK regulation*~~ [regulation 48] of the *AIFM Regulations* – price payable per ~~AIF~~ *AIF*	the *AIFM*	Category 1	N/A
~~Regulation 58 of the *AIFMD UK regulation*~~ [deleted]	~~On giving notice under regulation 58 of the *AIFMD UK*~~	~~the *AIFM*~~	~~1~~	~~N/A~~

	~~*regulation* – price payable per AIF~~			
~~Regulation 59 of the *AIFMD UK regulation*~~ [Regulation 49] of the *AIFM Regulations* (Marketing of AIFs managed by third country AIFMs)	On giving notice under ~~regulation 59 of the *AIFMD UK regulation*~~ [regulation 49] of the *AIFM Regulations* – price payable per ~~AIF~~ *AIF*	the *AIFM*	Category 1	N/A
	The fees in this Part are payable in addition to any other authorisation application fees.			
…				

…

4 Periodic fees

…

4.2 Obligation to pay periodic fees

…

Extension of time

4.2.11 R Table of periodic fees payable to the *FCA*

1 Fee payer	2 Fee payable	3 Due date	4 Events occurring during the period leading

			to modified periodic fee
…			
(i) A *non-UK AIFM* which has notified the *FCA* of its intention to ~~market~~ *market* an *AIF* in the *UK* under ~~regulation 59 of the *AIFMD UK regulation*~~ [regulation 49] of the *AIFM Regulations* (Marketing of AIFs managed by third country AIFMs) and which ~~has not ceased to market~~ is required to continue to comply with the conditions for *marketing* that *AIF* in the *UK* as at 1 April of the current *fee year* (ii) A *non-UK AIFM* which has notified the *FCA* of its intention to ~~market~~ *market* an *AIF* in the *UK* under ~~regulation 58 or 59 of the *AIFMD UK regulation*~~ [regulation 49] of the *AIFM Regulations* (Marketing of AIFs managed by third country AIFMs) and which ~~has not~~	For each notification made by the *AIFM* of the kind specified in part 2 of *FEES* 4 Annex 4, the amount specified in part 2 of *FEES* 4 Annex 4	(1) Unless (2) applies, on or before 1 August, or, if later, within 30 *days* of the date of the invoice (2) If an event in column 4 occurs during the course of a financial year, 30 days after the occurrence of that event	The *FCA* receives a notification to ~~market~~ *market* in the *UK*

~~ceased to market~~ is required to continue to comply with the conditions for *marketing* that *AIF* in the *UK* as at 1 April of the current *fee year*.			
A ~~*small registered UK AIFM*~~ *SEF or RVECA manager*	The basic fee contained in part 3 of *FEES* 4 Annex 4		The *AIFM* is registered by the *FCA* under ~~regulation 10 of the *AIFMD UK regulation*~~ [regulation 9] of the *AIFM Regulations* (Registration of RVECA and SEF Managers).
…			

4.3 Periodic fee payable by firms (other than AIFM qualifiers, ICVCs and TP UCITS qualifiers)

4.3.1 R The periodic fee payable by a *firm* (except an *AIFM qualifier*, *ICVC* or a ~~*UCITS qualifier*~~ *TP UCITS qualifier*) is:

…

…

4 Annex 4 Periodic fees in relation to collective investment schemes, recognised schemes, AIFs marketed in the UK, ~~small registered UK AIFMs~~ SEF or RVECA managers and money market funds payable for the period 1 April 2025 to 31 March 2026

4 Annex 4 R …

Part 2 - Periodic fees for *AIFs* marketed in the *UK*, following a notification to the *FCA* under ~~regulation 57, 58 or 59 of the *AIFMD UK regulation*~~ [regulation 48] (Marketing of third country AIFs managed by authorised UK AIFMs and authorised Gibraltar AIFMs) and [regulation 49] (Marketing of AIFs managed by third country AIFMs) of the *AIFM Regulations*

Kind of notification	Fee per AIF (£)
Notification under ~~regulation 57 of the *AIFMD UK regulation*~~ [regulation 48] of the *AIFM Regulations* (Marketing of third country AIFs managed by authorised UK AIFMs and authorised Gibraltar AIFMs)	…
~~Notification under regulation 58 of the *AIFMD UK regulation*~~	…
Notification under ~~regulation 59 of the *AIFMD UK regulation*~~ [regulation 49] of the *AIFM Regulations* (Marketing of AIFs managed by third country AIFMs)	…

Part 3 - Periodic fees paid by ~~*small registered UK AIFMs*~~ *SEF or RVECA managers*

The annual fee for ~~*small registered UK AIFMs*~~ *SEF or RVECA managers* is £…

Annex G

Amendments to the Conduct of Business sourcebook (COBS)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless otherwise stated.

1 Application

1.1 General application

…

Guidance

…

1.1.6 G *PERG* 16 contains general *guidance* on the businesses to which the ~~*UK* provisions which implemented *AIFMD* apply~~ *UK AIFM regime* applies. ~~*FUND* 1~~ *ALTS* contains *guidance* on the types of *AIFM*.

…

1 Annex 1 Application (see COBS 1.1.2R)

1 Annex 1 **Part 1: What?**

Modifications to the general application of COBS according to activities

…		
7.	**Modified meaning of regulated activities for authorised UK AIFMs and UK UCITS management companies**	
7.1	R	In determining whether a provision in *COBS* applies to ~~a UK AIFM~~ an *authorised UK AIFM* or a *UK UCITS management company*, an activity carried on by the *firm* which would be a *regulated activity* but for article 72AA (Managers of UCITS and AIFs) of the *Regulated Activities Order*, must be treated as a *regulated activity* carried on by the *firm*.
…		

…

2 Conduct of business obligations

2.1 Acting honestly, fairly and professionally

The client's best interests rule

2.1.1 R (1) A *firm* must act honestly, fairly and professionally in accordance with the best interests of its *client* (the *client's best interests rule*).

…

(3) For a *management company*, this *rule* applies in relation to any *UCITS scheme* the *firm* manages.

(4) In accordance with *COBS* 18.5.2R, this *rule* also applies to a *residual CIS operator* in relation to any *collective investment scheme* operated by the *firm*.

…

…

AIFMs' best interests rules

2.1.4 R ~~A *full-scope UK AIFM* must, for all *AIFs* it manages:~~ [deleted]

~~(1) act honestly, fairly and with due skill care and diligence in conducting their activities;~~

~~(2) act in the best interests of the *AIF* it manages or the investors of the AIF it manages and the integrity of the market;~~

~~(3) treat all investors fairly; and~~

~~(4) not allow any investor in an *AIF* to obtain preferential treatment, unless such preferential treatment is disclosed in the relevant *AIF's instrument constituting the fund*.~~

~~[**Note**: article 12(1)(a), (b) and (f) and article 12(1) last paragraph of *AIFMD*]~~

[*Editor's note*: this rule that was formerly in COBS 2.1.4R has been moved to ALTS 3.3.2R.]

~~Subordinate measures for alternative investment fund managers~~

2.1.5 G ~~Articles 16 to 29 of the *AIFMD level 2 regulation* provide detailed *rules* supplementing the relevant provisions of Article 12(1) of *AIFMD*.~~ [deleted]

…

2.2B SRD requirements

Application: Who?

2.2B.1 R This section applies to:

…

(4) an *ICVC* that is a *UCITS scheme* without a separate *management company*; and

(5) ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM*.

