

**SUMMARY**

**AIMA**

## **UK reform of the alternative investment fund managers rules**



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## 1/ Overview

The HM Treasury (“HMT”) consultation paper “Regulations for Alternative Investment Fund Managers” (the “Consultation”) and the Financial Conduct Authority (“FCA”) “Call for input: Future regulation of alternative fund managers” (the “Call for Input” and, together with the Consultation, the “Proposals”) set out proposed changes to the rules applying to alternative investment fund managers established in the UK (“UK AIFMs”).<sup>1</sup> The Proposals were published concurrently on 7 April 2025 and are meant to be read in parallel.

HMT is consulting on changes to UK legislation while the FCA is conducting what is effectively a pre-consultation exercise. The HMT Proposals apply to the UK Alternative Investment Fund Managers Regulations 2013 (“UK AIFMR” also known as the “Enabling Legislation”) which transposed the EU Alternative Investment Managers Directive (“AIFMD”) into UK law.<sup>2</sup> Following Brexit, minor changes were made to the UK AIFMR and the associated onshored EU secondary legislation.

The current UK AIFMR applies to a broad range of firms managing AIFs. Such firms will often also be subject to sometimes conflicting rules in other parts of the FCA’s Handbook, depending on their business model. For example, collective portfolio management investment (“CPMI”) firms must also apply the rules derived from the Markets in Financial Instruments Directive (“MIFID”) and the Investment Firms Prudential Regime, including the MIFIDPRU section of the FCA Handbook.<sup>3</sup> The Proposals consider how such requirements can be made more coherent and streamlined.<sup>4</sup>

The Proposals are the next step following a discussion paper in 2024 from the FCA on how the UK’s asset management regime could be amended.<sup>5</sup> The Proposals have regard to the FCA’s secondary objective to facilitate the international competitiveness and growth of the UK economy in the medium to long term. The overall aim is not to carry out a root and branch reform but rather to make the regime applicable to UK AIFMs more proportionate.<sup>6</sup>

If the Proposals are implemented, by 2027 there will be two quite different AIFMD derived regimes in the UK and the EU, as the EU is also making changes to the AIFMD through the AIFMD II Directive (which needs to be implemented into EU Member State law by April 2026).<sup>7</sup> In practice, many UK AIFMs will need to comply with elements of both regimes if they operate and/or market on a pan-European basis.

## 2/ The Proposals

The UK AIFMR is secondary UK legislation made under the Financial Services and Markets Act 2000 (“FSMA”). To permit the FCA to be able to consult on more detailed

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1 The Consultation is available to download at <https://www.gov.uk/government/consultations/alternative-investment-fund-managers-regulations-consultation>. The Call for Input is available to download at <https://www.fca.org.uk/publication/call-for-input/call-for-input-future-regulation-alternative-fund-managers.pdf>.

2 For full details of the UK AIFMR see <https://www.legislation.gov.uk/ukdsi/2013/9780111540206/contents>.

3 For further details see M2G 2.8 Other firms- Collective portfolio management investment firms and authorised professional firms, available at <https://www.handbook.fca.org.uk/handbook/M2G/2/G28.html>.

4 This follows the FCA’s approach in [CP24/24: The MiFID Organisational Regulation](#) to also streamline requirements that apply to firms carrying out similar activities.

5 See FCA Discussion Paper 23/2: Updating and improving the UK regime for asset management (February 2023), available to download at <https://www.fca.org.uk/publication/discussion/dp23-2.pdf>.

6 See paragraph 2.10 of the Consultation (“Many aspects of AIFMD are necessary to formalise a global consensus, provide investor protections and mitigate against some of the financial stability risks which AIFs can pose. However, the Government recognises that some aspects of the regime are not necessarily proportionate to the risks in different parts of the sector and for firms of different sizes.”).

7 For full details see AIFMD at <https://eur-lex.europa.eu/eli/dir/2011/61/oj/eng> and the amending AIFMD II at [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L\\_202400927](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202400927).

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proposals in 2026, HMT must first carry out its consultation, consider the feedback to it and then decide whether to proceed with the proposed changes and what amendments, if any, it will make to the legislation.

The FCA's Call for Input runs in parallel to this and is asking for comments on the possible changes it thinks are appropriate. If HMT goes ahead with its proposals, the FCA will be empowered to carry out a thorough consultation on detailed FCA rules, using the feedback it has received from the Call for Input.

