

FCA and HM Treasury Consult on Proposals to Reform UK AIFMs Regulation

The proposals aim to make the UK regime more proportionate and suggest different rules applying to hedge funds, venture capital firms, and private equity houses.

On 7 April 2025, the FCA published a [Call for Input](#), and HM Treasury published an [Open Consultation](#), on the reform of the UK regulatory regime for alternative investment funds (AIFs) and their managers (AIFMs), following the UK's implementation of the EU Alternative Investment Fund Managers Directive (AIFMD) in 2013 and Brexit in 2020.

Both the Call for Input and the Open Consultation are open for comments until 9 June 2025. The FCA intends to consult on detailed rules in the first half of 2026 and HMT will publish a draft statutory instrument on the regulatory framework for UK AIFMs. Final rules will be published later in 2026, with a meaningful implementation period for firms, albeit the FCA intends to “remove unnecessary rules relatively quickly”.

The Call for Input and Open Consultation do not, however, intend to cover the totality of the proposed reform. Rather, at present, the publications are high-level. Therefore, until we see the detailed proposals, gauging the impact and utility of the reforms will remain difficult.

FCA Call for Input	HMT Open Consultation	To follow
<ul style="list-style-type: none"> ✓ New rule structure for UK AIFMs managing unauthorised AIFs (i.e., AIFs that are not also LTAFs and NURS) ✓ Setting thresholds for new categories of UK AIFMs ✓ Tailoring the rules to UK AIFMs based on the activities they undertake (e.g., differentiating 	<ul style="list-style-type: none"> ✓ Financial Services and Markets Act 2023 provides for the repeal and reform of assimilated EU legislation, including the Level 2 AIFMD Regulations ✓ HMT will, therefore, reset the perimeter that determines which firms must be authorised and regulated as UK AIFMs 	<p>In addition to the detailed proposals arising from the Call for Input and Open Consultation, the FCA and HMT cite other ongoing UK AIFMD reform workstreams (albeit without indicating when we might expect to see the output):</p> <ul style="list-style-type: none"> • Simplifying the rulebook for UK AIFMs of authorised AIFs (e.g., LTAFs and NURS) • Transferring provisions from AIFMD and assimilated AIFMD Level 2 Regulation into the FCA Handbook

FCA Call for Input	HMT Open Consultation	To follow
between venture capital firms, private equity firms, hedge funds, and investment trusts) and their category	✓ Enabling FCA to establish a “graduated and proportionate” approach to AIFMD regulation	<ul style="list-style-type: none"> • Prudential rules for UK AIFMs • Regulatory reporting under UK AIFMD • Disclosure, distribution, and marketing to UK retail clients • Remuneration rules applicable to UK AIFMs • The AIFM business restriction that applies to external UK full-scope AIFMs

The FCA touts the move as being supportive of UK growth, stating the proposed reforms will make it easier for UK firms to enter the market, grow, compete, and innovate. Given the current high-level nature of the publications, the question remains whether, in the absence of proposing something more radical (such as repealing the UK implementation of AIFMD and reverting to, and updating, the UK collective investment scheme (CIS) regime), the changes resulting from these papers will ultimately be sufficient to have that effect.

The FCA is clear that, in line with strong industry feedback, it intends to retain “but substantially improve” the UK AIFMD regime. It is not, however, clear, on the face of the FCA and HMT publications, the fundamental rationale for UK AIFMD’s retention, particularly given the UK had and continues to have a domestic regime for regulating the management of CIS (a definition which overlaps considerably with the definition of an AIF). We infer, albeit neither the FCA nor HMT expressly states, that it may be a nod to the UK maintaining broadly equivalent rules to avoid repercussions from regulators in the EU, given the importance of the ongoing ability of EU AIFMs to delegate to UK firms and/or UK firms to provide advisory services to EU AIFMs.

New Thresholds and Categories of UK AIFM

The FCA’s analysis shows that, given the current categorisation of UK AIFMs is based on their total leveraged assets under management (AuM), the majority of UK AIFMs are subject to “full-scope” regulation and ongoing compliance (requiring the UK AIFM to hold substantially more regulatory capital and meet stricter regulatory requirements). It argues that the current thresholds of, broadly, AuM below €100 million, between €100 million and €500 million (subject to certain conditions), and over €500 million create “cliff-edge effects” for UK AIFMs as they grow. For example, while small UK AIFMs are not required to appoint a depositary to safeguard fund assets, they must quickly appoint a depositary when they cross the threshold to being a full-scope firm. The FCA wishes to create new, broader categories of UK AIFMs to smooth out the cliff-edge effects.