…

…

2.3 Inducements relating to business other than MiFID, equivalent third country or optional exemption business and insurance-based investment products

…

Rule on inducements

2.3.1 R A *firm* (other than an *authorised UK AIFM*) must not pay or accept any fee or commission, or provide or receive any non-monetary benefit, in relation to *designated investment business* carried on for a *client* other than:

…

…

2.3.1A R …

2.3.1B R (1) In relation to any activities performed when carrying out *AIFM management functions*, an *authorised UK AIFM* must not:

(a) pay to or accept from any party any fee or commission; or

(b) provide to or receive from any party any non-monetary benefit.

(2) But paragraph (1) does not apply to:

(a) a fee, commission or non-monetary benefit paid or provided to or by the *AIF* or a *person* acting on behalf of the *AIF*;

(b) a fee, commission or non-monetary benefit which:

(i) is clearly disclosed to the investors in the *AIF* before the provision of the relevant service (see (3));

(ii) is designed to enhance the quality of the relevant service being provided by the *AIFM*; and

(iii) does not impair compliance with the *AIFM's* duty to act in the best interests of the *AIF* it manages or the investors in the *AIF*; or

(c) fees which enable or are necessary for the provision of the relevant service by the *AIFM* and which by their nature do not give rise to conflicts with the *AIFM's* duties to act honestly, fairly and in accordance with the best interests of the *AIF* it manages or the investors of the *AIF*.

(3) Where a *UK AIFM* pays, provides, accepts or receives, a fee, commission or non-monetary benefit within (2)(b), the *AIFM* must clearly disclose:

(a) the existence and nature of the fee, commission or benefit; and

(b) the amount of the fee, commission or benefit or, where the amount cannot be ascertained, the method of calculating that amount,

but see *COBS* 2.3.2R.

(4) Fees which enable or are necessary for the provision of the relevant service by the *AIFM* within (2)(c) include:

(a) custody costs;

(b) settlement and exchange fees;

(c) regulatory levies; and

(d) legal fees,

…

Record keeping: inducements

2.3.17 R (1) A *firm* must make a record of the information disclosed to the *client* in accordance with *COBS* 2.3.1R(2)(b) or *COBS* 2.3.1BR(3) and must keep that record for at least five years from the date on which it was given.

…

…

2.3C Research and execution services

Application

2.3C.1 R This section applies to an *investment firm* providing execution services to:

…

(4) ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM*; or

(5) a ~~*small authorised UK AIFM*~~ *small UK AIFM*; or

...

…

11 Dealing and managing

…

11.2 Best execution for ~~AIFMs and~~ residual CIS operators

Application

11.2-7 G This section applies to:

(1) ~~a *small authorised UK AIFM* and~~ a *residual CIS operator* in accordance with *COBS* 18.5.2R~~; and~~.

(2) ~~a *full-scope UK AIFM*, in accordance with *COBS* 18.5A.3R.~~ [deleted]

11.2-6 G ~~In accordance with *COBS* 18.5.4R, this section does not apply to a *small authorised UK AIFM* of an *unauthorised AIF* or a *residual CIS operator* of a *fund* whose *fund* documents include a statement that best execution does not apply in relation to the *fund* and in which:~~ [deleted]

~~(1) no investor is a *retail client*; or~~

~~(2) no current investor in the *fund* was a *retail client* when it invested in the *fund*.~~

11.2-5 G ~~In accordance with *COBS* 18.5A.8R, only the following provisions of this section apply to a *full-scope UK AIFM*:~~ [deleted]

~~(1) *COBS* 11.2.5G;~~

~~(2) *COBS* 11.2.17G;~~

~~(3) *COBS* 11.2.23AR;~~

~~(4) *COBS* 11.2.24R;~~

~~(5) *COBS* 11.2.25R(1) and COBS 11.2.26R, but only where an *AIF* itself has a governing body which can provide prior consent; and~~

~~(6) *COBS* 11.2.27R, but only regarding the obligation on an *AIFM* to notify the *AIF* of any material changes to its order execution arrangements or execution policy.~~

…

Modifications

…

11.2-2 G In accordance with *COBS* 18.5.1AR and *COBS* 18.5.3R(2), ~~in the case of a *small authorised UK AIFM* of an *unauthorised AIF* which is a *collective investment scheme*, or a *residual CIS operator*,~~ when a ~~*firm*~~ *residual CIS operator* is required by the *rules* in this section to provide information to, or obtain consent from, a *fund*, the *firm* must ensure that the information is provided to, or consent obtained from, an investor or a potential investor in the *fund* as the case may be.

…

Information about the order execution policy

…

11.2.23 A R ~~A *full-scope UK AIFM* must make available appropriate information on its execution policy required under article 27(3) of the *AIFMD level 2 regulation* (Execution of decisions to deal on behalf of the managed AIF) and on any material changes to that policy to the investors in of each *AIF* it manages.~~ [deleted]

…

11.2B Best execution for UCITS management companies

Application

…

11.2B.2 G A *firm* that is subject to *COBS* 11.2 (Best execution for ~~AIFMs and~~ residual CIS ~~providers~~ operators) or *COBS* 11.2D (Best execution for authorised UK AIFMs) may comply with its obligations under ~~*COBS* 11.2~~ those sections by complying with the *rules* in this ~~chapter~~ section.

…

Insert the following new section, COBS 11.2D, after COBS 11.2B (Best execution for UCITS management companies). The text is all new and is not underlined.

11.2D Best execution for authorised UK AIFMs

Application

11.2D.1 R Subject to *COBS* 11.2D.2R, this section applies to an *authorised UK AIFM* when carrying on *AIFM investment management functions* on behalf of an *unauthorised AIF* which it manages.

11.2D.2 R This section does not apply to an *authorised UK AIFM* where:

(1) there is no choice between different execution venues; and

(2) an *authorised UK AIFM* can demonstrate that there is no such choice,

but the *AIFM* must act in the best interests of the *AIFs* it manages or the investors in the *AIFs* whenever it executes orders to deal on behalf of an *AIF* or places orders to deal on behalf of an *AIF* with other *persons* for execution.

Obligation to execute or place orders on terms most favourable to the AIF

11.2D.3 R When executing decisions to deal on behalf of an *unauthorised AIF*, an *authorised UK AIFM* must act in the best interests of the *AIFs* it manages or the investors in the *AIFs* and take all reasonable steps to obtain the best possible result for the *AIF* and the investors in the *AIFs*, taking into account the *execution factors*.

11.2D.4 R When placing orders to deal on behalf of an *unauthorised AIF* with other *persons* for execution, an *authorised UK AIFM* must act in the best interests of the *AIFs* it manages or the investors in the *AIFs* and take all reasonable steps to obtain the best possible result for the *AIF* or the investors in the *AIF*, taking into account the *execution factors*.

11.2D.5 R When complying with *COBS* 11.2D.3R and *COBS* 11.2D.4R, an *authorised UK AIFM* must determine the relative importance of the *execution factors*, taking into account the following criteria:

(1) the objectives, investment policy and strategy and risks specific to the *AIF*, as indicated in the *AIF's terms of investment*;

(2) the characteristics of the order;

(3) the characteristics of the *financial instruments* or other assets that are the subject of that order; and

(4) the characteristics of the execution venues to which that order can be directed.

11.2D.6 G The obligation to deliver the best possible result when executing a decision to deal applies in relation to all types of *financial instruments* and other assets. However, given the differences in market structures or the structure of *financial instruments* and other assets, it may be difficult to identify and apply a uniform standard of and procedure for best execution that would be valid and effective for all classes of instrument. Best execution obligations should therefore be applied in a manner that takes into account the different circumstances associated with the execution of orders related to particular types of *financial instruments*. For example, transactions involving a customised OTC *financial instrument* that involve a unique contractual relationship tailored to the circumstances of the *AIF* and the *AIFM* may not be comparable for best execution purposes with transactions involving shares traded on centralised execution venues.