At a high level the Proposals consider four key topics for UK AIFMs:

1. How to reform the onshored legislation contained in the UK AIFMR into UK law;
2. Which firms are subject to the proposed new rules;
3. A review of the current rules; and
4. Moving onshored Level 2 rules into the FCA's Handbook.<sup>8</sup>

## What will change

Together the Consultation and the Call for Input set out a range of interconnected proposals to:

- Create a single regulatory regime for all UK AIFMs;
- Change the methodology for calculating the size of an AIF for the purpose of categorising UK AIFMs;
- Make the new regime apply proportionately by implementing three categories of AIFM based on size;
- Clarify FCA expectations for firms managing highly leveraged AIFs;
- Make it easier to move between the different categories of AIFMs;
- Amend the requirements on external valuation; and
- Consider amendments to the rules for remuneration, prudential requirements, business restrictions, disclosure, reporting and marketing.

The Call for Input contains examples of rule changes that the FCA may consider making.

## What will not change

The proposals will not:

- Materially change the UK national private placement regime ("UK NPPR") or otherwise affect the requirements applicable with respect to non-UK AIFMs marketing in the UK;
- Amend the rules for depositaries; or
- Alter the UK UCITS rules.

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<sup>8</sup> Level 2 rules are the more detailed rules that underpin European Union directives and regulations (the framework Level 1 rules). These can be in the form of regulatory technical standards, implementing technical standards (usually directly applicable regulations) or directives.

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## 3/ Timeline

Responses to the Proposals are due by 9 June 2025. If no issues are raised that would prevent HMT and the FCA from going forward, then the FCA expects to consult on detailed proposals in the first half of 2026 and HMT will make the enabling legislative changes in Parliament. Final rules could be expected in late 2026 or early 2027.

## 4/ HMT Changes

The Consultation proposes amending the Enabling Legislation to allow the FCA to determine appropriate and proportionate new rules for UK AIFMs based on their size, business model and risks.

In particular, the Consultation asks for feedback on whether HMT should simplify its regulatory framework. By removing elements from the legislative framework, the Government expects to enable the FCA to establish a more graduated and proportionate approach to regulation.<sup>9</sup>

HMT also wants to ensure that key terms that underpin the regulatory perimeter, but which are not currently defined in UK legislation, such as the term “collective investment undertaking” which is at the heart of the “AIF” definition, are placed on a legislative footing, by moving them into the Regulated Activities Order.<sup>10</sup> The definition of “acting as a trustee or depositary of an AIF” may also be amended to align with the proposed change to the categorisation of UK AIFMs.

## 5/ FCA Changes

Correspondingly, the FCA is proposing to tailor the rules in a way that will make them simpler, more meaningful and relevant to firms’ business models, taking into account the types of assets they manage and their associated risks.

### Create a single regulatory regime for all UK AIFMs

All UK AIFMs will be subject to a single regime. This will be in place of the current sub-threshold and above-threshold model which has not been reviewed since the AIFMD was transposed into UK law.

#### Proposed new rule structure for UK AIFMs

The FCA proposes to group rules into thematic categories that reflect different business activities and phases of the product cycle. The purpose of these changes is to make it easier for firms to understand when a rule applies to them and for the FCA to set requirements for firms of different sizes.

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<b>Structure and operation of the firm</b>	General standards of governance and behaviour
	Basic system and controls requirements
<b>Pre-investment phase</b>	Requirements during product design and development
	Disclosure requirements to prospective investors

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<sup>9</sup> Paragraph 1.4 of the Call for Input.

<sup>10</sup> Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 available to view online at <https://www.legislation.gov.uk/ukxi/2001/544/contents/made>.

