THE INVESTMENT ASSOCIATION

Response to consultation

CP26/28: THE UK AIFM REGIME

About the Investment Association

The IA champions UK investment management, supporting British savers, investors and businesses. Our 250 members manage £11.1 trillion of assets.

Our mission is to make investment better. Better for clients, so they achieve their financial goals. Better for companies, so they get the capital they need to grow. And better for the economy, so everyone prospers.

Our purpose is to ensure investment managers are in the best possible position to:

- Build people's resilience to financial adversity
- Help people achieve their financial aspirations
- Enable people to maintain a decent standard of living as they grow older
- Contribute to economic growth through the efficient allocation of capital.

The money our members manage is in a wide variety of investment vehicles, including authorised investment funds, pension funds and stocks and shares ISAs.

The UK is the second largest investment management centre in the world after the US, and manages £5.9 trillion in overseas client AUM.

We consent to the publication of our name as a respondent.

Executive summary

The IA welcomes the opportunity to respond to the consultation. We appreciate the FCA revisiting the UK AIFM regime at this time. The current rules reflect the focus of the original Directive and much has changed in markets, fund regulation and fund operations since they were introduced. Throughout this process, the IA's position has been built on a consistent set of principles:

- Targeting regulation efficiently
- Calibrating risk appropriately
- Stimulating innovation and growth
- Focusing on the cost of doing business
- Facilitating cross-border business
- Modernising the regulatory process

The Investment Association

10 Norton Folgate, London, E1 6DB
www.theia.org

rachel.ellison@theia.org

© The Investment Association 2025. All rights reserved.
No reproduction without permission of The Investment Association

Applied to this reform, those principles point to a single test: the final regime should deliver meaningful, practical and cost-efficient benefits for investors, firms and the wider UK market, rather than change for its own sake. The existing UK AIFM regime works well and is not fundamentally broken, although targeted updating, simplification and future-proofing would be beneficial. We therefore support proportionate change that removes genuine frictions, improves the operation of the regime, enhances the UK's competitiveness and reduces operational cost, provided it does not weaken important investor protections or create implementation work, time and cost that outweigh the benefits.

The proposed tiering of AIFMs considered in the 2025 Call for Input[1], which was supported by the IA provides the foundation for a more proportionate framework, while the present consultation tests how that framework should operate in specific areas, including depositary requirements, operating conditions and the business restriction. It is therefore important that the FCA - and industry - consider these proposals in the round, so that the final regime avoids new cliff-edges, delivers genuine proportionality for smaller and medium-sized firms, and does not reintroduce complexity through the interaction of thresholds, permissions and fund-level requirements.

Key points

- **Competitiveness should be a central test for the reforms**. The new regime should be proportionate, clear and internationally credible, supporting growth and innovation without creating unnecessary costs or operational complexity.
- **There should be a level playing field between UK and offshore structures**. The reforms should not create regulatory or cost incentives to operate collective investment schemes (CISs), collective investment vehicles (CIVs) or excluded entities through Jersey, Guernsey, the Isle of Man or other offshore jurisdictions rather than the UK.
- **Cross-border operability matters**. Many firms operate across the UK and EU. UK differentiation should therefore focus on proportionality, clarity and high standards rather than divergence that increases complexity without delivering better regulatory outcomes.
- **The scope and calibration of the regime require further work**. This includes the treatment of NURS, residual CISs, single-investor funds and firms newly brought within authorisation, as well as greater clarity over the scope of the proposed ALTS sourcebook.
- **The proposed tiered approach to firm size is welcome**, provided thresholds are appropriately calibrated, cliff edges are minimised and firms can voluntarily apply selected higher-tier standards without automatically becoming subject to higher-tier supervision generally.
- **Disclosure, reporting and prudential requirements should remain proportionate** and take account of firms' obligations under other UK and EU regimes.
- **Professional-only products should not inadvertently be drawn into Consumer Duty requirements** merely because a small number of retail investors are present.
- **Implementation needs adequate time and careful sequencing**. A transition period of at least two years should be provided, while beneficial optional reforms could be introduced sooner.

UK competitiveness and cross-border business

The review of the UK AIFM regime is an important opportunity to strengthen the competitiveness of the UK as a location for asset and fund management. We support the transfer of certain rule-making responsibilities from HM Treasury to the FCA where this enables the framework to become more agile and better tailored to UK markets. These powers should be used to establish a regime that is proportionate, clear and internationally credible, supports innovation and growth, and maintains appropriate standards of investor protection. The success of the reforms should ultimately be judged not simply by whether rules are streamlined, but by whether the resulting framework makes the UK an attractive place in which to establish and operate asset and fund management businesses over the medium to long term.

[1] https://www.fca.org.uk/publication/call-for-input/call-for-input-future-regulation-alternative-fund-managers.pdf

A key consideration is the ability of firms to operate efficiently across borders. Many IA members manage funds or provide services across multiple jurisdictions, particularly the UK and EU, and therefore benefit from regulatory frameworks that are sufficiently interoperable to avoid unnecessary duplication and operational complexity. We do not consider regulatory alignment to be an objective in itself, and there may be good reasons for the UK to adopt different approaches where these produce better outcomes for UK markets. However, differentiation should be founded on clarity, proportionality and better regulation, rather than divergence for its own sake. Where divergence imposes additional operating costs on firms with cross-border businesses without producing a corresponding regulatory benefit, it risks weakening rather than strengthening UK competitiveness.

There is also an important domestic competitiveness issue. The revised framework should not create incentives for firms to operate funds or other investment structures offshore where equivalent UK structures are available. In particular, there should be a level playing field in the regulatory treatment of CISs, CIVs and relevant excluded entities, whether operated onshore or offshore. Members have highlighted the potential for firms, including UK real estate and closed-ended fund managers, to consider structures in Jersey, Guernsey or the Isle of Man where these offer materially greater regulatory simplicity or lower operating costs. The objective should therefore be to ensure that offshore jurisdictions do not inadvertently become regulatory-light alternatives to otherwise comparable UK structures.

This is consistent with the FCA's competition responsibilities and secondary objective to facilitate the UK's international competitiveness and growth, as well as HM Treasury's objective of ensuring that regulation is appropriately targeted and proportionate to UK markets and limiting opportunities for regulatory arbitrage. The reforms should therefore be assessed holistically, including their interaction with tax legislation and other regulatory regimes, to identify circumstances in which, apparently, proportionate individual measures could collectively make a UK structure less attractive. This is particularly relevant to the Reserved Investor Fund (RIF), where the interaction between the AIFM reforms and existing requirements concerning depositaries could create a competitive disadvantage for a vehicle specifically designed to support UK investment activity.

Individual themes

Scope of the requirements

The scope of the future regime will be particularly important for private markets and retail-oriented products. We encourage the FCA and HM Treasury to consider whether NURS should remain fully within the AIFM regime. NURS are already subject to a retail investor protection framework and in several respects are more closely aligned with UCITS. There may therefore be merit either in removing NURS from aspects of the AIFM framework or disapplying requirements where existing regulation already addresses the relevant risks. We agree that QISs and LTAFs should remain within scope.