Requirement for order execution arrangements including an order execution policy

11.2D.7 R (1) An *authorised UK AIFM* must establish and implement effective arrangements for complying with the obligation to take all reasonable steps to obtain the best possible result for each *AIF* it manages.

(2) In particular, the *AIFM* must establish and implement an order execution policy to allow it to obtain the best possible result for each *AIF* it manages under *COBS* 11.2D.3R and *COBS* 11.2D.4R.

(3) The execution policy must be recorded in writing.

11.2D.8 R An *authorised UK AIFM* must be able to demonstrate that it has executed orders on behalf of an *AIF* in accordance with the *AIFM's* execution policy.

11.2D.9 R (1) Where an *authorised UK AIFM* places orders to deal on behalf of an *AIF* with another *person* for execution, the execution policy in *COBS* 11.2D.7R must identify, for each class of *financial instrument* or other asset, those *persons* with whom the orders may be placed.

(2) When placing or transmitting an order to another *person* for execution, an *authorised UK AIFM* may only enter into arrangements for execution where the arrangements are consistent with its obligations.

Appropriate information to be made available to investors

11.2D.10 R (1) An *authorised UK AIFM* must make available to investors in the *AIF* appropriate information on:

(a) the execution policy in *COBS* 11.2D.7R; and

(b) any material changes to it.

(2) Where the order execution policy provides for the possibility that an order may be executed outside a *regulated market* or an *MTF*, the *AIFM* must, in particular, inform investors about this possibility.

11.2D.11 G The provisions of this section which provide that costs of execution include an *AIFM's* own commissions or fees charged to an *AIF* for the provision of an *investment service* should not apply for the purpose of determining what execution venues must be included in the *AIFM's* execution policy.

AIF consent to execution policy and execution of orders outside a regulated market or MTF

11.2D.12 R (1) Where an *AIF* has a *governing body*, the *AIFM* must obtain:

(a) the *AIF's* prior consent to its execution policy; and

(b) the prior express consent of the *AIF* before proceeding to execute their orders outside a r*egulated market* or an *MTF*.

(2) The *AIFM* may obtain the consent in (1)(b) either in the form of a general agreement or in respect of individual transactions.

Monitoring and review of the order execution arrangements including the order execution policy

11.2D.13 R (1) An *authorised UK AIFM* must monitor the effectiveness of its order execution arrangements and policy on a regular basis to identify and, where appropriate, correct any deficiencies.

(2) An *authorised UK AIFM* that places orders with other *persons* for execution must in particular monitor the execution quality of the *persons* identified in the execution policy on a regular basis to identify and, where appropriate, correct any deficiencies.

(3) In addition, an *authorised UK AIFM* must review its execution policy:

(a) once a year; and

(b) whenever a material change occurs that affects the *AIFM's* ability to continue to obtain the best possible result for an *AIF*.

(4) The *AIFM* must notify the *AIF* of any material changes to the order execution arrangements or execution policy.

Amend the following as shown.

11.7 Personal account dealing

…

Rules on personal account dealing

11.7.1 R A *firm* that conducts *designated investment business* must establish, implement and maintain adequate arrangements aimed at preventing the following activities in the case of any *relevant person* who is involved in activities that may give rise to a conflict of interest, or who has access to inside information as defined in the *Market Abuse Regulation* or to other confidential information relating to *clients* or transactions with or for *clients* by virtue of an activity carried out by ~~him or her~~ them on behalf of the *firm*:

(1) entering into a *personal transaction* which meets at least one of the following criteria:

…

(c) it conflicts or is likely to conflict with an obligation of the *firm* to a *customer* under the *regulatory system* or any other obligation of the *firm* under *MiFID*, the *UK AIFM regime* or the *UCITS Directive*;

…

…

Disapplication of rule on personal account dealing

…

11.7.6 R For the purposes of this section, a *person* who is not:

…

will only be a *relevant person* to the extent that they are involved in the provision of *designated investment business*, *AIFM management functions* or *collective portfolio management* services.

…

18 Specialist Regimes

…

18.5 Residual CIS operators and ~~small authorised UK AIFMs~~ small UK AIFMs

Application

18.5.1 R Subject to *COBS* 18.5.1AR, this section applies to a *firm* which is:

…

(3) a ~~*small authorised UK AIFM*~~ *small UK AIFM*; or

(4) a *residual CIS operator*.

…

18.5.1A R ~~*COBS* 18.5.3R(2) and *COBS* 18.5.5R to *COBS* 18.5.18E do not apply to a *small authorised UK AIFM* of an *unauthorised AIF* which is not a *collective investment scheme*.~~ [deleted]

Application or modification of general COBS rules

18.5.2 R A *firm* when it is carrying on *scheme management activity* or, for an *AIFM*, *AIFM investment management functions*:

(1) must comply with the *COBS rules* specified in the table, as modified by this section; and

(2) need not comply with any other *rule* in *COBS*.

Table: Application of conduct of business rules	
Chapter, section, rule	**~~Small authorised UK AIFM~~ Small UK AIFM and a residual CIS operator**
COBS 1 (Application)	Applies
COBS 2.1.1R (The client's best interests rule)	Applies to a *residual CIS operator*
COBS 2.2B (SRD requirements)	Applies to a *small UK AIFM*
COBS 2.3 (Inducements relating to business other than MiFID, equivalent third country or optional exemption business and insurance-based investment products)	Applies
COBS 2.3B (Inducements and research)	Applies, as modified by *COBS* 18 Annex 1
COBS 2.4 (Agent as client and reliance on others)	Applies

COBS 4.2.1R, *COBS* 4.2.2G and *COBS* 4.2.3G (The fair, clear and not misleading rule)	Applies
COBS 5.2 (E-commerce)	Applies
COBS 11.2 (Best execution for ~~AIFMs and~~ residual CIS operators)	~~Applies to a *small authorised UK AIFM* of an *authorised AIF*.~~ Applies ~~(as modified by *COBS* 18.5.4R)~~ to a ~~*small authorised UK AIFM* of an *unauthorised AIF* or~~ *residual CIS operator*.
COBS 11.2D (Best execution for authorised UK AIFMs)	Applies to a *small UK AIFM*.
COBS 11.3 (Client order handling)	Applies to a *residual CIS operator*.
COBS 11.7 (Personal account dealing)	Applies to a *small UK AIFM*.
~~16.3 (Periodic reporting)~~ [deleted]	~~Applies to a *small authorised UK AIFM* of an *unauthorised AIF* which is not a *collective investment scheme*, as modified by *COBS* 18.5.4BR. Otherwise does not apply.~~
COBS 18.5 (Residual CIS operators and ~~small authorised UK AIFMs~~ small UK AIFMs)	Applies
COBS 18 Annex 1 (Research and inducements for collective portfolio managers)	Applies (subject to COBS 18.5.3CR)
COBS 18 Annex 2 (Record keeping: client orders and transactions)	Applies to a *residual CIS operator*.

…

General modifications

18.5.3 R Where *COBS rules* specified in the table in *COBS* 18.5.2R apply to a *firm* carrying on *scheme management activity* or, for an *AIFM*, *AIFM investment management functions*, the following modifications apply:

…

(2) in the case of a ~~*small authorised UK AIFM*~~ *small UK AIFM* of an *unauthorised AIF* or a *residual CIS operator*, when a *firm* is required by the *rules* in *COBS* to provide information to, or obtain consent from, a *customer* or *client*, the *firm* must ensure that the information is provided to, or consent obtained from, an investor or a potential investor in the *fund* as the case may be; and

(3) (in relation to a *residual CIS operator*) references to the service of *portfolio management* in *COBS* 11.2 (Best execution for ~~AIFMs and~~ residual CIS operators) and *COBS* 11.3 (Client order handling) are to be read as references to the management by a *firm* of *financial instruments* held for or within the *fund*.