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<b>During investment</b>	Ongoing obligations while a product in operation
	Periodic investor information disclosure requirements
<b>Change-related</b>	Rules that apply when a manager changes something about the product
	Rules that apply or require disclosure when something specific happens <sup>11</sup>

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## Change the methodology for calculating the size of an AIF for the purpose of categorising the UK AIFM

The FCA will set new thresholds for categorising UK AIFMs. The current methodology for calculating their size uses assets under management (“AUM”), with adjustments where leverage is employed. This will change to the net asset value (“NAV”) of the AIFs they manage. This is likely to reduce significantly the number of firms which must implement the full rules. The FCA considers NAV to be a more commonly used measure in the industry and easier for firms to understand than leveraged AUM.<sup>12</sup>

## Make the new regime apply proportionately by implementing three categories of UK AIFMs based on size

The most significant feature of the proposed new regime is the plan to categorise UK AIFMs into three tiers, determined by reference to the NAV of their AIFs, as follows:

- “large” UK AIFMs would be those with NAV over £5 billion. These UK AIFMs will be subject to requirements similar to the present “full-scope” regime but with some of the current requirements, for example on disclosure and reporting, removed or modified;
- “mid-sized” UK AIFMs would be those with NAV over £100 million up to £5 billion. These UK AIFMs will be subject to the same standards as larger firms but with more flexibility. This will involve the removal of some of the detailed procedural requirements currently in the onshored Level 2 text unless retention is justified; and
- “small” UK AIFMs would be those with NAV up to £100 million. These UK AIFMs will be subject to a set of baseline standards to be determined through future consultations.

## Make it easier to move between the different categories

The FCA has proposed replacing the requirement for firms that are moving between categories to apply for a variation of permission with a simpler process, perhaps akin to the approval process under the Senior Managers and Certification Regime.

## Expectations for highly leveraged firms

The FCA will review how well the current rules address potential risks from leverage with reference to the forthcoming Financial Stability Board (“FSB”) final report on “Leverage in

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<sup>11</sup> Source: the FCA Call for Input.

<sup>12</sup> The FCA Call for Input includes at paragraph 2.23 comparative data on the numbers of existing firms in different thresholds based on both AUM and NAV

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Non-Bank Financial Institutions.”<sup>13</sup> It will also look at whether more clarity is needed on the FCA’s risk management expectations for highly leveraged firms.

## **Amend the requirements on external valuation**

HMT is considering removing the legal liability on external valuers used by UK AIFMs. The valuer’s contractual liability would remain, but only the UK AIFM would have legal liability to the AIF and its investors.

## **Remuneration**

The operation and effectiveness of the three different remuneration codes in the AIFMR, UCITS Directive and MIFIDPRU will be reviewed to see whether changes are needed.<sup>14</sup>

## **Prudential requirements**

There will be a review of the capital and consolidation requirements in the Investment Firms Prudential Regime, applicable to UK AIFMs that are CPMI firms, to consider if the requirements remain appropriate or whether any recalibration is needed.

## **Disclosure, Reporting and Marketing**

There will be a review of the data AIFMs must report under the AIFMD Annexes and the FCA will examine the current disclosure requirements, including, but not limited to, Annex IV, to see if they remain appropriate.

In this regard, the FCA is also considering removing: (i) the requirement for full-scope UK AIFMs to give the FCA 20 working days’ notice before marketing AIFs to professional investors; and (ii) the requirement for UK AIFMs to notify the FCA if their AIFs acquire control of non-listed companies or issuers, or whether this notification should be submitted elsewhere.

## **Business restrictions**

There will be a review of the impact and relevance of the “AIFM business restrictions”.<sup>15</sup> The rules were originally intended to address conflicts of interest which are now adequately covered by other rules for UK AIFMs and the FCA therefore considers that the business restriction does not meaningfully reduce risks. In addition, the current rules appear to create costs and inefficiencies, requiring some firms which undertake other activities in addition to their principal activities of AIFM management functions and the management of UCITS to apply for top-up permissions to carry out such activities or to create new legal entities.

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AIMA will be engaging closely with HMT and the FCA as this work progresses. If you have any comments or would like to be involved, please contact Jennifer Wood, Managing Director, Global Head of Asset Management & Sound Practices ([jwood@aima.org](mailto:jwood@aima.org)) or James Hopegood, Director of Asset Management Regulation & Sound Practices ([jhopegood@aima.org](mailto:jhopegood@aima.org)).

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<sup>13</sup> For information on the FSB final report, expected in July 2025, see <https://www.fsb.org/2025/03/public-responses-to-consultation-on-leverage-in-non-bank-financial-intermediation/>.

<sup>14</sup> For further detail on the codes, see <https://www.fca.org.uk/firms/remuneration>.

<sup>15</sup> See the FCA Handbook, FUND 1.4 (AIFM business restrictions) available at <https://www.handbook.fca.org.uk/handbook/FUND/1/?view=chapter>.



