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## Introduction

The UK's regulatory framework for Alternative Investment Fund Managers (AIFMs) is undergoing scrutiny at a time when competitiveness, innovation, and proportionality are crucial for the growth of the UK's asset management industry. While the current regime has ensured market stability and investor protection, it also presents challenges such as smaller firms scaling up, cross-border access post-Brexit, and the unnecessary complexity of some reporting and compliance obligations.

INREV recommends that any future regulatory architecture is proportionate, flexible, and risk-sensitive, in a way that safeguards investor confidence while promoting industry competitiveness and innovation.

## Managing the “Cliff Edge” Transition

One of the more pressing challenges lies in the “cliff edge” that arises when small AIFMs transition to full-scope authorisation. This leap can act as a significant barrier to growth. While some level of regulatory escalation is inevitable, better calibration, such as clearer transitional paths and tiered regulatory scaling, could alleviate unnecessary disruption. A structured transition process should be introduced, with movements overseen by depositaries for firms nearing the authorisation threshold. Consideration should also be given to asset class characteristics when applying regulatory requirements, recognising that certain asset types, such as real estate, present different and often lower systemic risks than more complex leveraged strategies.

## Preserving Market Access and the Delegation Model

Given the UK's strategic reliance on the delegation model, maintaining and enhancing market access with the EU remains a priority. A pragmatic approach, without necessarily depending on the AIFMD third-country passport, should be adopted to secure broader distribution opportunities and to facilitate EU investor access to UK-managed funds. Bespoke bilateral arrangements or mutual recognition frameworks could help preserve market access while minimising the divergence that might place UK firms at a competitive disadvantage. Ensuring that UK-based managers retain access to European capital is essential for the continued success of the UK asset management sector.

## Tiered Regulation for Proportionality

The proposal to segment AIFMs into three regulatory tiers by size is a positive development which would enable more proportionate obligations across the industry. However, the current threshold levels for the smallest tier risk exclude firms that could benefit from a lighter-touch regime. Raising these thresholds would extend proportionality to a wider range of managers. Additionally, firms should be allowed to opt into higher tiers with minimal procedural friction. This process should ideally rely on notification rather than prior approval, providing the

flexibility necessary to support growth, especially in comparison to regimes in jurisdictions such as Luxembourg, Jersey, or Guernsey.

## **Authorisation and Compliance Reform**

We support the removal of the small registered regime, which has outlived its utility and now contributes to unnecessary regulatory complexity. A streamlined authorisation process, particularly for Property AIFMs, is appropriate. However, any reforms should avoid retroactively capturing currently registered, internally managed vehicles without due regard to the transitional costs and potential investor disruption that may result. Moreover, authorisation should not automatically trigger additional obligations, such as the appointment of depositaries, in cases where custodial risk remains low or non-existent. This approach will ensure that authorisation requirements are proportionate and sensitive to operational realities.

## **Risk Management and Leverage Rules**

A reformed risk management framework must reflect the diversity of fund strategies. A uniform approach would risk regulatory distortion and may inadvertently stifle innovation. Leverage rules, in particular, should be tailored to the specific characteristics of different asset classes. For example, the borrowing typically used in real estate funds poses lower risk than that associated with complex derivative strategies. Definitions for “highly leveraged” firms must be clear, and the regulatory framework should support proportional monitoring that aligns with the actual risks posed by various investment approaches, thereby avoiding arbitrary caps that could lead to instability or divestment.

## **Role and Regulation of Depositaries**

The role of depositaries should scale according to the regulatory risk presented by the AIFM. Mid-tier firms stand to benefit significantly from depositary oversight, particularly during periods of regulatory transition. Smaller firms nearing authorisation thresholds would also benefit from early engagement with depositaries to ensure preparedness. For larger firms, depositaries should continue to focus on readiness assessments and managing systemic risk. Clearer guidance around depositary obligations, especially for simpler fund structures, would support more efficient compliance and reduce unnecessary cost burdens.

## **Streamlining Regulatory Rulemaking and Definitions**

Aligning regulatory rules thematically with business activities and product cycles will reduce complexity and enhance clarity for market participants, particularly new entrants. At the same time, existing consolidated frameworks, such as SYSC 19 on remuneration, should be preserved where they continue to serve firms effectively, especially within larger financial groups. Moving key definitions from current legislation into the Regulated Activities Order (RAO) will provide greater consistency across the framework. However, practical guidance contained in sources like PERG Chapter 16 must remain intact to maintain certainty and usability. During this transition, attention should be paid to definitional gaps, such as those concerning “holding company” or “securitisation special purpose entity”, which would benefit from clarification.

## **National Private Placement Regime (NPPR)**

The UK's NPPR remains essential to the functioning of the asset management sector and should be maintained in its current form. The FCA's notification-based process is efficient, well-understood, and favored by many international firms. However, the proportionality of the requirements for small and medium-sized third-country AIFMs should be revisited to ensure these firms are not placed at a disadvantage relative to their UK counterparts in a reformed regime. Ensuring parity in compliance expectations will reinforce the NPPR's long-term viability and attractiveness.

## **Marketing and Private Equity Notifications**

Several legacy notification obligations add little value and should be reviewed for their continued relevance. The 20-day pre-marketing notification requirement, in particular, puts UK full-scope AIFMs at a disadvantage when compared with third-country firms operating under the NPPR. If the requirement is retained, relocating it to the FCA Handbook would allow for more flexible interpretation. Additionally, notification obligations related to acquisitions of non-listed companies should be removed unless the information is actively used by the FCA. Where this is not the case, the administrative burden serves little purpose and risks diverting resources from more substantive compliance functions.

## **External Valuation Liability**

The current regulatory framework under Regulation 24(5) imposes effectively unlimited liability on external valuers, discouraging participation by professional firms and undermining the wider goals of investor transparency and market confidence. Reforming this provision would allow for better alignment with accounting standards and insurance practices, encouraging more widespread use of independent valuation services. A legal amendment that preserves the AIFM's ultimate responsibility while creating a practicable, insurable role for external valuers would help improve both transparency and market resilience.

## **Conclusion**

In order to remain globally competitive, the UK's AIFM regulatory framework must find a balance between robust oversight and proportionality. A streamlined, flexible regime, aligned with fund size, strategy, and risk, will support innovation, reduce barriers to growth, and support investor confidence. With targeted reforms, the UK can enhance its status as a leading global hub for asset management, supporting sustainable growth and delivering lasting benefits to investors and the wider economy.