…

…

~~Modification of best execution~~

18.5.4 R ~~The best execution provisions in *COBS* 11.2 (Best execution for AIFMs and residual CIS operators) do not apply to a *small authorised UK AIFM* of an *unauthorised AIF* or a *residual CIS operator* of a *fund* whose *fund* documents include a statement that best execution does not apply in relation to the *fund* and in which:~~ [deleted]

~~(1) no investor is a *retail client*; or~~

~~(2) no current investor in the fund was a retail client when it invested in the *fund*.~~

~~Modification of periodic reporting requirements~~

18.5.4B R ~~A *small authorised UK AIFM* of an *unauthorised AIF* which is not a *collective investment scheme* must comply with *COBS* 16.3 (Periodic reporting) with references to *managing investments* to be construed as providing *AIFM investment management functions*.~~ [deleted]

~~Scheme documents for an unauthorised fund~~

18.5.5 R ~~A *small authorised UK AIFM* of an *unauthorised AIF* or a *residual CIS operator* must not accept a *retail client* as an investor in the *fund* unless it has taken reasonable steps to offer and, if requested, provide to the potential investor, *fund* documents which adequately describe how the *fund* is governed.~~ [deleted]

Prohibition on issue of new bearer units

18.5.5-A G The effect of section 241A of the *Act* is that no bearer *units* in a *collective investment scheme* may be issued, converted or cancelled from 1 January 2021. ~~However, the Bearer Certificates (Collective Investment Schemes)~~

~~Regulations 2020 (SI 2020/1346) contain transitional provisions for the conversion of bearer *units* to registered *units* and the cancellation of bearer *units* on or before 1 January 2022.~~

…

~~Format and content of fund documents~~

18.5.6 G ~~The fund documents required under *COBS* 18.5.5R may consist of any number of *documents* provided that it is clear that collectively they constitute the fund documents and provided the use of several *documents* in no way diminishes the significance of any of the statements which are required to be given to the potential investor.~~ [deleted]

18.5.6A G ~~Where a *small authorised UK AIFM* of an *unauthorised AIF* or a *residual CIS operator* is required to publish a *product summary*, only information that is additional to that contained in a *product summary* needs to be disclosed under *COBS* 18.5.5R.~~ [deleted]

18.5.7 G ~~The fund documents of an *unauthorised fund* managed by a *small authorised UK AIFM* or a *residual CIS operator* (if those fund documents exist) should make it clear that if an investor is reclassified as a *retail client*, this reclassification will not affect certain activities of the *firm*. In particular, despite such a reclassification, the *firm* will not be required to comply with the best execution provisions. It should be noted that there is no requirement that *fund documents* must be produced by a *small authorised UK AIFM* of an *unauthorised fund* or a *residual CIS operator* unless they are required to prepare a *product summary* under *DISC*.~~ [deleted]

18.5.8 R ~~Where the *fund* is an *unauthorised fund* managed by a *small authorised UK AIFM* or a *residual CIS operator* and no current investor in the *fund* was a *retail client* when it invested in the *fund*, the fund *documents* must include a statement that:~~

~~(1) explains that if an investor is reclassified as a *retail client* subsequent to investing in the *fund*, then the *firm* may continue to treat all investors in the *fund* as though they were not *retail clients*;~~

~~(2) explains that if an investor is reclassified as a *retail client* subsequent to investing in the *fund*, then the modification of best execution (see *COBS* 18.5.4 R) will continue to apply to that *fund*; and~~

~~(3) explains that, in the event of such a reclassification, the *firm* will not be required to provide best execution in relation to the *fund*.~~ [deleted]

Reclassification of investors as retail clients

18.5.9 G A ~~*small authorised UK AIFM*~~ *small UK AIFM* of an *unauthorised AIF* or a *residual CIS operator* will ~~still~~ have to comply with other *COBS* provisions as a result of the reclassification of an investor as a *retail client*. ~~For~~

~~example, the *firm* must provide *periodic statements* to investors who are *retail clients* in an *unauthorised fund* (see the rule on periodic statements for an unauthorised fund (*COBS* 18.5.11R)).~~

18.5.9A G ~~A *small authorised UK AIFM* that uses a *sustainability label*, or one of the terms in *ESG* 4.3.2R(2) in accordance with *ESG* 4.3.2R(1), in relation to a *UK AIF* is reminded of its obligations in *ESG* 5.3 to *ESG* 5.5 relating to the preparation of Part A of a *public product-level sustainability report*.~~ [deleted]

Adequate information

18.5.10 E ~~(1) In order to provide adequate information to describe how the *fund* is governed, a *small authorised UK AIFM* of an *unauthorised AIF* or a *residual CIS operator* should include in the fund documents a provision about each of the items of relevant information set out in the following table (Content of fund documents).~~ [deleted]

~~(2) Compliance with (1) may be relied on as tending to establish compliance with *COBS* 18.5.5R.~~

~~(3) Contravention of (1) may be relied on as tending to establish contravention of *COBS* 18.5.5R.~~

~~Table: Content of fund documents~~

[*Editor's note*: The table 'Content of fund documents' is deleted in its entirety. The change is not shown.]

~~Periodic statements for an unauthorised fund~~

18.5.11 R ~~A *small authorised UK AIFM* of an *unauthorised AIF* or a *residual CIS operator* must, subject to the exceptions from the requirement to provide a *periodic statement*, provide to investors in the *fund*, promptly and at suitable intervals, a statement in a *durable medium* which contains adequate information on the value and composition of the portfolio of the *fund* at the beginning and end of the period of the statement.~~ [deleted]

~~Promptness, suitable intervals and adequate information~~

18.5.12 E ~~(1) A *small authorised UK AIFM* of an *unauthorised AIF* or a *residual CIS operator* should act in accordance with the provisions in the right hand column of the *periodic statements* table (see *COBS* 18.5.15E) to fulfil the requirement to prepare and issue *periodic statements* indicated in the left hand column against these provisions.~~ [deleted]

~~(2) Compliance with (1) may be relied on as tending to establish compliance with the requirement to prepare and issue *periodic statements*.~~

(3) Contravention of (1) may be relied on as tending to establish contravention of the requirement to prepare and issue *periodic statements*.

Exceptions from the requirement to provide a periodic statement

18.5.13 R (1) A *small authorised UK AIFM* of an *unauthorised AIF* or a *residual CIS operator* need not provide a *periodic statement*: [deleted]

(a) (i) to an investor in the *fund* who is a *retail client* ordinarily resident outside the *United Kingdom*; or

(ii) to an investor in the *fund* who is a *professional client*; if the investor has so requested or the *firm* has taken reasonable steps to establish that the investor does not wish to receive it; or

(b) if it would duplicate a statement to be provided by someone else.

Record keeping requirements

18.5.14 R A *small authorised UK AIFM* of an *unauthorised AIF* or a *residual CIS operator* must make a copy of any *periodic statement* it has provided in accordance with the requirement to prepare and issue *periodic statements* to investors in the *fund*. The record must be retained for a minimum period of three years. [deleted]

18.5.15 E Table: Periodic statements [deleted]

This table belongs to *COBS* 18.5.12E.

[*Editor's note*: The table underneath the text in COBS 18.5.15E is deleted in its entirety. The change is not shown.]

18.5.16 G Examples of uncovered open positions include: [deleted]

(1) selling a call *option* on an *investment* not held in the portfolio;

(2) unsettled sales of call *options* on currency in amounts greater than the portfolio's holding of that currency in cash or in *readily realisable investments* denominated in that currency; and

(3) transactions having the effect of *selling* an index to an amount greater than the portfolio's holdings of *investments* included in that index.