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## ANNEX

Below are the questions posed by HMT and the FCA in the Proposals. Please note that references to AIFMs in these questions are referring to UK AIFMs.

### HMT's Consultation questions:

1. Do you agree with the proposal to remove the legislative thresholds from the AIFM Regulations, enabling the FCA to determine proportionate and appropriate rules for AIFMs of all sizes?
2. Do you agree that the Small Registered Regime should be removed, as it adds significant complexity to the regulatory perimeter?
3. What should we take into consideration when we review the SEF/RVECA regulations?
4. How should the Government approach the regulation of Venture Capital fund managers in future?
5. Do you agree with the proposal to require managers of unauthorised property collective investment schemes and internally managed investment companies to seek FCA authorisation?
6. What would be the impact of requiring these firms to seek authorisation?
7. Do you agree with the Government's proposals for the future regulation of Listed Closed-Ended Investment Companies?
8. Are there any unintended consequences associated with Listed Closed-Ended Investment Companies, including those which are internally managed, being in scope of AIFM Regulation?
9. If the Government were to consider an alternative approach, such as removing certain Investment Companies from scope of the regulation, should this be limited to closed-ended investment companies listed on the London Stock Exchange, or should other types of closed-ended investment company be captured?
10. Do you consider there to be any duplication in AIFM Regulation and other regulatory requirements imposed upon Listed Closed-Ended Investment Companies, which the FCA should account for when proposing rules?
11. Do you agree with the proposal to transfer definitions underpinning the regulatory perimeter to legislation?
12. Do you agree with the proposal to maintain the National Private Placement Regime? Do you have any concerns with how the Regime currently operates?
13. Should the requirement to notify the FCA 20 days prior to marketing be removed and what impact would this have for firms and investors?
14. Should the requirement for AIFMs to notify the FCA in relation to acquisition of non-listed companies, be removed or should this information be provided elsewhere?
15. Should the liability for external valuers be reviewed, and would any additional safeguards be required?

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## **FCA's Call for Input questions:**

1. Do you agree that the areas outlined above are issues with the current regime? If not, please explain why. Are there any issues beyond those that we have identified that we should consider when amending the regime?
2. Do you have any comments on structuring the presentation of our rules thematically based on the product cycle and business activities?
3. Do you agree with the principle of creating three levels of firms based on their size to achieve proportionality? If not, what alternative approach would you suggest?
4. Do you agree with our approach to rule-making for each level? If not, what alternative approach would you suggest?
5. Are there any benefits or costs associated with opting up to a higher threshold regime that we should consider when we draft rules? If you are an AIFM, would you consider opting up to a higher regulatory threshold?
6. Do you agree with the proposed levels of the thresholds? Do you have any other comments on the proposed levels and the metrics used for the thresholds?
7. Do you agree that we should make our expectations of risk management by highly leveraged firms clearer? Do you have any comments on the best way to achieve this?
8. Do you see a need for a separate regime for venture capital and growth capital funds? Are there any other areas where we should consider setting up tailored regimes?
9. Do you have any comments on our planned approach to set different rules for managers of LCICs?
10. Do you have any comments on our proposed approach to applying the thresholds in the same way to LCICs as to other types of AIF?
11. Given the role of an LCIC's board of directors, are there any areas that would benefit from us clarifying our expectations of AIFMs and/ or any requirements that should not be retained in so far as they apply to the AIFMs of LCICs?
12. Do you have any comments on our proposed areas of reform for LCICs? Are there any further areas of the regime where different requirements should apply to the AIFMs of LCICs? If so, please explain how the requirements should apply differently and why this is the case.
13. Do you see a need for changes to the regime's depositary requirements? Should these requirements apply only to specific levels of firm or certain types of fund, such as authorised funds? Should our regime seek to align its depositary rules with those of another jurisdiction or jurisdictions?
14. Could any of the ideas in this Call for Input adversely impact any of the groups with protected characteristics i.e. age, disability, sex, marriage or civil partnership, pregnancy and maternity, race, religion and belief, sexual orientation and gender reassignment?
15. Are there other steps we could take to improve outcomes for fund investors or potential investors with any of these protected characteristics?
16. Do you have any comments on the approach to the risk management rules outlined in annex 1?





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