We recognise, however, that removing NURS from the regime altogether would have significant consequences. Existing permissions distinguish between managing a UK UCITS and managing an AIF, while much of the current framework derives from either the UCITS Directive or AIFMD. Any fundamental change would therefore require careful consideration of the replacement regulatory architecture and a proper assessment of the associated costs and benefits.

More broadly, replacing the current full-scope and small AIFM distinction may bring currently unauthorised AIFMs and operators of residual CISs into authorisation for the first time. Any such extension of the perimeter should be clearly linked to an identified regulatory harm, supported by analysis of the affected firms and products, and accompanied by proportionate transitional arrangements. We support the proposed exemptions and tailored treatment for relevant internally and externally managed closed-ended investment companies, but further clarity is required on residual CIS operators and other funds that may be brought within scope.

Scope of ALTS

Greater clarity is also required on the intended application of the proposed ALTS sourcebook. The consultation paper and draft rules do not appear to describe its scope consistently.

In particular, parts of the consultation paper, including paragraphs 1.17 and 1.32, could be read as suggesting that ALTS applies only to AIFMs managing unauthorised funds. Draft ALTS 1.1.1R(1), read with ALTS 1.1.1R(2) and 1.1.2G, similarly indicates that management of authorised AIFs is governed by COLL rather than ALTS. However, ALTS 1.1.10G states more broadly that the sourcebook sets out requirements applying to authorised UK AIFMs when managing AIFs.

We recommend that the introductory provisions of ALTS, including chapter-specific application provisions, are revised so that the perimeter of each requirement is immediately clear. The consultation text should similarly describe the intended scope consistently.

Firm size thresholds

We support replacing the current binary distinction between full-scope and small AIFMs with a tiered framework based on net asset value, subject to appropriate calibration of the thresholds and clarity over the products and activities included in the calculation. The framework should reflect the scale and risk of firms' activities while reducing unnecessary cliff edges.

Firms should also retain flexibility to apply selected higher-tier standards voluntarily. This may be appropriate where a group operates common standards across multiple entities or where an existing full-scope AIFM moves into a lower tier but wishes to retain some existing arrangements.

We therefore welcome the approach described in paragraph 2.23, under which firms may apply selected higher-tier requirements informally or treat them as guidance without automatically subjecting the firm as a whole to the corresponding higher supervisory standard. A requirement for a formal SUP 15 notification each time a firm voluntarily adopted a higher standard could otherwise discourage prudent practice.

Reserved Investor Fund and the onshore/offshore level playing field

The RIF provides a practical example of the importance of considering competitiveness across the regulatory framework as a whole. Because of the UK property-rich condition in Regulation 12 of the Co-ownership Contractual Schemes (Tax) Regulations 2025, the RIF has particular attractions for UK real estate managers. If operating a RIF becomes materially more onerous than using an offshore alternative, managers may instead choose property unit trust structures in Jersey, Guernsey or the Isle of Man.

This would appear inconsistent with the broader aim of limiting opportunities for regulatory arbitrage. It may also have consequences for UK investors, including pension schemes, where investment in UK real estate through offshore rather than domestic vehicles may introduce additional cross-border enforcement and regulatory considerations.

The interaction with the depositary requirements is particularly important. Under the current RIF framework, a scheme is treated as UK-based only where the operator and depositary are UK-incorporated bodies that administer the scheme from the UK. This appears to reflect the regulatory framework in place when the RIF legislation was developed, under which a depositary was assumed to form part of the structure.

However, retaining an effectively mandatory depositary requirement for a RIF where the revised AIFM framework would not otherwise require an equivalent unauthorised AIF to have one could undermine the FCA's stated intention to establish a proportionate regime for smaller UK AIFMs. We therefore encourage the FCA to raise this interaction with HM Treasury and HMRC as part of its work on depositaries.

One potential solution would be to amend the relevant wording so that it refers to "the operator and any depositary of the scheme". This would preserve the ability of a small AIFM to appoint a RIF depositary voluntarily while avoiding a structural requirement that could place the RIF at a competitive disadvantage to comparable offshore vehicles.

We also propose that AIFMs should be permitted to opt individual single-investor funds into the CIS regime where appropriate.

Investor disclosure and reporting

We support a more outcomes-focused and proportionate approach to investor disclosure and reporting. The framework should give firms appropriate flexibility to tailor information to the nature of their investors and products while ensuring that material information remains available to investors.

The FCA should, however, recognise the practical implications for firms operating cross-border. Firms marketing funds in the EU will continue to comply with applicable EU requirements, including more prescriptive disclosures that may appear in annexes to fund documentation. The UK framework should therefore avoid divergence that produces duplicative systems, documents or processes without a corresponding benefit. Appropriate flexibility will be particularly important for professional-only and mixed-investor funds.

National Private Placement Regime

We support retaining the National Private Placement Regime, subject to the proposed reforms. The NPPR remains an important route through which overseas funds can access UK investors and supports the UK's position as an open international market.

At the same time, the FCA should continue to consider practical frictions affecting cross-border market access between the UK and EEA. Regulatory dialogue should seek, where possible, to improve conditions for UK managers accessing EEA markets and promote greater reciprocity. Developments under the EU's Market Integration and Supervision Package should also be considered as the UK proposals develop.

Prudential rules

We support the development of a more coherent prudential framework for AIFMs. However, requirements should be proportionate to firms' scale, complexity and risk profile and should avoid duplication where firms are already subject to another prudential regime. The FCA should not determine the design or calibration of the AIFM prudential framework in isolation from its forthcoming review of the Investment Firms Prudential Regime (IFPR). The IA is currently undertaking research through its Capital Requirements Working Group, including analysis of firm data and evidence on the operation of K-factors, firm-specific risk assessments and wind-down planning. The findings from that work, together with any subsequent changes to IFPR, should be considered in the development of the final AIFM prudential framework to help ensure a coherent approach to equivalent prudential risks across the asset management sector.

Alignment with other prudential frameworks may help to promote consistency and simplification, but this should not lead to MIFIDPRU or ICARA concepts and processes being imported into the AIFM framework where they are not necessary or proportionate to the risks of fund management. The interaction between base capital, activity-based measures, fixed overhead requirements, liquidity, professional indemnity insurance and wind-down planning will therefore require careful calibration.

The potential expansion of the regulatory perimeter makes proportionality particularly important. Currently unauthorised small AIFMs and some residual CIS operators could become subject to prudential requirements for the first time. We would therefore welcome early clarity on the requirements that would apply to these firms and will engage further through the FCA's forthcoming prudential consultation.

Consumer Duty

The interaction between the revised AIFM regime and the Consumer Duty should be clear and proportionate. In particular, a fund designed, designated and marketed as a professional product should not automatically become subject to the Consumer Duty solely because a small number of retail investors are present.

More broadly, the FCA should ensure that the AIFM regime, Consumer Duty and developing consumer disclosure framework operate coherently and do not impose overlapping or inconsistent requirements.

Timing and implementation

Given the scale of the reforms and the likelihood that they will determine the shape of the UK AIFM regime for many years, the priority should be to establish a coherent, proportionate and operationally workable framework rather than to implement change unnecessarily quickly.

We note the FCA's intention to implement the new regime in 2028. A sufficiently long implementation period will be particularly important for managers and funds entering the regulatory perimeter for the first time and where firms need to amend permissions, governance arrangements, contracts, systems, disclosures or operating models. We consider that a transition period of at least two years should be provided following finalisation of the relevant rules.