18.5.17 E ~~Table: General contents of a periodic statement~~ [deleted]

~~This table belongs to *COBS* 18.5.15E.~~

[*Editor's note*: The table belonging to COBS 18.5.17E is deleted in its entirety. The change is not shown.]

18.5.18 E ~~Table: Contents of a periodic statement in respect of contingent liability investments~~ [deleted]

~~This table belongs to *COBS* 18.5.15E.~~

[*Editor's note*: The table belonging to COBS 18.5.18E is deleted in its entirety. The change is not shown.]

18.5A ~~Full-scope UK AIFMs and incoming EEA AIFM branches~~ Large UK AIFMs and medium UK AIFMs

Application

18.5A.1 R Subject to *COBS* 18.5A.2R, this section applies to a *firm* which is:

(1) a ~~*full-scope UK AIFM*~~ *large UK AIFM* or a *medium UK AIFM* of:

…

…

18.5A.2 R ~~The adequate information provisions in *COBS* 18.5A.11R do not apply to a *full-scope UK AIFM* of:~~ [deleted]

~~(1) [deleted]~~

~~(2) an *unauthorised AIF* which is not a *collective investment scheme*.~~

Application or modification of general COBS rules

18.5A.3 R A *firm* when it is carrying on *AIFM investment management functions*:

(1) must comply with the *COBS rules* specified in the table, as modified by this section; and

(2) need not comply with any other *rule* in *COBS*.

Table: Application of conduct of business rules

Chapter, section, rule	~~Full-scope UK AIFM~~ Large UK AIFM or medium UK AIFM
COBS 1 (Application)	Applies
~~2.1.4R (AIFMs best interest rule)~~ [deleted]	~~Applies~~
COBS 2.2B (SRD requirements)	Applies
COBS 2.3 (Inducements relating to business other than MiFID, equivalent third country or optional exemption business and insurance-based investment products)	Applies
COBS 2.3B (Inducements and research)	Applies, as modified by *COBS* 18 Annex 1
COBS 4.2.1R, *COBS* 4.2.2G and *COBS* 4.2.3G (The fair, clear and not misleading rule)	Applies
COBS 5.2 (E-commerce)	Applies
~~11.2 (Best execution for AIFMs and residual CIS operators)~~ [deleted]	~~Applies (as modified by *COBS* 18.5A.8R)~~
COBS 11.2D (Best execution for authorised UK AIFMs)	Applies
COBS 11.7 (Personal account dealing)	Applies
COBS 18.5A (~~*Full-scope UK AIFMs*~~ Large UK AIFMs and medium UK AIFMs)	Applies as modified by *COBS* 18.5A.2R
COBS 18 Annex 1 (Research and inducements for collective portfolio managers)	Applies (subject to COBS 18.5A.7R)

…

General modifications

18.5A.5 R Where *COBS rules* specified in the table in *COBS* 18.5A.3R apply to a *firm* carrying on *AIFM investment management functions*~~,~~:

(1) references to *customer* or *client* are to be construed as references to any *AIF* for which the *firm* is acting or intends to act~~.~~; and

(2) when a *firm* is required by the *rules* in *COBS* to provide information to, or obtain consent from, a *customer* or *client*, the *firm* must ensure that the information is provided to, or consent obtained from, an investor or a potential investor in the *fund* as the case may be.

…

~~Modification of best execution~~

18.5A.8 R ~~Only the following provisions in *COBS* 11.2 apply:~~ [deleted]

~~(1) *COBS* 11.2.5G;~~

~~(2) *COBS* 11.2.17G;~~

~~(3) *COBS* 11.2.23AR;~~

~~(4) *COBS* 11.2.24R;~~

~~(5) *COBS* 11.2.25R(1) and *COBS* 11.2.26R, but only where an *AIF* itself has a governing body which can provide prior consent; and~~

~~(6) *COBS* 11.2.27R, but only regarding the obligation on an *AIFM* to notify the *AIF* of any material changes to its order execution arrangements or execution policy.~~

18.5A.9 R ~~References to the service of portfolio management in *COBS* 11.2 (Best execution for AIFMs and residual CIS operators) are to be read as references to the management by a *firm* of *financial instruments* held for or within the *AIF*.~~ [deleted]

…

~~Adequate information~~

18.5A.11 R ~~A *full-scope UK AIFM* that markets an *unauthorised AIF* to a *retail client* must, in addition to providing the information in *FUND* 3.2 (Investor information)), take reasonable steps to offer and, if requested, provide to that potential investor information about the following items:~~ [deleted]

~~(1) regulator – the *firm's* statutory status in accordance with *GEN* 4 Annex 1R (Statutory status disclosure);~~

~~(2) commencement – when and how the *firm* is appointed;~~

~~(3) accounting – the arrangements for accounting to the *AIF* or investors in the *AIF* for any transaction effected;~~

(4) termination method – how the appointment of the *firm* may be terminated;

(5) complaints procedure – how to complain to the *firm* and a statement that the investors in the *AIF* may subsequently complain directly to the *Financial Ombudsman Service*;

(6) compensation – whether or not compensation may be available from the *compensation scheme* should the *firm* be unable to meet its liabilities, and information about any other applicable compensation scheme; and for each applicable compensation scheme, the extent and level of cover and how further information can be obtained;

(7) exchange rates – if a liability of the AIF in one currency is to be matched by an asset in a different currency, or if the services to be provided to the *firm* for the *AIF* may relate to an *investment* denominated in a currency other than the currency in which the *investments* of the *AIF* are valued, a warning that a movement of exchange rates may have a separate effect, unfavourable or favourable, on the gain or loss otherwise made on the portfolio of the *AIF*;

(8) stabilised investments – if it is the case, that the *firm* will have the right under the *AIF documents* to effect transactions in *investments*, the prices of which may be the subject of stabilisation;

(9) research and inducements – how the *firm* intends to pay for research. For example, whether the *firm* proposes to pay for *research* directly or to use a *research* payment account;

(10) acting as principal – if it is the case, that the firm may act as *principal* in a transaction with the *AIF*;

(11) underwriting commitments – if it is the case, that the firm may for the account of the portfolio of the *AIF* underwrite or sub-underwrite any issue or offer for sale of *securities*, and:

(a) whether there are any restrictions on the categories of *securities* which may be underwritten and, if so, what these restrictions are; and

(b) whether there are any financial limits on the extent of the underwriting and, if so, what these limits are;

(12) investments in other funds – whether or not the *AIF* may invest in *funds* either managed or advised by the *firm* or by an *associate* of the *firm* or in a *fund* which is not a *regulated collective investment scheme*; and

~~(13) investments in securities underwritten by the *firm* – whether or not the portfolio of the *AIF* may contain *securities* of which any issue or offer for sale was underwritten, managed or arranged by the *firm* or by an *associate* of the *firm* during the preceding 12 *months*.~~

18.5A.12 G ~~Where a *full-scope UK AIFM* is required to publish a *product summary*, only information that is additional to that contained in a *product summary* needs to be disclosed under *COBS* 18.5A.11R.~~ [deleted]

…

18.9 ICVCs

…

18.9.2 G *Firms* should note that the *operator* of an *ICVC* when it is undertaking *scheme management activity* will be subject to:

(1) *COBS* 18.5.2R if the operator is a ~~*small authorised UK AIFM*~~ *small UK AIFM*; or

(2) *COBS* 18.5A.3R if the operator is a ~~*full-scope UK AIFM*~~ *large UK AIFM* or a *medium UK AIFM*; or

