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Future regulation of Alternative Investment Fund Managers

Of particular interest to: Managers of Alternative Investment Funds

In Brief

HM Treasury published a consultation on 7 April 2025 that sets out the government's proposed approach for a streamlined framework for the regulation of Alternative Investment Fund Managers (AIFMs) and the depositories they use. The Financial Conduct Authority ("FCA") also published a Call for Input alongside the Consultation, which invites comments on the high-level proposals and comments for other areas to be considered.

Summary

The UK government is reviewing the regulatory framework for AIFMs and this consultation will explore whether it can be simplified. By removing elements from the legislative framework, the UK Government intends to enable the FCA to establish a more graduated and proportionate approach to the regulation of AIFMs.

The FCA's Call for Input indicates its approach to regulating AIFMs within the framework proposed in the consultation. The FCA proposes a three-tiered approach to regulation of AIFMs, with only the largest firms being subject to a regime similar to the current rules for full-scope UK AIFMs.

The goal of the FCA is to make the regime easier to understand and navigate, making it simpler for new entrants to join the market and for existing firms to grow without undue regulatory burdens. The FCA plans on grouping the regime into clearer, thematic categories that reflect different business activities and phases of the product cycle, as follows:

- Structure and operation of the firm
- Pre-investment phase
- During investment
- Change-related

By structuring the rules in this manner, the FCA can establish clear requirements for firms of varying sizes. The FCA proposes to categorise AIFMs into the following tiers and has proposed thresholds on a net asset value basis and not on a leveraged basis:

- Largest Firms (upper threshold of £5bn net asset value and above) - these Firms would be subject to a regime like the current rules for full-scope UK AIFMs with the FCA will disapplying unnecessarily burdensome rules.
- Mid-sized Firms (lower threshold over £100m but below upper threshold of £5bn net asset value) - these firms will be subject to a regulatory framework that covers the same areas as the current regime. To allow greater flexibility and proportionality, the FCA does not plan to impose more detailed procedural requirements. Existing full-scope firms that become reclassified as mid-sized under the new rules would be subject to a simpler, more flexible and less onerous regime.
- Small Firms (lower threshold at £100 million net asset value) - these Firms would be subject to core requirements appropriate to their size and activity. The rules for small firms would set baseline standards essential for maintaining appropriate levels of consumer protection and market

integrity. Firms that are currently full-scope UK AIFMs, and who become reclassified as small under the new rules, would see a significant reduction in detailed and prescriptive requirements.

The Call for Input also highlights the below areas for future consultation:

- Depositaries: the FCA does not expect to change the rules that are unique to depositaries of authorised funds in any material way.
- Remuneration: the FCA will review the operation and effectiveness of the remuneration rules for AIFMs, alongside the code for UCITS management companies and investment firms, to consider whether any changes should be made to these requirements.
- Prudential requirements: the FCA will review the regime's prudential requirements and how they apply to different-sized firms.
- Business restrictions: the FCA recognises that current rules appear to create costs and inefficiencies, requiring firms to seek top-up permissions for some activities or create new legal entities once a firm passes the size threshold. The FCA will consider the business restrictions when they consider how the conduct and prudential rules will apply to firms in the new regime.
- Regulatory reporting: the FCA recognises that the reporting regime has not been reviewed since it was introduced and wants to collect meaningful information in a way that is future proof, helps them understand the market and monitor the collective and individual risks posed by firms. The FCA aims to achieve a more effective reporting regime that is proportionate in its demands on firms and will consider how to achieve this.

The Consultation and Call for Input will remain open for responses until June 9, 2025. Subject to feedback, and to decisions by the Treasury on the future regime, the FCA plans to consult on detailed rules in the first half of 2026. The FCA will also provide more details on the timeline for implementation and intend to give firms time to adapt to the new regime, while removing unnecessary rules relatively quickly.

Useful Links
HM Treasury - Regulations for Alternative Investment Fund Managers
FCA - Future regulation of alternative fund managers
FCA – Call for Input: Future regulation of alternative fund managers

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Optima Partners, Level 3, 123 Victoria Street, SW1E 6DE, London