Implementation should also be considered in the context of the wider programme of regulatory change across asset management. Firms are simultaneously responding to reforms affecting areas including regulatory reporting, remuneration, financial promotions and CCI. Appropriate sequencing will be necessary to allow firms to assess cumulative impacts, allocate implementation resources efficiently and avoid unnecessary cost or inconsistent implementation.

This should not prevent beneficial changes from being introduced sooner where they are optional and do not require mandatory structural change. In particular, removal of the AIFM business restriction could take effect promptly once final rules are made, enabling firms to make use of the additional flexibility when ready. Changes to the liability framework for independent valuers should similarly take effect as soon as practicable following finalisation.

Consistency with wider regulatory change

Finally, the AIFM reforms should not be developed in isolation. They form part of a much wider programme of regulatory change affecting asset managers, including reforms to fund reporting, remuneration, financial promotions and the CCI regime.

It will therefore be important for both the FCA and industry to consider these initiatives collectively. Industry positions should be consistent across related consultations, while the FCA should assess the cumulative cost, operational impact and interaction of its proposals. This will be essential if the wider reform programme is to deliver the intended benefits of a simpler, more proportionate and internationally competitive UK regulatory framework.

RESPONSES TO INDIVIDUAL QUESTIONS

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

The IA supports replacing the current full-scope and small AIFM distinction with a tiered regime.

Member views are mixed on whether the calculation should be based on net asset value or assets under management.

A NAV-based measure is simpler and more transparent than the current methodology and should reduce unnecessary complexity. It is important that when performing the calculation that AIFMs do not double count where an AIF is invested in another AIF managed by the same AIFM.

A calculation based on AUM will highlight smaller, highly leveraged funds that arguably provide more risks than large, vanilla funds.

We agree with the suggested tiering thresholds of £750m and £5bn.

However, the calculation should be confined to assets that are relevant to the AIFM regime and would appreciate confirmation that other assets managed by the firm are excluded.

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?

The IA supports the proposed transition periods for firms moving into a higher tier. A longer implementation period should reduce the cliff-edge present in the current regime and give firms time to adapt governance, systems, policies and service-provider arrangements. This is particularly important where a firm must establish a depositary relationship for the first time.

The FCA should clarify the meaning of 'material change' (para 2.15) and 'significant change' and explain how temporary movements around a threshold will be treated.

We note that some firms may wish to voluntarily apply parts of the rules for large firms, particularly those firms that may be part of a group which applies the most onerous standards applicable to its group companies to all companies in the group and current full-scope AIFMs who will be mid- or lower-tier firms under the new regime. The suggestion that this will be a formal SUP 15 notification to the FCA and that firms can expected to be supervised to a higher standard is likely to dissuade firms from voluntarily applying a higher standard. We welcome the wording in paragraph 2.23 that suggests that firms be permitted to apply a higher standard of requirements on a more informal basis or apply the rules as guidance. We ask the FCA to confirm that voluntary adoption of standards from a higher tier as guidance carries no supervisory consequences.

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?

The definition should be agile, capture collective investment that has the features of an AIF and should be futureproofed to take account of innovation in products. The proposed clarification could create significant perimeter uncertainty and unintended consequences. The market has operated on a broadly understood distinction between AIFs, residual CISs and excluded arrangements since 2013. Reform should not disturb that boundary without clear evidence of harm and a targeted assessment of the structures affected.

We propose that common deposit funds be added to the list of vehicles that are not considered AIFs. Common Deposit Funds are fundamentally collective pooling arrangements established for charitable

purposes and differ materially from conventional investment funds marketed to investors. They allow multiple charities to pool their cash deposits and invest them together, rather than each charity holding deposits separately. As they are designed for the investment of cash and short-term deposits of charities, more akin to a bank account than a fund, they do not present the same investor protection, market integrity or financial stability concerns that underpin the AIFM regime. We therefore encourage the FCA to consider whether Common Deposit Funds should be expressly excluded from being AIFs, alongside other structures that are not investment funds in the ordinary commercial sense.

PERG 16 includes important guidance on the definition of an AIF and we understand that the FCA may in due course seek to make some changes to this. Any amendments should be done cautiously and in proper prior consultation with the industry which has acted on the existing FCA guidance.

The definitions of 'raising capital' and 'defined investment policy' require particular clarification. They should not capture ventures before fundraising is genuinely undertaken, arrangements with no ongoing investment activity, or ordinary commercial structures that do not require fund regulation. The FCA and HM Treasury should also consider whether residual CISs and excluded entities should be able to opt into AIF status where all relevant participants agree, and whether the list of excluded entities should remain capable of being updated.

In addition, we request the ability opt-in for an AIFM managing a single-investor AIF. AIFMR 2013 Regulation 3(1)(a) defines an AIF as:

> **3.**—(1) "AIF" means a collective investment undertaking, including investment compartments of such an undertaking, which—
>
> (a) raises capital from a number of investors, with a view to investing it in accordance with a defined investment policy for the benefit of these investors; and

The 'number of investors' text excludes such AIFs and should be revised to ensure that single-investor AIFs are captured.

The interaction with the Reserved Investor Fund also requires review. A smaller AIFM operating a RIF should not face a disproportionate depositary requirement compared with an AIFM operating another unauthorised AIF or in the lower tier. There must be a level playing field, supported by clear amendments to PERG and suitable transitional arrangements for firms or vehicles newly brought into scope.

We suggest a solution by inserting the word 'any' in the following 'the operator and *any* depositary of the scheme are bodies corporate incorporated in the United Kingdom… and administer the scheme from the United Kingdom'. This would also enable small AIFMs to appoint a RIF depositary, if they so choose, in line with FCA CP26/28 paragraph 13.17.

The impact of classification before an unauthorised fund is formally launched should be borne in mind. In the case of some types of unauthorised fund, the final structure and classification is not determined until market interest is confirmed and classification as an AIF before market testing is undertaken could cause firms to incur unnecessary costs. A clear distinction between active marketing and market testing would be beneficial.

We have concerns around the current proposed definition of 'Open-Ended AIF' in ALTS 2.2.1 R (1). Although the definition substantially replicates the EU version in different wording, the proposed rules which apply if a fund is open-ended mean that there is now an issue with how widely this is drafted.

In the EU, 'Open-ended' is defined in Commission Delegated Regulation (EU) No 694/2014 as those funds which:

- repurchase or redeem shares;
- at the request of their investors;
- prior to liquidation;

- in the manner set out in its documents (subject to exclusions in relation to distributions and secondary market transfers).

This is very similar to FCA's proposed definition. On the face of it, this definition is quite expansive, as the ordinary meaning implies that any ability of the AIF to repurchase or redeem shares, no matter the frequency, would be caught.

As drafted, the definition of 'open-ended AIF' could potentially capture funds that are generally understood by the market to be closed-ended but which contain highly limited redemption mechanics, in particular, those which have:

- annual or less frequent redemption windows;
- GP/manager discretion redemptions;
- liquidity triggered only by asset realisations;
- occasional tender offers.

