

May 8, 2025

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## HM Treasury and the FCA Consult on Proposed Changes to the UK Regulatory Regime for Alternative Investment Fund Managers

On 7 April 2025, the United Kingdom's HM Treasury opened a consultation (the Consultation) on proposals to streamline the regulatory framework for alternative investment fund managers (AIFMs). Alongside the Consultation, the Financial Conduct Authority (FCA) has released a "Call for Input" detailing the FCA's intended approach to regulating AIFMs within the framework proposed by the Consultation. The Consultation forms part of the UK government's ambitions for greater economic growth. Some of the key changes proposed concern:

- the regulatory perimeter for the rules applicable to AIFMs;
- the threshold conditions for determining the regulations applicable to an AIFM within the regulatory perimeter; and
- amending the notification requirements applicable to AIFMs.

The regulatory regime currently applicable to AIFMs in the UK (the AIFM Regulations) derives from the European Union's Alternative Investment Fund Managers Directive (the AIFMD) and was retained following the UK's decision to leave the EU. In April 2024, the EU passed significant legislative updates to AIFMD (AIFMD II), taking effect from April 2026.<sup>1</sup> In contrast to AIFMD II, the proposed changes to the UK regulatory framework represent a stronger focus on deregulation and improving the ease of conducting business. The UK government appears to be seeking a "Brexit dividend" through using the flexibility afforded by leaving the EU to create what is intended to be a simpler and better tailored regulatory regime for AIFMs.

The Consultation and Call for Input will close for comments on 9 June 2025. After consideration of the responses, HM Treasury will publish a draft statutory instrument on the regulatory framework for AIFMs and the FCA will consult on its proposed rules in the first half of 2026.

### Current and Proposed Thresholds

The current thresholds for determining when an AIFM is subject to the full-scope AIFM Regulations were established in 2013 and have not been adjusted since, despite inflationary pressures, market movements and growth in assets under management (AUM), upon which the thresholds are based. Under the current regime, firms risk abrupt and significant increases in regulatory compliance requirements when a threshold is crossed, which may occur passively as a result of market movements or changes in valuations.

<sup>1</sup> For more on the implementation of the AIFMD II, please [listen to the "Preferred Return" podcast](#).

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Due to these concerns, HM Treasury is proposing to remove the legislative thresholds determining when a firm is subject to the full AIFM Regulations. Instead, the FCA will set regulatory classifications for firms, together with thematic rules determining how the regime will apply to firms of differing sizes and operations. Thresholds will be based on net asset value (NAV), rather than leveraged AUM. The FCA considers NAV to be a more common and understandable measure than AUM,<sup>2</sup> potentially simplifying category determinations. This approach is also expected to reduce the risk of firms managing their leveraged AUM around reporting dates to stay below category thresholds.

Additionally, firms will no longer need to apply for a variation of permission as they change categories, though they may have to notify the FCA of such graduations. This approach would simplify firms’ transition between categories and may resemble the process used under the Senior Managers and Certification Regime. Firms will also have the flexibility to voluntarily comply with rules applicable to larger category firms, reflecting the fact that professional clients sometimes require investment managers to exceed minimum regulatory standards.

The current and proposed thresholds are set out for comparison below.

Current Thresholds	Proposed Thresholds
<b>Full-scope AIFMs.</b> AIFMs with AUM exceeding €500 million qualify as full-scope UK AIFMs, being subject to the full scope of AIFM Regulations.	<b>Large firms.</b> The proposed threshold for this category is a NAV of £5 billion and above.  The largest firms will remain subject to a regime similar to the current full-scope requirements, with some simplifications and limitation of certain rules to firms doing specific activities. For example, the FCA proposes revising the risk management requirements for full-scope AIFMs given the varying needs, investments and risk profiles among different types of funds. To illustrate the point, the FCA notes that private markets fund managers will characteristically require stricter due diligence standards but less stringent risk limits than hedge fund managers.
<b>Threshold AIFMs.</b> AIFMs with AUM between €100 million and €500 million may be categorised as full-scope or small, depending on certain leverage and redemption conditions.	<b>Midsize firms.</b> Firms with a NAV between £100 million and £5 billion will fall into this tier.  The FCA anticipates that a significant number of existing full-scope UK AIFMs will be reclassified into this category, with the intention that they benefit from a simpler, more flexible regime. More specifically, the Call for Input highlights that the FCA does not plan to impose detailed procedural requirements unless necessary. The FCA also proposes varying the risk management requirements for midsize firms, with managers of funds that do not invest in transferable securities, such as private equity or real estate funds, potentially facing fewer risk management provisions.
<b>Small AIFMs.</b> AIFMs with AUM below €100 million are either small registered UK AIFMs or small authorised UK AIFMs, depending on the nature of the vehicle or assets under management, and are not subject to the full scope of AIFM Regulations.  Small registered UK AIFMs are exempted from the requirement to seek FCA authorisation when managing certain alternative investment funds (AIFs). The Consultation highlights the concern that FCA registration creates the impression that the FCA exercises oversight over such AIFMs , when in fact the FCA has limited powers over AIFMs within the registration regime.	<b>Small firms.</b> Firms with a NAV under £100 million will be considered small.  Small firms will adhere to core baseline standards, proportionate to their size and risk profile. Existing full-scope UK AIFMs reclassified into this tier would see a significant reduction in detailed and prescriptive requirements. The FCA does not expect existing small UK AIFMs will need to materially raise standards.