HMT goes into additional detail in its Open Consultation on the issues with the UK regime for sub-threshold AIFMs (namely both small authorised and small registered UK AIFMs), citing issues with both the: (1) cliff-edge risk on firms crossing into the full-scope requirements (which disincentivises growth); and (2) “halo effect” of small registered AIFMs where the reference to the FCA may mislead consumers that do not understand the difference between (lighter touch) registration and full authorisation (which brings with it greater FCA oversight).

The FCA's view is that the UK market for AIFMs includes many specialist and boutique firms, which operate as full-scope UK AIFMs but do not have the same level of market presence and do not pose the same risks as the largest full-scope AIFMs. The FCA therefore wishes to ensure that the new categories of firms include a regime for mid-sized firms that is better suited to the risk profile of the majority of UK AIFMs. The FCA and HMT propose to remove the leveraged AuM thresholds from the legislation, affording the FCA more flexibility to implement for them in its rules. Consequently, firms will not need to apply for a variation of permission to move between categories, instead filing a one-way notification. UK AIFMs will be able to opt up to a higher category if they or their investor base prefers compliance with stricter regulatory requirements.

Category	AuM threshold (NAV)	AuM: by reference to NAV rather than leverage?	Applicable rules?
Large	£5 billion or more	<ul style="list-style-type: none"> The current legislative thresholds use leveraged AuM, which includes assets acquired through the use of leverage FCA intends to move to net asset value (NAV) of the funds managed by the AIFM; the AIFM's assets less its liabilities 	<ul style="list-style-type: none"> ✓ Subject to rules essentially the same as the current regime for full-scope UK AIFMs ✓ The FCA estimates that approximately 100 full-scope UK AIFMs would move down into the mid-sized category if the thresholds were amended in line with its proposals
Mid-sized	£100 million to £5 billion	<ul style="list-style-type: none"> FCA otherwise plans to publish further consultation on its approach to risk management of leveraged funds, later this year, following publication of the Financial Stability Board's work on leverage in non-bank financial intermediation 	<ul style="list-style-type: none"> ✓ Simpler, more flexible regime ✓ Subject to majority of fund management rules in FUND 3 of FCA Handbook; plus ✓ Relevant AIFMD derived rules in SYSC and COBS ✗ FCA does not intend to apply detailed requirements of assimilated Level 2 Regulation (other than limited, necessary exceptions). See Table 2 below
Small	Below £100 million		<ul style="list-style-type: none"> ✓ Subject to core requirements appropriate to size and activity ✓ HMT recognises that removal of "small registered" regime may increase the number of firms subject to FCA authorisation, but is of the view that this will simplify the currently complex perimeter for sub-threshold AIFMs and raise standards in this segment of the market ✗ FCA does not expect most existing small authorised UK AIFMs to need to raise standards

Reorganising the Rules for UK AIFMs

The FCA plans to reorganise and consolidate its rules implementing the UK AIFMD regime into phases of the product cycle, namely: (1) structure and operation of the UK AIFM; (2) pre-investment phases; (3) during investment; and (4) change-related / event-driven requirements.

Different Rules Based on the Manager's Activities?

The FCA highlights that many of the rules comprising the UK AIFMD regime and, in particular, those set out in the assimilated Level 2 Regulation, assume the AIFM is managing a diversified portfolio of transferable securities. However, these are ill-suited to managers of illiquid investments, such as private equity investments in private companies or real estate. The FCA cites the rules on risk limits being most appropriate to the trading strategy employed by a hedge fund (given risk limits will be integral to how the hedge fund operates in any event), whilst being largely irrelevant to a private equity firm (which will nevertheless consider risk, such as concentration risk, but likely disregard credit and market risk). Therefore, in addition to recategorising UK AIFMs, the FCA is proposing to tailor the application of the relevant rules within a category (namely mid-sized firms) based on the liquidity and nature of their investment activity and strategy.

Table 1: Potential Future Application of High-Level Risk Management Rules

Examples of high-level rules	Possible future application
Obligations not specific to risk management	
Documenting and annually reviewing policies and procedures	<i>General requirement</i>
Structure and governance	
An AIFM must establish and maintain a permanent risk management function	<i>General requirement</i>
This function must be hierarchically and functionally independent from operating units, except when this independence would not be appropriate or proportionate given the nature, scale, and complexity of the AIFM's business and of each AIF it manages	<i>General requirement, but applied proportionally (as per UCITS)</i>
An AIFM must ensure it has adopted appropriate safeguards against conflicts of interest so as to allow risk management activities to be independently performed	<i>General requirement</i>
An AIFM must ensure the risk management function has the authority necessary to escalate issues to senior management and the governing body	<i>General requirement</i>
Systems and controls	
An AIFM must identify and assess the risks for each AIF it manages	<i>General requirement</i>
An AIFM must have adequate risk management systems to measure, manage, and monitor all risks relevant to each AIF it manages	<i>General requirement</i>
An AIFM must have a risk management policy	<i>General requirement</i>