Such funds would become subject to the proposed look-through requirements and other obligations designed principally for funds offering regular investor liquidity. We do not consider that it would be proportionate for a fund with limited redemption rights to be classified as open-ended and be subject to the look-through. We do not believe the FCA intends to change the existing market understanding of which AIFs are regarded as open-ended for regulatory purposes.

However, we are aware that this is not how this definition is interpreted in the EU.

In the initial text of AIFMD Level 1, it was explicitly stated that the frequency would need to be 'at least annual' for an AIF to be open-ended. ESMA's 2013 opinion (ESMA/2013/1119) supported this, stating that requiring at least annual redemptions was a reasonable interpretation of the Directive, even if the Commission chose not to explicitly include a frequency test in the final Level 1 text in order to expedite AIFMD's adoption.

In addition, certain Member States have provided their own indication of what frequency of redemptions would be classed as open-ended. For instance, in Ireland, under the CBI's AIF Rulebook, any Irish Retail Investor AIF must allow redemptions at least monthly to be considered 'open-ended'. Those offering less frequent liquidity are categorised as 'open-ended with limited liquidity'. Similarly, a Qualifying Investor AIF (QIAIF) that does not provide at least quarterly redemptions is classified as 'open-ended with limited liquidity' by the CBI.

Once the legislation is made in the UK in its own right, the ESMA opinion and related EU guidance will no longer be relevant to the interpretation of the definition.

We are increasingly seeing private, closed-ended funds which have some mechanism for redemption. This can either be:

- infrequent and time-based, i.e. less than annually; or
- event-based, i.e. if there should be an event causing underlying liquidity within the structure.

We further note that there are other regulations which point to redemptions of a frequency of less than 5 years being a trigger for less restrictive rules to apply, implying a difference in funds with this frequency of redemptions, for example, under AIFMD in relation to a 'PE AIF depositary'.

We would therefore ask that either:

- the definition of 'open-ended AIF' be amended to exclude AIFs with an infrequent redemption frequency; or
- that, as in other jurisdictions, a further category be introduced of open-ended AIFs with limited liquidity, with less stringent applicable rules.

There is one other option that the FCA may wish to consider. Closed-ended funds have to evaluate the liquidity of their underlying investments as they near the end of their life and have to realise those

investments. Instead of having prescriptive definitions for open-ended and closed ended AIFs, there could be a rule that all AIFMs should consider the liquidity of underlying investments in their AIFs in the context of their obligations to return capital to investors.

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?

The IA does not support converting existing SYSC and COBS guidance into binding rules for residual CIS operators without evidence that the current framework has produced material harm or is being used widely to avoid AIF regulation. Applying additional rules may increase reporting, disclosure and compliance costs for a diverse population of structures whose risks may differ significantly.

If the FCA proceeds, it should identify the specific harms to be addressed, assess the affected market and apply only those requirements that are necessary and proportionate. Clear guidance should distinguish residual CIS operators from arrangements that should properly be classified as AIFs.

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

Enhanced disclosure requirements should apply only where they address an identified information gap and are proportionate to the investors, assets and structure concerned. The FCA should avoid imposing AIF-style disclosure requirements indiscriminately on residual CISs and should explain which categories are intended to be covered, the harm being addressed and how the requirements interact with existing contractual and legal disclosures.

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?

The IA welcomes the proposed change to the liability framework for external valuers. Removing strict liability should enable access to professional indemnity cover, widen the choice of valuation providers and support reliable independent valuations, while the AIFM remains responsible for compliance with its regulatory obligations.

The rules should not require every valuation of affected assets to be performed by an external third party. The FCA should recognise that robust valuations are primarily the product of an effective valuation governance framework rather than the simple use of an external valuer. Appropriate governance may include documented valuation policies, independent challenge, oversight by a valuation committee, management of conflicts of interest, maintenance of appropriate records and periodic review of valuation methodologies. Firms should retain flexibility to implement arrangements proportionate to the nature, scale and complexity of the assets managed while delivering equivalent investor protection outcomes. The requirement should focus on functional independence from portfolio management and robust management of conflicts. Conversely the independence of valuation committee is difficult for small firms without expertise and number of staff and external parties have a valuable role.

Valuation quality is driven principally by the strength of the valuation governance framework rather than by whether a valuation is performed internally or externally. An external valuer can be a valuable input, but robust outcomes ultimately depend on appropriate expertise, evidence, challenge, oversight and documentation.

In practice, the complexity and uncertainty associated with valuing early-stage venture investments, private credit arrangements or certain illiquid assets can be significantly greater than that associated with larger portfolios of mature or more observable assets. As a result, governance expectations should remain

sufficiently flexible to reflect the nature, complexity and valuation uncertainty of the underlying assets, rather than relying predominantly on AIFM size as a proxy for risk.

We suggest these revisions to the draft valuation rules:

6.1.3G (3) An AIFM may conduct the valuation itself, or it may appoint an independent third-party valuer (who must be independent of the AIFM) 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.

6.2.10 R A large UK AIFM must ensure that:

(1) a valuation of an AIF's assets and liabilities, whether carried out by a third-party valuer or internally, 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.

In addition, we consider that 'regulatory requirements relating to valuation' (ALTS 6.1.3G (3)) should be defined. It is unclear whether this refers only to FCA requirements or extends to requirements from other entities like RICS and Financial Reporting Council.

Under the proposals, valuations would have to be carried out on the basis of 'fair value' (as defined). However, this does not fully reflect IFRS or how some funds carry out their valuations in practice. We would suggest retaining the current position of valuations being carried out "fairly and appropriately" in accordance with applicable GAAP or the methodology in fund documentation.

The FCA should also define 'regulatory requirements relating to valuation' (ALTS 6.1.3 (3)) and clarify the interaction with COLL and sectoral standards, i.e. does this apply to FCA requirements or extend to requirements from other entities such as RICS and the Financial Reporting Council.

We support implementation of the liability reform in relation to external valuers as soon as practicable.

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

The IA supports a clear baseline of proportionate organisational and conduct standards for all AIFMs. Baseline rules should establish essential outcomes without reproducing requirements designed for the largest or most complex firms. Additional obligations should be calibrated by reference to relevant risks, including fund structure, leverage, liquidity, assets and investor base, as well as firm size.

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?

The IA supports greater flexibility in leverage measurement but cautions against removing common methodologies without an adequate replacement. Any new approach should be clear, consistently applicable and proportionate to the risks presented.

Members have differing views as to whether a move to a more principles-based approach or retention of existing, or adjusted methodologies is the solution.

Gross and commitment methods are familiar to firms, institutional investors and regulators and support comparability across funds and jurisdictions. A wholly bespoke approach could produce inconsistent disclosures, scope for gaming and uncertainty during authorisation and supervision.

However, there are issues with the gross and commitment approach. The prescription as to timing can coincide with e.g. FX rolls which can lead to dislocations in the resulting figures. The inclusion of derivatives

used for hedging can also lead to a potentially misleading figure and a netting approach, similar to EMIR would be beneficial. It is unclear whether the commitment and gross method disclosures are understood by retail investors – the calculation methodology can frequently yield numbers which are vastly different to what would be thought of as leverage in commercial terms.

The FCA should consider retaining adjusted standard methods, supplemented by flexibility where another method better represents a fund's risks. Any definition of leverage should distinguish genuine investment leverage from hedging and efficient portfolio management, address short-term operational spikes, and allow proportionate de minimis treatment. Clear regulatory expectations or industry guidance will be needed so that firms and investors can compare outcomes meaningfully.