…

…

18 Annex 1 Research and inducements for collective portfolio managers

18 Annex 1

1	Application		
1.1	G	This section applies to:	
		(1)	a ~~*small authorised UK AIFM*~~ *small UK AIFM* and a *residual CIS operator*, in accordance with *COBS* 18.5.2R;
		(2)	a ~~*full-scope UK AIFM*~~ *large UK AIFM* or a *medium UK AIFM*, in accordance with *COBS* 18.5A.3R;
		…	
…			

2	Rule on research and inducement			
…				
2.4	G	A *firm* may inform investors in the *fund* about the fees, commissions or monetary benefits transferred to them through:		
		(1)	the periodic reporting statements provided to *participants* or investors who are *retail investors* in an ~~*unregulated collective investment scheme* in accordance with *COBS* 18.5.11R~~ *unauthorised AIF* or *residual CIS* in accordance with *ALTS* 10.4 (Periodic reporting for retail investors) ~~for a *small authorised UK AIFM* or a *residual CIS operator*~~; ~~or~~	
		(2)	the annual reports provided on request to investors~~, for a *small authorised UK AIFM*~~ by an *authorised UK AIFM* in relation to an *authorised AIF*~~, a *full-scope UK AIFM*~~, or a *UCITS management company*; or	
		(3)	the annual reports provided to investors by a *medium UK AIFM* or a *large UK AIFM*, or the annual summaries provided to investors by a small *UK AIFM* or a *residual CIS operator*.	
…				
4	Inducements and research			
…				
	General modifications			
…				
4.3	R	Where *COBS* 2.3B applies to a *firm*, the following modifications apply:		
		…		
		(5)	in *COBS* 2.3B.24G, the reference to *COBS* 11.2A is to be construed as a reference to:	
			(a)	*COBS* 11.2 for ~~*small authorised UK AIFMs* and~~ *residual CIS operators*;
			(b)	*COBS* 11.2B for *UCITS management companies*; and
			(c)	~~articles 27 and 28 of the *AIFMD level 2 regulation* for *full-scope UK AIFMs*~~ *COBS* 11.2D for *authorised UK AIFMs*.

	Prior disclosure of the research account to investors			
…				
4.10	G	(1)		~~A *full-scope UK AIFM*~~ An *authorised UK AIFM* of an *unauthorised AIF* may wish to publish the information in paragraph 4.8 with the information to be made available about *AIFs* in accordance with ~~*FUND* 3.2.2R(9) (Prior disclosure of information to investors)~~ *ALTS* 9.3 (Pre-contractual information for professional investors) and *ALTS* 9.4 (Pre-contractual information for retail investors).
		(2)		A ~~*small authorised UK AIFM* of an *unauthorised AIF* or a~~ *residual CIS operator* may wish to publish the information in paragraph 4.8 with the information to be made available about ~~*AIFs*~~ a *residual CIS* in accordance with ~~*COBS* 18.5.5R (Scheme documents for an unauthorised fund)~~ *ALTS* 9.3 (Pre-contractual information for professional investors) and *ALTS* 9.4 (Pre-contractual information for retail investors).
		…		
…				
	Periodic disclosure of the research payment account to investors			
…				
4.13	G	(1)		~~A *full-scope UK AIFM*~~ An *authorised UK AIFM* of an *unauthorised AIF* may wish to publish the information in paragraph 4.12 with the information to be made available about *AIFs* in accordance with ~~*FUND* 3.3 (Annual report of an AIF)~~ *ALTS* 10.2 (Provision and contents of an annual report) and *ALTS* 10.4 (Periodic reporting for retail investors).
		…		
…				
	Additional modifications relating to joint payments for third-party research and execution services			
…				
4.21	R	In *COBS* 2.3B.29R, the reference to "*COBS* 11.2A.2R" is to be read as a reference to:		

		(1)	(for a ~~*small authorised UK AIFM* and a~~ *residual CIS operator*) "*COBS* 11.2.1R (Obligation to execute orders on terms most favourable to the client)";
		(2)	(for a *UCITS management company*) "*COBS* 11.2B.5R (Obligation to execute orders on terms most favourable to the scheme)"; and
		(3)	(for ~~a *full-scope UK AIFM*~~ an *authorised UK AIFM* of an *unauthorised AIF*) ~~"article 27(2) of the *AIFMD level 2 regulation* (Execution of decisions to deal on behalf of the managed AIF)"~~ "*COBS* 11.2D.4R (Obligation to execute or place orders on terms most favourable to the AIF)".
…			
	Prior disclosures relating to joint payments for research		
…			
4.26	G	…	
		(2)	~~A *full-scope UK AIFM*~~ An *authorised UK AIFM* of an *unauthorised AIF* or a *residual CIS operator* may wish to publish the information in *COBS* 18 Annex 1 4.25R with the information to be made available in accordance with ~~*FUND* 3.2.2R (Prior disclosure of information to investors)~~ *ALTS* 9.3 (Pre-contractual information for professional investors) and *ALTS* 9.4 (Pre-contractual information for retail investors).
		(3)	~~A *small authorised UK AIFM* of an *unauthorised AIF* or a *residual CIS operator* may wish to publish the information in *COBS* 18 Annex 1 4.25R along with the information to be made available about *AIFs* or *CISs* in accordance with *COBS* 18.5.5R (Scheme documents for an unauthorised fund).~~ [deleted]
	Periodic disclosures relating to joint payments for research		
…			
4.28	G	…	
		(2)	~~A *full-scope UK AIFM*~~ A *medium UK AIFM* or a *large UK AIFM* of an *unauthorised AIF* may wish to publish the information in *COBS* 18 Annex 1 4.27R with the information to be made available about *AIFs* in accordance with ~~*FUND* 3.3 (Annual report of an AIF)~~ *ALTS* 10.2 (Provision and

			contents of an annual report) or *ALTS* 10.4 (Periodic reporting for retail investors) (as applicable).
		(3)	A ~~*small authorised UK AIFM*~~ *small UK AIFM* or a *residual CIS operator* may wish to publish the information in *COBS* 18 Annex 1 4.27R in the annual summary required by *ALTS* 10.3 (Provision and contents of an annual summary) or a *periodic statement* to *unitholders* or investors in the *fund* pursuant to ~~*COBS* 18.5.11R~~ *ALTS* 10.4 (Periodic reporting for retail investors) (~~if~~ as applicable).

18 Annex 2 **Record keeping: client orders and transactions**

18 Annex 2

1	Application			
1.1	R	This section applies to:		
		…		
		(2)	~~a *small authorised UK AIFM* and~~ a *residual CIS operator*;	
		…		
1.2	G	In accordance with *COBS* 18.5.3R(1), references to *client* in relation to ~~a *small authorised UK AIFM* or~~ a *residual CIS operator* are to be construed as references to any *fund* in respect of which the *firm* is acting or intends to act.		
2	Record keeping of client orders and decisions to deal			
2.1	R	(1)	A *firm* must immediately make a record of the details in (2), to the extent they are applicable to the order or decision to deal in question, in relation to:	
			…	
			(c)	for ~~a *small authorised UK AIFM* and~~ a *residual CIS operator*, every decision to deal taken in managing *financial instruments* held for or within a *fund*.
		…		

…			

Sch 1 Record keeping requirements

Sch 1.3 G

Handbook reference	Subject of record	Contents of record	When record must be made	Retention period
…				
~~*COBS* 18.5.14R~~	~~*Residual CIS operators* and small authorised UK AIFMs of an unauthorised AIF~~	~~*Periodic statement* to be provided to *participants*~~	~~When provided~~	~~3 years~~
…				

Annex H

Amendments to the Environmental, Social and Governance sourcebook (ESG)

In this Annex, underlining indicates new text and striking through indicates deleted text.