<sup>2</sup> Leveraged AUM is a gross measure of value that accounts for assets acquired using leverage, whereas NAV represents the value of a fund’s assets less its liabilities. Leveraged assets would therefore be disregarded in any assessment made by reference to NAV. This means that a fixed nominal threshold will increase in real terms where its basis is changed to NAV instead of AUM.

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## Proposals for Firms Undertaking Different Activities

The existing small registered regime applies to three categories of firm. The Consultation sets out proposals for how they will be treated moving forwards. The Consultation also indicates that Listed Closed-Ended Investment Companies (LCICs) will remain within the scope of the AIFM Regulations.

The proposals suggested in respect of these different varieties of firms are set out below.

Type of Vehicle	Proposals and Comments
Social Entrepreneurship Funds (SEF) and Registered Venture Capital Funds (RVECA).	Small registered managers of SEF and RVECA funds are subject to requirements under a separate set of rules in addition to the AIFM Regulations. HM Treasury will retain the existing rules for the regulation of managers of SEF and RVECA funds and consider their regulation in full separately, particularly the regulation of RVECAAs given their role in funding UK growth companies.
Unauthorised Property Collective Investment Schemes	This relates to AIFMs managing assets of unauthorised funds mostly holding land. The Consultation proposes requiring existing small Unauthorised Property Collective Investment Schemes to seek FCA authorisation in line with HM Treasury’s intention of simplifying the regulatory perimeter and noting that there may be consumer protection risks arising from such funds.
Internally Managed Companies	The Consultation proposes requiring managers of investment companies which are not collective investment schemes, and which do not appoint an external AIFM, to seek FCA authorisation. Again, this is in line with HM Treasury’s intention of simplifying the regulatory perimeter and noting that there may be consumer protection risks arising from such funds.
Listed Closed-Ended Investment Companies	LCICs are investment funds which are traded on the Main Market of the London Stock Exchange. In addition to their managers being subject to the AIFM regulations, LCICs must comply with elements of the Listings Rules and other regimes.  This means that an internally managed LCIC currently classed as a small registered UK AIFM would need to become authorised. Given their particular characteristics and broader regulation, however, the FCA is considering a tailored approach to the regulation of LCIC managers to create a more proportionate regime. This would involve disapplying certain disclosure, liquidity and delegation obligations.

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## Depositories

Depositories provide verification and safe custody of AIF custodial assets. They also monitor cash flows and oversee fund operation and management processes. The FCA intends to maintain the current framework for asset safekeeping and fund oversight for large and midsize AIFMs while potentially exploring proportionate alternatives.

## Additional Proposals

In the Call for Input, the FCA indicated that it intends separately to review at length the operation and effectiveness of the prudential requirements, business restrictions, reporting regime and remuneration rules for AIFMs.

As part of the new regulatory framework for AIFMs, the Consultation noted that the UK Government also intends to legislate in the areas set out below.

## Definitions and regulatory perimeter

- **Managing an AIF.** The activity of managing an AIF is underpinned by several definitions determining which fund managers must comply with regulatory requirements. These are dispersed across various regulations and FCA guidance. The Consultation proposes consolidation of these definitions into the Regulated Activities Order. An AIF is defined as a Collective Investment Undertaking. Providing a new legislative basis for these definitions will not change their meanings or the regulatory perimeter, and the exact wording will be open to consultation when the draft legislation is published.
- **Trustees and depositories of AIFs.** The regulated activity of acting as a trustee or depository of an AIF is based on the concept of a “full-scope AIFM” and so will require review in light of the FCA’s proposed regulatory tiering of AIFMs.
- **External valuation.** The AIFM regulations provide that external valuers are liable to an AIFM for losses caused by negligence or intentional failure. The Consultation proposes removing the legislative basis of liability for external valuers, such that they would be only contractually liable to AIFMs. An AIFM will then bear the ultimate legal liability to funds and investors.

## Notification requirements

- The National Private Placement Regime allows overseas AIFMs, and UK and Gibraltar AIFMs managing overseas AIFs, to market in the UK subject to certain notification, information and compliance confirmation requirements. The Consultation proposes broadly restating the marketing regime for overseas AIFMs, with any technical changes subject to consultation when the draft legislation is published.
- The Consultation proposes repeal of the current requirement for full-scope UK AIFMs of UK or Gibraltar AIFs to notify the FCA 20 working days before marketing to professional investors.
- The Consultation considers removing the requirement for full-scope UK AIFMs and above-threshold overseas AIFMs to submit information about AIFs acquiring control of nonlisted companies. The current requirements, aimed at private equity funds and concerns such as asset-stripping, are not considered directly relevant to the FCA’s statutory objectives and powers.

## Comments and Next Steps

The Consultation and Call for Input have been opened against a backdrop of growth in private markets and international initiatives to reform frameworks for monitoring and supervising asset management. While small registered firms will require authorisation following the proposals, replacing legislative thresholds with standards set by the FCA is intended to facilitate agile rule-making, while a more centralised, outcome-focused regime seeks to provide firms with greater flexibility and certainty.

The reforms will be of particular interest to private equity houses given the proposed relaxation of notification requirements. These firms will be able to move more quickly to market, without the delay period required to notify the FCA.

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