We would appreciate further discussion between the FCA and industry as to how we can achieve best practice in a way that produces a meaningful result, can be communicated to investors in such a way that is understandable and allows investors to compare between funds.

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?

A hedging exemption may provide proportionate treatment for closed-ended AIFs where leverage is used solely to reduce risk. However, the exemption will work only if 'hedging' is defined clearly and consistently with established concepts, including efficient portfolio management. The FCA should explain whether the new terminology is intended to change the treatment of existing EPM and risk-reduction techniques and should avoid a definition that excludes legitimate portfolio-level hedges.

We note that the exemption applies to closed-ended AIFs only, so it does not change risk management or liquidity obligations for open-ended funds. The 'unleveraged' carve-out applies to the risk management and liquidity chapters only, so hedging-only funds would still need to calculate and disclose leverage to investors.

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?

The IA supports exploring a de minimis allowance for investment leverage if a standardised calculation methodology is adopted (please see our response to Question 8). A carefully calibrated threshold could prevent immaterial borrowing or exposure from triggering disproportionate requirements. The measure should be simple, consistently calculated and resistant to temporary breaches caused by market movements. It should also be aligned with any leverage methodology adopted under Question 8 and accompanied by clear treatment of hedging and EPM.

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?

Allowing a firm to disclose the leverage method best suited to an AIF could make information more relevant to investors. Existing disclosures are not always readily understood. Flexibility should be accompanied by a clear explanation of the method, its limitations and the reasons it reflects the fund's risk profile. A common minimum framework is needed to preserve comparability and prevent selectively favourable presentation.

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?

The IA supports baseline standards for all AIFMs, with additional requirements calibrated to the size and activities of the firm and the risks of the AIFs managed. However, size alone is not a complete proxy for risk. The framework should also take account of leverage, liquidity, fund structure, asset complexity and investor base. Firms should therefore be able to apply the rules on a proportionate basis taking into account the relevant risk factors.

The rules must operate sensibly for cross-border groups. A UK firm that is medium-tier domestically but subject to full-scope requirements elsewhere should be able to maintain group standards without a formal opt-up that exposes the whole firm to enhanced UK supervision, as detailed in paragraph 2.23. The FCA should also clarify the expected organisation of first- and second-line risk functions and preserve sufficient flexibility for different governance models.

Question 13: Should firms managing 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?

The IA supports applying baseline risk management requirements to managers of closed-ended, unleveraged AIFs where the products do not present the liquidity and leverage risks addressed by the enhanced framework. The requirements should still ensure appropriate research, due diligence, knowledge of investments and management of operational, valuation, concentration and other relevant risks. Additional rules should apply only where justified by the characteristics of the fund.

Question 14: Should the largest firms 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?

The IA agrees that the largest firms should remain subject to a more detailed framework that preserves the substantive standards of the current regime while simplifying unnecessarily prescriptive drafting. The final rules should confirm that large firms complying with the present framework will not face material new obligations without those changes being clearly identified and justified. Removing detailed provisions for limited-liquidity assets is appropriate where the relevant outcomes remain secured through effective due diligence and risk management.

However, as discussed above, size should not be treated as a complete proxy for risk and firms should be permitted to apply the rules on a proportionate basis taking into account any relevant risk factors. In some cases, this could result in a large AIFM applying the requirements on a more limited basis where its activities are low risk.

We agree with the approach not to bring across detailed provisions when investing in assets of limited liquidity, as they set an unnecessary level of prescription.

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

The IA supports proportionate liquidity risk management standards for small AIFMs, aligned with the FCA's wider liquidity risk management framework for authorised funds, including the new Guidance in COLL 6 Annex 5. Smaller firms should have flexibility to implement systems, controls and tools appropriate to each AIF's structure and redemption terms, but reduced firm size should not be treated automatically as reduced liquidity risk.

The FCA should distinguish between authorised and unauthorised funds and ensure that guidance developed for authorised funds is not applied without adaptation. It should also consider whether particular wind-down risks for closed-ended AIFs require targeted guidance rather than a broad extension of open-ended fund requirements.

Risks unique to closed-ended AIFs include decisions on the timing v cost of asset realisation (i.e. the need to sell at a lower rate, or on a less than optimal secondary market where a rapid sale is required). Linked to this, is the run-off valuation and what happens if there are still undrawn commitments.

We ask that the FCA consider adopting a full liquidity management toolkit, including all tools discussed in the recent FSB and IOSCO Recommendations at a national level, allowing firms to adopt the correct tools as appropriate for each fund. We welcome recent FCA initiatives to work with the entire distribution chain to ensure that such tools can be meaningfully adopted across the distribution chain and look forward to continuing these discussions.

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?

The proposed look-through requirement could impose substantial cost and practical burden without a clear incremental benefit over existing due diligence practices, including those for UK UCITS. AIFMs may not have timely access to complete portfolio holdings, and underlying managers may be unable or unwilling to provide commercially sensitive information. Line-by-line analysis could require contractual changes, duplicate work undertaken by authorised managers of second schemes and be particularly difficult where portfolio management is delegated.

The FCA should explain the harm the proposal is intended to address and the information, frequency and depth of analysis expected. A proportionate approach should allow an AIFM to rely on the underlying manager's compliance with its redemption terms and liquidity obligations, supported by risk-based due diligence and stress analysis. Enhanced look-through should be required only where the structure creates a material risk that cannot be assessed through existing information.

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

Medium AIFMs should not be subject automatically to the same degree of prescription as large AIFMs. Requirements should be calibrated to the nature, scale and complexity of each firm and its funds, with particular care to align liquidity provisions with the FCA's liquidity risk management framework. The framework should identify which large-firm rules are genuinely necessary for medium firms and allow outcomes-based alternatives where equivalent risk management can be demonstrated.

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

The IA supports the principle that an AIFM remains responsible for regulatory compliance when functions are delegated. The current framework is broadly effective and provides appropriate protection. We welcome efforts to streamline the description of delegated functions and notification requirements.

Further detail is required on the extension of requirements beyond portfolio and risk management. The FCA should define outsourced or delegated marketing carefully and confirm that merely making a fund

available through a platform does not of itself constitute delegation of marketing. We ask that any changes be considered in conjunction with the consultation on co-manufacturing in the recent Consumer Duty CP[2].

We welcome the removal of the pre-notification requirement.

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?

The IA supports appropriate controls where investment management is delegated to an entity that is not authorised or supervised for that activity. Such arrangements are likely to be exceptional and should be subject to robust due diligence, oversight and a clear justification. The FCA should clarify how the proposal applies to platforms and other distribution arrangements so that activities which do not amount to delegated investment management are not captured inadvertently.

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

The IA has recently made recommendations to the FCA on changes to annual reporting requirements, which included disapplying the annual reporting requirements in FUND entirely for authorised funds. We are therefore pleased to see that authorised funds are excluded entirely from chapter 10 of the new sourcebook (ALTS). We similarly support the separate treatment of firms recognised in the UK under the Overseas Funds Regime and listed closed-ended investment companies where equivalent reporting requirements already apply.