[*Editor's note:* The FCA is consulting in the consultation paper 'Aligning listed issuers' sustainability disclosures with international standards' (CP26/5) on removing some of the TCFD provisions in ESG 1 and ESG 2 but these have been retained in this draft pending the outcome of that consultation.]

1 Purpose and application

…

1.2 General application

…

1.2.4 G (1) The table at *ESG* 1.2.4G(2) provides a general overview as to how the *rules* in *ESG* 2, *ESG* 4 and *ESG* 5 apply to *firms*.

(2) This table belongs to *ESG* 1.2.4G(1).

<table>
<tr><th colspan="2">Type of firm</th><th>Applicable provisions</th></tr>
<tr><td colspan="2">…</td><td></td></tr>
<tr><td colspan="3">Asset managers</td></tr>
<tr><td colspan="2">A firm managing a UK UCITS or an AIF, excluding:</td><td rowspan="3">ESG 2 (except for ESG 2.3.5R to ESG 2.3.8R relating to on-demand TCFD information);
ESG 4 (except for ESG 4.1.16R to ESG 4.1.19R relating to distributors) only in relation to UK UCITS and UK AIFs;
ESG 5 (except for ESG 5.5.13R to ESG 5.5.15R relating to on demand sustainability information) only in relation to UK UCITS and UK AIFs.</td></tr>
<tr><td>…</td><td></td></tr>
<tr><td>(b)</td><td><s>a full-scope UK AIFM or a small authorised UK AIFM</s> <u>an authorised UK AIFM</u> managing an unauthorised AIF not listed on a recognised investment exchange;</td></tr>
<tr><td colspan="2">…</td><td></td></tr>
</table>

A *firm* that is ~~a *full-scope UK AIFM* or a *small authorised UK AIFM*~~ an *authorised UK AIFM* managing an *unauthorised AIF* not listed on *a recognised investment exchange*	*ESG* 2 (except for *ESG* 2.3.1R to *ESG* 2.3.4R relating to a *public TCFD product report*); *ESG* 4 (except for *ESG* 4.1.16R to *ESG* 4.1.19R relating to *distributors*) only in relation to *UK AIFs*; *ESG* 5 (except in relation to the preparation of Part B of a *public product-level sustainability report*) only in relation to *UK AIFs*.
Asset owners	
…	

1.1A Application of ESG 2

1A.1.1 R (1) The *rules* in *ESG* 2 apply to a *firm* of a type listed in column 1 of the table at *ESG* 1A.1.1R(2) in relation to the *TCFD in-scope business* carried out from an establishment maintained by it in the *United Kingdom* as described in column 2.

(2) This table belongs to *ESG* 1A.1.1R(1).

Column 1: type of firm	Column 2: TCFD in-scope business
Part A: Asset managers	
…	
~~*Full-scope UK AIFM*~~ *Authorised UK AIFM*	*Managing an AIF*
~~*Small authorised UK AIFM*~~ [deleted]	~~*Managing an AIF*~~
…	

…

2 Disclosure of climate related financial information

…

2.2 TCFD entity report

…

Approach to relevant climate-related financial disclosures contained in other reports at an entity-level

…

2.2.6 R (1) If a *firm* or a member of its *group* produces a document, other than its annual financial report, which includes climate-related financial disclosures consistent with the *TCFD Recommendations and Recommended Disclosures* in compliance with *UKLR* 6.6.6R(8) for its *TCFD in-scope business*, the *firm* may cross-refer to these disclosures in its *TCFD entity report* where this information is relevant to *clients* or a *person* who is an investor in an *unauthorised AIF* managed by ~~a *UK AIFM*~~ an *authorised UK AIFM*, including hyperlinks to where the relevant disclosures are available.

(2) Where a *firm* so refers, it must explain in its *TCFD entity report* the rationale for relying on the disclosures in the supplementary document and how such disclosures are relevant to the *clients* or a *person* who is an investor in an *unauthorised AIF* managed by ~~a *UK AIFM*~~ an *authorised UK AIFM* of the *firm's TCFD in-scope business*.

…

2.3 Product-level reporting

Public TCFD product reports

2.3.1 R In addition to the publishing obligation in *ESG* 2.1.3R, a *firm*, other than ~~a *UK AIFM*~~ an *authorised UK AIFM* to which *ESG* 2.3.2R applies, must include its *public TCFD product report*, or an adequately contextualised and prominent cross-reference and hyperlink to the report's location on the *firm's* website, in any one of the following communications which follow most closely after the annual reporting deadline of 30 June, as applicable:

…

2.3.2 R ~~A *UK AIFM*~~ An *authorised UK AIFM* that manages an *unauthorised AIF* listed on a *recognised investment exchange* must include its *public TCFD product report*, or an adequately contextualised and prominent cross-reference and hyperlink to this report, in its *TCFD entity report*.

…

On-demand TCFD product reports and underlying data

2.3.5 R …

(4) This *rule* also applies in respect of a *person* who is an investor in an *unauthorised AIF* managed by ~~*a UK AIFM*~~ an *authorised UK AIFM* which is not listed on a *recognised investment exchange*.

…

3 Application of ESG 4 and ESG 5

3.1 Application of ESG 4 and ESG 5 to firms

…

Application of ESG 4 and ESG 5

3.1.2 R …

(3) Subject to *ESG* 3.1.3R, all the *rules* and *guidance* in *ESG* 4 and *ESG* 5 apply to a *manager* of a type listed in column 1 of the table at *ESG* 3.1.2R(4) in relation to the *sustainability in-scope business* described in column 2 which either:

(a) is carried out from an establishment maintained by the *manager* in the *United Kingdom*; or

(b) to the extent that it is not carried out from an establishment maintained by the *manager* in the *United Kingdom*, is carried on in relation to a *UK AIF*.

(4) This table belongs to *ESG* 3.1.2R(3).

Column 1: type of manager	**Column 2: sustainability in-scope business**
…	
~~*Full-scope UK AIFM*~~ *Authorised UK AIFM*	~~Managing an *AIF*~~ *Managing an AIF*
~~*Small authorised UK AIFM*~~ [deleted]	~~Managing an *AIF*~~

…

5 Disclosure of sustainability-related information

…

5.5 Sustainability product-level reporting

…

On-demand product-level sustainability information

5.5.13 R …

(2) In *ESG* 5.5.13R(1), the specified information is the information under *ESG* 5.4.4R, *ESG* 5.5.1R to *ESG* 5.5.4R (as applicable) and *ESG* 5.5.5R to *ESG* 5.5.7R in relation to assets under management in an *unauthorised AIF* in which the *person* is an investor, but only in respect of an *unauthorised AIF* which is a *UK AIF* which is not listed on a *recognised investment exchange* and which is managed by ~~a *full-scope UK AIFM* or a *small authorised UK AIFM*~~ an *authorised UK AIFM*.

…

5.6 Sustainability entity report

…

Approach to relevant sustainability-related disclosures contained in other reports at an entity-level

…

5.6.7 R (1) If a *manager* or a member of its *group* produces a document, other than its annual financial report, which includes disclosures relating to *sustainability characteristics*, the *manager* may cross-refer to these disclosures in its *sustainability entity report* where this information is relevant to *clients* or a *person* who is an investor in an unauthorised *UK AIF* managed by ~~a *full-scope UK AIFM* or a *small authorised UK AIFM*~~ an *authorised UK AIFM*, including hyperlinks to where the relevant disclosures are available.

(2) Where a *manager* cross-refers to disclosures made by a member of its *group* in accordance with *ESG* 5.6.7R(1), it must explain in its *sustainability entity report* the rationale for relying on the disclosures in the supplementary document and how such disclosures are relevant to the *clients* or a *person* who is an investor in an *unauthorised AIF* which is a *UK AIF* managed by ~~a *full-scope UK AIFM* or a *small authorised UK AIFM*~~ an *authorised UK AIFM* of the *manager's sustainability in-scope business.*

. . .