Examples of high-level rules	Possible future application
Have a process for investment due diligence	<i>Only for AIFMs with AIFs investing in illiquid assets</i>
Ensure that it can identify and monitor the risks associated with each investment position	<i>Broad principle for larger firms</i>
Set risk limits	<i>Only for AIFMs with significant leverage or liquidity mismatch</i>
Ongoing obligations	
The risk profile of each AIF must be in line with its investment objectives, policy, and strategy	<i>General requirement</i>
The risks of each investment must be monitored	<i>Only for larger AIFMs</i>
Specific obligations for specific types of AIF	
Rules for funds that use leverage	<i>Only for certain managers and based on size or scale of leverage</i>

Source: [FCA](#)

Table 2: Potential Application of Assimilated Level 2 Regulation to Mid-Sized UK AIFMs

Article	Summary of provision	Managers of funds investing in transferable securities	Managers of funds investing in other investments (e.g., private equity)
38	Meaning of “risk management systems”	Glossary definition only, relevant if the term recurs in FCA rules	
39	Requirements for the permanent risk management function	Provisions apply, but with less detail (e.g., action must be taken in response to breach of risk limits, and regular updates to senior management/governing bodies, but without specifying content)	
40	Contents of a risk management policy	Provisions apply, broadly aligned with full-scope AIFMs but without specified detail	Provisions apply if relevant
41	Assessing, monitoring, and reviewing risk management systems	Guidance (e.g., frequency of review is no longer binding)	Guidance
42	Functional and hierarchical separation of the risk management function	Provisions apply	Provisions apply

Article	Summary of provision	Managers of funds investing in transferable securities	Managers of funds investing in other investments (e.g., private equity)
43	Safeguards against conflicts of interest within the risk management function	Provisions apply	Certain provisions potentially do not apply
44	Risk limits	Provisions apply	Provisions do not apply
45	Risk measurement and management	Provisions apply	Provisions do not apply

Source: [FCA](#)

Venture Capital Firms

The FCA flags that a material proportion of UK venture capital firms are registered as UK AIFMs, as well as managers of Registered Venture Capital Funds (RVECA). HMT intends to retain the RVECA regime but is considering how it might be adapted to support the venture and growth capital sector. Following that decision, the FCA will review UK AIFMD and consider whether creating a bespoke regime for these firms will better suit their needs.

Investment Trusts

The FCA and HMT intend to keep managers of listed closed-ended investment companies (LCIC) within UK AIFMD. This is despite calls from market participants to remove LCICs from the definition of an AIF due to their status as listed companies (this was also the subject of a Private Members' Bill introduced in the last Parliament, which ultimately timed out and fell away when Parliament was prorogued). The HMT Open Consultation proposes to remove from the UK regime the "small registered UK AIFM" designation, which would require internally managed LCICs that can currently register under that designation to become fully authorised within the small, mid-sized, or large categories above.

The FCA is keeping under review the following ongoing obligations for LCICs: (1) transparency and streamlining disclosures to investors; (2) disapplying liquidity requirements if an LCIC uses an insignificant amount of leverage; and (3) whether any other aspects of UK AIFMD are irrelevant to LCICs in light of the respective responsibilities of the board and AIFM of an LCIC.

Managers of Unauthorised Property Collective Investment Schemes (UPCIS)

HMT highlights that prior to the implementation of AIFMD, managers of UPCIS were not authorised because the funds invested in land, rather than in specified investments. However, we imagine that this was only the case where the funds themselves did not amount to a CIS, thereby obviating the need for an authorised manager. HMT's Open Consultation goes on to imply that only following AIFMD's implementation such managers were either regulated as full-scope UK AIFMs or, a material proportion fell within the "small registered" category. Therefore, HMT now proposes that such managers would fall within the new "small" category and require authorisation (the implication being many, for the first time) as an AIFM. We note that the management of collective investment schemes was, and remains, a standalone regulated activity, in addition to managing an AIF, such that how relevant this proposed change will be in practice remains unclear.

Depositories

The FCA is not proposing any material changes to the safekeeping and fund oversight roles of depositories or the requirements in UK AIFMD of when the appointment of a third-party depository is required.

Moving Rules

HMT intends to move the definition of “managing an AIF”, “AIF”, and “Collective Investment Undertaking” into the Regulated Activities Order, albeit no changes to the regulatory perimeter as a result of such transposition are intended.

UK National Private Placement Regime (NPPR)

HMT does not intend to change the UK NPPR for marketing non-UK AIFs into, or by non-UK AIFMs in, the UK.

Control Notifications by Private Equity Firms to the FCA

HMT is considering removing the notifications required to be submitted to the FCA when an AIF that is either: (1) managed by a full-scope UK AIFM; or (2) was marketed by a non-UK, above-threshold AIFM into the UK under the NPPR, acquires control in a non-listed company.

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