The obligation to provide further information following a 'reasonable request' requires clearer boundaries. The FCA should explain what information may be requested, the relevant reference date, how commercially sensitive information is treated and whether information provided to one investor must always be made available to all. We do not agree that investors need to receive exactly the same information in all cases to be treated fairly. Requirements should also avoid duplicating information already contained in an annual report or periodic statement.

The drafting should also be aligned with applicable accounting standards and use established terminology. The FCA should reconsider the proposed audit exemption for small AIFMs where the fund itself may be substantial and should assess whether annual reporting requirements add value for EIS AIFs whose investors receive portfolio-specific information.

Many funds are made available both in the UK and EU. For such products, introducing new UK requirements will result in a second set of costs. Such costs are typically ultimately borne by investors. We question whether any benefits from the revised UK reporting regime would be sufficient to justify such a duplication in cost. We suggest that where an AIF is subject to EU AIFMD Article 22, compliance with those requirements should be deemed compliance with ALTS 10.

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?

An annual summary may be appropriate where investors would otherwise receive insufficient periodic information, but it should not become a simplified annual report by another name. The FCA should specify the minimum content, frequency and delivery requirements, permit reliance on equivalent existing reports and calibrate the obligation to the nature of the fund and its investors.

[2] https://www.fca.org.uk/publications/consultation-papers/cp26-23-consumer-duty-scope-and-proportionality

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?

The IA welcomes the move away from unnecessary prescription for disclosures to professional investors. Professional investors should be able to obtain information relevant to their decision-making, but minimum expectations must be sufficiently clear to support consistent practice.

Many firms will continue to apply EU AIFMD disclosures to funds marketed in the EEA or group-wide standards. Avoidable UK divergence could therefore create parallel documents and additional operational cost without improving outcomes. Firms would prefer having alignment or sufficient flexibility in the format and content of disclosures. There is a need to maintain dialogue with the EU regarding cross-border marketing. Deemed UK compliance where subject to and complying with EU AIFMD Art. 23 would be desirable.

The IA would appreciate clarification on what the FCA's expectations are in relation to the differences in content of disclosures, depending on the types of investors, firms and funds, as described in paragraph 10.15 of the consultation.

The FCA should clarify what constitutes a 'reasonable demand for information', permit firms to protect sensitive information and prevent disclosure that could advantage one investor, facilitate front-running, conflict with freedom of information obligations or create financial crime or market-abuse risk.

The FCA should explain its expectations and reconsider removing the historical-performance requirement if firms will nevertheless be expected to provide that information, as per comments in paragraph 10.21.

We welcome the more practicable requirement to communicate the activation of liquidity management tools 'as soon as reasonably practicable', rather than 'immediately'. We would like further information from the FCA as to its expectations in this regard.

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?

Broadly, the information is equivalent to that in a portfolio statement, so we suggest that it is required only where it is not already included in the annual report.

Retail disclosures should be coherent with the Consumer Composite Investments framework and existing COLL prospectus requirements. The FCA should avoid creating an additional overlapping disclosure layer before the CCI regime is finalised and embedded. It should also assess the scale of retail access to professional products and whether targeted perimeter or distribution measures would be more proportionate.

Reconsidering the treatment of NURS under the AIFM regime may help resolve differences between retail and professional disclosure requirements. Considering the very limited extent that any other type of AIF is able to be made available to a retail investor, the narrative in paragraphs 10.27 – 30 is benign: it distinguishes the Product Summary Document (PSD) from other prospectus-type documents and acknowledges that the PSD could provide a link to the relevant documents. In any case, DISC 4.1.1R(10) already requires the PSD to indicate where and how to find additional information including prospectus-type documents.

We have some specific comments on the draft rules in Chapter 10:

Regarding UK AIFMs of UK AIFs:

- We question the small AIFM exclusion from having their accounts audited. Potentially a fund of nearly £0.75bn (small AIFM of a single fund) could be exempt from audit, noting the average

authorised fund size is in the region of £0.25bn. There is no size concession for authorised funds. ALTS 10.3.5 requires financial statements to be prepared in accordance with accounting standards, so we do not understand why they wouldn't be audited (note that the fund pays the audit fee, and the audit report is addressed to, and for the benefit of, the investors).

- In ALTS 10.2.3 – contents of the annual report:
    - In paragraph (1)(a) the word 'standing' should be replaced with 'position'.
    - Paragraph (2) should be replaced entirely with 'The firm must ensure that the annual report contains the accounts of the AIF prepared in accordance with applicable accounting standards.' (Accounting standards specify that financial statements contain a specific set of statements including a balance sheet and an income account).
    - In paragraph (3) 'financial statements audited' should be replaced with 'the report of the auditor prepared' and in brackets (or, for a non-UK AIF, the equivalent empowerment in the jurisdiction where the fund is established).
- ALTS 10.2.4G(1) is redundant as accounting standards specify this (FRS 102 3.11/12).

Regarding non-UK AIFs:

- Does FCA have the extra-territorial authority to require accounts to be prepared for a non-UK AIF? Instead, we suggest that their permission to be marketed in the UK be conditional on being subject to appropriate rules being in place requiring accounts to be prepared.

Periodic statements appear to be required only for retail investors – we are not convinced that retail investors will engage in determining their requirements as set out in the table in ALTS 10.4.4E.

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

The IA supports removing duplicative periodic reporting where the proposed disclosure framework and other regimes, such as the CCI regime deliver equivalent outcomes. However, an open-ended obligation to respond to additional information requests could create substantial burden and inconsistent treatment. Firms should be able to provide a standardised set of information that meets ordinary investor needs, with further disclosure required only where necessary to ensure that the information remains accurate and up to date.

Divergence from the familiar Article 23 framework may add cost for firms operating in both the UK and EU. The FCA should explain the benefit of a separate UK approach and ensure that funds already subject to one regime are not exposed to overlapping requirements, which could have a detrimental effect on UK competitiveness.

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

The rules should distinguish clearly between the responsibilities of the company board and those of the AIFM, reflect the legal form of the fund and avoid imposing duplicate or incompatible duties. The FCA should confirm which body is responsible for approval, oversight, disclosure and investor communications in each relevant structure and ensure that the AIFM is not made responsible for matters reserved legally to the board.

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?

The IA supports disapplying AIFM disclosure. reporting and investor-notification rules for closed-ended investment companies admitted to trading on a UK regulated market where equivalent outcomes are delivered through company law, listing and market disclosure requirements. The final framework should avoid duplication and preserve the established allocation of responsibilities for these vehicles.

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

The IA supports retaining the NPPR and the proposed clarification of the guidance. The final guidance should be clear, operationally workable and take account of the Market Integration and Supervision Package and wider UK-EEA market access discussions. The FCA should also explain how the proposed arrangements for Gibraltar-based firms interact with the NPPR and the protections applicable to UK investors.

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?

A future prudential framework should be simple, coherent and proportionate to the nature, scale and complexity of fund management activities with a level of consistency between firms. Base capital requirements (including the liquid assets requirement), activity-based requirements, fixed overhead requirements and wind-down costs should be calibrated as an integrated framework, rather than layered mechanically on top of one another or resulting in duplication where firms also undertake MiFID business. The FCA should clearly articulate the purpose of each prudential component and the risk or harm it is intended to address. Alignment with other prudential regimes may be appropriate where it promotes consistency and reduces duplication, but this should not result in the importation of MIFIDPRU or ICARA-style processes where these are unnecessary or disproportionate for fund managers.