Annex I

Amendments to the Supervision manual (SUP)

In this Annex, underlining indicates new text and striking through indicates deleted text.

3 Auditors

3.1 Application

…

3.1.2 R Applicable sections (see *SUP* 3.1.1R)

…

(1) Category of firm	(2) Sections applicable to the firm	(3) Sections applicable to its auditor
…		
Note 6 = Where *SUP* 3.11 applies to a *firm*, and *SUP* 3.10 applies to the auditor of that *firm*, those sections apply whether or not that *firm's permission* prevents it from holding *client money* or *custody assets* and whether or not it holds *client money* or *custody assets*. A *collective portfolio management firm* that is an *internally managed AIF* and a *medium UK AIFM* or a *large UK AIFM* is required to appoint an auditor under ~~*FUND* 3.3.6R(2) (Annual report of an AIF)~~ *ALTS* 10.2.3R (Contents of the annual report) because the *AIFM* is also an *AIF*.		

…

6B Variation and cancellation of permission and imposition of requirements on the FCA's own initiative and intervention against incoming firms

6B.1 Introduction

6B.1.1 G The *FCA* has powers under section 55J of the *Act* to vary or cancel an *authorised person's Part 4A permission* and a power under section 55L to impose requirements on an *authorised person*. The *FCA* may use these powers where:

…

(2) the person has not carried on a *regulated activity* to which the *Part 4A permission* relates for a period of at least 12 months (or 6 months in the

case of a *full-scope UK AIFM*) [*Editor's note:* This will reflect HMT's final regulations]; or

(3) it is desirable to exercise the power in order to advance one or more of its operational objectives~~; or~~.

(4) ~~the person has failed to comply with a requirement in Part 5 of the *AIFMD UK regulation* (AIFs which acquire *control* of non-listed companies and issuers), or it is for some other reason desirable to exercise the power for the purposes of ensuring compliance with such a requirement~~ [deleted]

…

10C FCA senior managers regime for approved persons in SMCR firms

…

10C.6 FCA required functions

Compliance oversight function (SMF16)

10C.6.1 R The *compliance oversight function* is the function of acting in the capacity of a *person* who is allocated the function in:

…

(4) *SYSC* 6.1.4CR; or

(5) *SYSC* 3.2.8R~~; or~~.

(6) ~~(for a *full-scope UK AIFM*) article 61(3)(b) of the *AIFMD level 2 regulation*.~~ [deleted]

…

10C.7 Other overall responsibility function (SMF18)

…

Definition

10C.7.1 R A *person* performs the other *overall responsibility function* in relation to a *firm* if that *person*:

(1) is performing:

…

(c) (if the *firm* has allocated such a function to someone) the function of having overall responsibility for any of the activities, business areas and management functions of the *firm*

excluded from *SYSC* 26.3 (Main rules) by *SYSC* 26.4.18R (Exclusion for ~~AIFMD~~ medium UK AIFMs and large UK AIFMs); and

…

…

15 Notifications to the FCA

…

15.3 General notification requirements

…

Breaches of rules and other requirements in or under the Act or the CCA

15.3.11 R (1) A *firm* must notify the *FCA* of:

…

(g) a breach of the ~~*AIFMD UK regulation*~~ *UK AIFM regime*; or

(h) a breach of ~~any applicable *onshored regulations*~~ the *SEF Regulation* or the *RVECA Regulation* ~~which were previously *EU regulations* adopted under *AIFMD*~~; or

…

…

…

UK AIFMs

[*Editor's note*: For proposed changes to the provisions underneath this heading and the SUP 15 Annex 6 notifications, see the consultation paper 'Fund Reporting for Asset Management Entities' (CP26/26).]

16 Reporting requirements

[*Editor's note*: For proposed changes to SUP 16.1 and SUP 16.3, see the consultation paper 'Fund Reporting for Asset Management Entities (FRAME)' (CP26/26).]

16.6 Compliance reports

…

Compliance reports from depositaries of authorised funds (see SUP 16.6.6R)

…

16.6.8 R …

(1A) The breach report from a *depositary* of an *authorised fund* to the *FCA* must include, for each *authorised fund* for which it is a *depositary*:

(a) details of all breaches of *COLL* or ~~*FUND*~~ *ALTS*, which came to the *depositary's* attention or which were reported to the *depositary* by the *authorised fund manager*, during the previous *month*;

…

…

…

16.18 AIFMD reporting

[*Editor's note*: for proposed changes to this section, see the consultation paper 'Fund Reporting for Asset Management Entities (FRAME)' (CP26/26).]

16 Annex 12B Guidance notes on reports from depositaries of authorised funds

16 Annex 12B G **Monthly Return of Breaches – Authorised Funds**

Breach Type	The specific *rule* in *COLL* ~~or *FUND*~~ that has been breached.
…	

…

Annex J

Amendments to the Securitisation sourcebook (SECN)

In this Annex, underlining indicates new text and striking through indicates deleted text.

14 Conversion of legislative requirements into rules

…

14.2 Conversion of requirements relating to pre-2019 securitisation

14.2.1 R The due-diligence requirements as provided for in the *EU CRR* and ~~*AIFMD level 2 regulation*~~ the 'AIFMD L2 Regulation' respectively shall continue to apply as in the version applicable on 31 December 2018 as if they still had effect and were set out expressly here in respect of *securitisations* the securities of which were issued:

…

14.2.2 R (1) In respect of *securitisations* the securities of which were issued before 1 January 2019:

…

(b) Article 51 of the ~~*AIFMD level 2 regulation*~~ 'AIFMD L2 Regulation' shall continue to apply as in the version applicable on 31 December 2018 as if it still had effect and was set out expressly here to an AIFM (as defined in point (e) of the definition of an institutional investor in regulation 3(1) of the *Securitisation Regulations 2024*) to whom that provision applied.

…

14.2.3 R …

14.2.4 R In this section, references to the 'AIFMD L2 Regulation' are to the *UK* version of Commission delegated regulation (EU) No 231/2013 supplementing Directive 2011/16/EU of the European Parliament and of the Council with regard to exemptions, general operating conditions, depositaries, leverage, transparency and supervision.

Annex K

Amendments to Recognised Investment Exchanges (REC)

In this Annex, underlining indicates new text and striking through indicates deleted text.

2 Recognition requirements

…

2.7A Position management and position reporting in relation to commodity derivatives

2.7A.1 UK

<table>
<tr><td colspan="3">…</td></tr>
<tr><td colspan="3">Paragraph 7BB – Position reporting</td></tr>
<tr><td>…</td><td colspan="2"></td></tr>
<tr><td>(4)</td><td colspan="2">The [UK RIE] must classify persons holding positions in commodity derivatives, emission allowances, or emission allowance derivatives according to the nature of their main business, taking account of any applicable authorisation or registration, as -</td></tr>
<tr><td></td><td>…</td><td></td></tr>
<tr><td></td><td>(b)</td><td>an investment fund, either as an undertaking for collective investment in transferrable securities within the meaning of section 236A of the Act, an AIF or an AIFM within the meaning of ~~regulations 3 and 4 respectively of the Alternative Investment Fund Managers Regulations 2013 (SI 2013/1773)~~ [Editor's note: the cross-references will reflect the consequential changes made by HMT];</td></tr>
<tr><td></td><td>…</td><td></td></tr>
<tr><td>…</td><td colspan="2"></td></tr>
</table>

FINANCIAL CONDUCT AUTHORITY

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