We welcome the aims of simplicity and consistency but have concerns that consistency may override proportionality and small firms may be subject to requirements that are disproportionate to their size, particularly in relation to risk management, stress testing and wind-down planning. In particular we would not like to see the AIFM regime aligned closely with the more onerous MIFIDPRU requirements.

In our view, the framework should distinguish clearly between:

- base capital as a stable minimum floor;
- an AIFM-specific K-factor as the standard Pillar 1 measure for operational and conduct risk;
- fixed-overheads resources as a standard proxy supporting orderly exit;
- core liquid assets for operating liabilities and wind-down;
- a PII-related deduction from eligible liquid assets before comparison with the core liquidity requirement; and
- any firm-specific assessment, which should be limited to material residual risks not already captured by the standard framework.

The FCA should avoid requiring firms to hold resources more than once against the same underlying exposure and should ensure that any structured assessment or wind-down requirement is proportionate in substance as well as documentation.

Paragraph 17.21 identifies the current base capital requirements of £5,000 for small authorised UK AIFMs and residual CIS operators, €125,000 for externally managed AIFMs and UCITS management companies,

and €300,000 for internally managed AIFMs. Paragraphs 17.22 and 17.23 propose reconsidering the calibration of these amounts but do not clarify the currency in which the future requirements would be set.

The future base capital requirement for UK-authorised firms could be specified as a fixed amount in pounds sterling. Retaining a euro-denominated requirement creates volatility in the sterling value of the minimum capital requirement solely because of movements in the GBP/EUR exchange rate. Such movements do not necessarily correspond to any change in the firm's activities, risk profile or potential to cause harm.

A permanent minimum capital requirement should provide firms with a clear and stable floor. Denominating the requirement in sterling would improve predictability, simplify capital planning and remove the need to maintain additional headroom purely to manage foreign-exchange movements. It would also be more consistent with a UK-specific prudential regime for UK-authorised firms.

The sterling amounts should be reviewed periodically through the ordinary rule-making process.

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?

The risk of compensating investors for errors, negligence or misconduct is relevant to the design of activity-based prudential requirements. However, assets under management (AUM) are an imperfect proxy for the likelihood or severity of loss. While larger firms may present greater operational complexity and a larger population of investors potentially affected by an incident, AUM alone does not directly determine a manager's financial exposure.

Paragraph 17.24 identifies limitations in the current FuM requirement of 0.02% of FuM exceeding €250 million, subject to an overall cap. Changes in fund values affect the fund rather than the manager's own balance sheet and may not directly reflect changes in the manager's financial exposure.

At the same time, paragraph 17.25 and Question 40 appropriately recognise that operational and conduct risks remain with the manager. Errors, negligence or misconduct may require the manager to compensate investors, and the potential impact may increase with the scale and complexity of its activities.

Consideration should therefore be given to replacing the existing FuM requirement with an AIFM-specific K-factor-style calculation. The K-factor would provide a standardised Pillar 1 capital buffer against operational and conduct risks arising from fund-management activities, including portfolio-management errors, mandate breaches, valuation failures, negligence, misconduct and associated compensation or redress.

AUM may remain a practical starting indicator because it provides an objective measure of scale and of the assets potentially affected. However, the calculation should be calibrated using evidence relevant to the fund-management sector rather than simply carrying forward the existing methodology.

Any activity-based measure should therefore reflect the nature of the services provided, operational complexity, governance and control frameworks, claims experience, and the extent to which losses may arise from operational failures, negligence, misconduct or investor redress. It should also recognise relevant risk mitigants, including insurance arrangements, and avoid assuming that all assets create the same level of exposure.

Emerging findings from the IA's Capital Requirements Working Group suggest that firms are increasingly questioning the extent to which K-factor requirements are the primary driver of prudential outcomes under IFPR, particularly for larger firms where overall capital requirements are often determined by other elements of the framework. The FCA should therefore consider any changes to the AIFM prudential framework alongside its wider review of prudential requirements, with a view to promoting a consistent and proportionate approach to firms undertaking similar activities across the two regimes.

We ask that the FCA provides clear guidance on what data is to be considered within the K-Factor calculation and in particular how AUM should be calculated for these purposes. In developing any AIFM-specific K-factor, the FCA should consider:

- using average AUM rather than a single reporting-date value, to reduce volatility from short-term market, foreign-exchange, subscription and redemption movements;
- calculating relevant amounts in the firm's functional currency;
- applying an appropriate cap;
- assessing whether materially different fund-management activities justify differentiated treatment;
- applying suitable transitional arrangements; and
- ensuring that CPMIs are not required to calculate overlapping requirements against the same assets or risks under their MiFID and AIFM activities.

The AIFM-specific K-factor should operate as the principal Pillar 1 activity-based measure for operational and conduct risk. A separate formulaic operational-risk charge should not be imposed where it would capture substantially the same harms.

Additional capital should arise only for material residual risks that are demonstrably not captured by the standard K-factor. The FCA should also explain how the K-factor interacts with PII, professional-negligence resources, any firm-specific assessment and other capital components, with explicit safeguards against double counting.

The FCA should also explain clearly how any activity-based measure interacts with professional indemnity insurance, professional liability requirements, fixed-overhead requirements and any firm-specific assessment, with explicit safeguards to prevent double counting.

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?

Fund managers should maintain adequate liquid resources for firm-level liabilities and an orderly wind-down, notwithstanding the segregation of fund assets. Any basic liquid-asset requirement should be calibrated by reference to credible firm-level liabilities and wind-down needs, rather than fund assets alone, and should be proportionate the firm's business model, contractual commitments, revenue profile, operational dependencies and access to group support, although we do not advocate a firm-specific assessment. It should not duplicate fixed-overheads, capital or other liquidity requirements, or become an ICARA-style framework by another route.

We refer you to our comments in our response to Question 39 on a fixed overheads requirement (FOR) proxy to wind-down costs.

The FCA could consider making the basic liquid asset requirement number equivalent to the FOR-based wind-down cost unless the firm could demonstrate it needed to be lower or adjusted for only very certain liquidity inflows.

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?

Capital and liquidity requirements should be complementary and clearly linked to the harms they are intended to absorb. The FCA should provide a consistent standard for the quality and availability of own funds and liquid assets, while recognising that fund managers typically have simpler balance sheets than banks or principal-trading firms. The framework should avoid double counting the same risk, recognise

genuinely available group resources and insurance where appropriate, and explain how capital, liquid assets, PII and wind-down resources interact.

We agree that the final framework needs to demonstrate that enhancements are achieved on a practical level. In addition, we support the concept that changes to AIFM regime should be made in tandem with the UCITS regime.

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 expectations be calibrated proportionately across firms of different sizes, complexity and risk profiles?

Structured risk management and wind-down planning should apply proportionately, but the FCA should avoid making a detailed bottom-up wind-down cost assessment the default for all AIFMs. All firms should identify material risks and maintain a credible plan for orderly cessation or transfer of regulated activities, but the depth of analysis, governance, testing and documentation should reflect size, complexity, fund structures and operational dependencies. The segregation of fund assets is a real and relevant factor that should be recognised in calibration, although it does not remove risks arising from operational failure or an unmanaged transfer of responsibilities. Such segregation would lead to more proportionate capital, liquidity and wind-down requirements.

In recent years, wind-down planning has become increasingly complex and burdensome. Alignment and standardisation can be helpful, but they must not come at the expense of proportionality. Smaller and less complex AIFMs should not be required to adopt an ICARA-style process where the associated governance, modelling and documentation burden is not justified by the risks they pose.

Paragraphs 17.37 to 17.41 consider introducing more structured and consistent wind-down planning requirements. While credible exit arrangements are important, requiring every AIFM to complete a detailed bottom-up wind-down cost assessment could create a significant new operational and governance burden.

A detailed exercise may require firms to develop hypothetical triggers and timelines; determine how funds and mandates would be transferred or terminated; forecast the continuation or loss of fee income; assess staffing requirements; and obtain detailed cost assumptions from Finance, Human Resources, Legal, Operations, Technology, Procurement, Property and individual business areas. The resulting assessment would also require periodic refresh, challenge, approval and audit trail documentation. This may not be proportionate for firms with relatively simple balance sheets, particularly where fund assets are held separately from the manager and the fixed-overheads requirement already provides a resource floor intended to support an orderly exit.

The preferred approach would be not to impose a full ICARA-style wind-down cost calculation automatically on all AIFMs. The FCA should first demonstrate that the expected prudential benefit is proportionate to the implementation and recurring cost.

If the FCA nevertheless requires all firms to quantify wind-down resources, a simpler formulaic approach should be considered:

- Wind-down resource proxy = (as an example) specified number of months of relevant fixed expenditure + material incremental wind-down costs not already captured in the fixed-expenditure measure.
- Incremental costs could include, where material, contractual termination payments, staff retention or redundancy costs, fund or mandate transfer costs, legal and professional fees, property exit costs, technology separation costs and regulatory closure costs.

More detailed bottom-up modelling should be reserved for firms whose scale, complexity, business model or potential impact demonstrates that the formulaic approach would not provide a sufficiently reliable estimate.

The FCA should also explain how duplication will be avoided between the fixed-overheads requirement, a basic liquid-assets requirement and separately calculated wind-down resources.

We suggest that the FCA:

- does not impose a detailed bottom-up wind-down cost calculation as the default for all AIFMs;
- permits firms to use certain months of fixed expenditure as a standard proxy, supplemented only by material incremental wind-down costs;
- reserves detailed modelling for firms whose complexity or potential impact clearly justifies it.

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

Professional indemnity insurance should continue to receive prudential recognition where it provides reliable and enforceable cover for professional liability risks, we however understand where it cannot be treated as fully interchangeable with own funds or liquid resources. The framework should recognise the quality, scope, exclusions, limits, deductibles and timing of recoveries under the cover. Firms should retain flexibility to use PII, additional own funds or an appropriate combination, subject to clear minimum standards and without disadvantaging firms where suitable cover is unavailable on reasonable terms.

We suggest that PII be reflected in the liquidity framework through a defined deduction from eligible liquid assets before those assets are compared with the core liquidity requirement. This would recognise PII as a risk mitigant while avoiding its treatment as capital or as fully available liquidity.

The FCA should explain how policy limits, deductibles, exclusions and the timing of insurance recoveries affect the amount of the deduction. It should also ensure that the treatment does not duplicate the operational and conduct risks already captured through the proposed AIFM-specific K-factor.

We recommend that the FCA:

- keeps PII and the related professional-negligence amount outside of the capital requirement;
- does not treat PII as a liquid asset, deducting a defined PII-related amount from eligible liquid assets before comparing the resulting available liquid assets with the core liquidity requirement;
- requires firms to calibrate the deduction transparently and prevent duplication with the activity-based K-factor.

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?

Data collection should be driven by clearly defined supervisory purposes and should reuse information already available to the FCA wherever possible. Firms subject to multiple prudential regimes should not have to submit equivalent data in different formats, at different frequencies or under inconsistent definitions. The FCA should map existing MIFIDPRU, AIFM and COREPRU returns, remove duplicative fields, align reporting dates and taxonomies, and apply proportionality so that requests focus on information that supports the identification of material harm.

An important area that could be improved is the alignment of liquidity calculations, where liquidity is currently measured differently, particularly due to the treatment/haircut applied to debtors. Greater alignment here would make the requirements more consistent. There is also some duplication of underlying data across different returns, so collecting common data once, rather than reporting the same figures separately would improve efficiency.

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?

Reporting should focus on events that provide meaningful supervisory insight e.g. significant operational events, rather than routine low-level incidents. Definitions, thresholds, escalation expectations and duplication with existing notifications should be clear, so that the framework does not create incident-reporting noise or inconsistent reporting practices.

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?

The prudential framework for CPMIs should operate as a coherent entity-level assessment of combined fund management and MiFID investment activities. It should avoid double counting capital, fixed overheads, liquidity and risk-management requirements against the same assets, revenues or operational risks, while recognising resources that are available across the same legal entity. The FCA should set out how activity-based measures interact, which regime takes precedence where requirements overlap, and how diversification, common controls or shared operational infrastructure may be recognised without weakening investor or market protection.

A more joined-up approach to assessing capital and liquidity across the firm's fund management and MiFID activities would be helpful, particularly where the same financial resources are treated differently under the two regimes, such as the treatment of debtors for liquidity purposes.

We refer to our comments on the alignment of liquidity calculations in the response to Question 45.

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.

The FCA's estimated savings appear optimistic and may not capture the full cost of policy review, systems change, legal analysis, permissions, service-provider arrangements, staff training and parallel compliance with UK and EU requirements. Cost estimates should distinguish one-off implementation expenditure from recurring savings and should account for firms and funds newly brought into scope. Where quantitative evidence is limited, the FCA should give appropriate weight to qualitative evidence of operational burden and foregone efficiency.

The costs may not be reasonably estimated without clarity in some areas, particularly around funds in scope. We refer to our responses to the main part of the paper.

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.

Greater flexibility could benefit small and medium AIFMs by reducing unnecessary prescription, allowing controls to be tailored to their funds and limiting expenditure on requirements that do not address material risks. Potential benefits include simpler governance and documentation, more proportionate reporting and improved ability to innovate or grow without an abrupt regulatory cliff edge. These benefits will be reduced if firms must maintain existing processes for EU business or if formal opt-up and notification arrangements discourage selective use of higher standards.

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

Reduced prescription need not create additional investor risk where outcomes, accountability and minimum safeguards remain clear. However, risks could arise from inconsistent methodologies, weaker comparability, reduced independent oversight or under-developed controls at smaller firms. The FCA should retain targeted minimum standards, clear disclosure and risk-based supervision, particularly for funds with complex assets, leverage, liquidity risk or retail exposure.

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

The cost-benefit analysis should assess the cumulative effect of the package rather than individual rule changes in isolation. It should include perimeter expansion, transition, systems and documentation changes, cross-border duplication, depositary and valuation costs and the interaction with concurrent FCA initiatives. Claimed savings should be tested against the likelihood that firms retain existing standards voluntarily or because EU and group requirements continue to apply.