

22 October 2026

By email: cp26-28@fca.org.uk

Financial Conduct Authority
12 Endeavour Square
London
E20 1JN

Re: CP26/28: The UK AIFM Regime

Dear Sir/Madam

Managed Funds Association (“**MFA**”)¹ appreciates the opportunity to represent the views of the global alternative asset management industry in this written response to the Financial Conduct Authority’s (“**FCA**”) consultation paper CP26/28 on the UK AIFM Regime (the “**Consultation Paper**”).

MFA welcomes the FCA’s extensive efforts in reviewing the UK AIFM regime with a view to achieving greater proportionality, simplicity and international alignment. We are supportive of the overall direction of travel proposed in the Consultation Paper, and our comments highlight areas where we believe the proposals can go further with a view to meeting these objectives.

The Annex sets out our responses to the relevant questions of the Consultation Paper and our suggestions for further changes. In particular, we would encourage further attention to the following areas:

- **Firm size thresholds.** The size calculation should be limited to the NAV of alternative investment funds (“**AIFs**”) managed by the firm and not residual Collective Investment Schemes (“**CIS**”), and the valuation methodology for these purposes should not be prescribed in the rules (noting the fair value requirements in ALTS 6). As to moving between thresholds, cliff-edge effects can be further mitigated by specifying that the relevant size threshold must be breached over a sustained period, and providing relief in respect of requirements that involve third party dependencies.
- **Residual CIS operators.** We note Chapter 3 of the Consultation Paper is premised

¹ Managed Funds Association (“**MFA**”), based in Washington, D.C., New York City, Brussels, and London, represents the global alternative asset management industry. MFA’s mission is to advance the ability of alternative asset managers to raise capital, invest it, and generate returns for their beneficiaries. MFA advocates on behalf of its membership and convenes stakeholders to address global regulatory, operational, and business issues. MFA has more than 180 fund manager members, including traditional hedge funds, private credit funds, and hybrid funds, that employ a diverse set of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors diversify their investments, manage risk, and generate attractive returns throughout the economic cycle.

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on an expansion of the AIF perimeter, which appears to differ from the position of HM Treasury. Any substantive expansion of the AIF perimeter would have consequences beyond those considered in the Consultation Paper, noting the use of the concept in broader UK and overseas laws. The position on this point should be clarified in the first instance, following which any detailed proposals on reforming the rules for residual CIS operators can be duly assessed.

- **Risk management and liquidity risk management.** Although MFA supports the overall proposals on risk management and liquidity management directionally, we note areas where the proposed rules could be further simplified and AIFMs given more flexibility to meet the FCA's principles in the manner they consider best suited to their business and group arrangements.
- **Investor disclosures and reporting.** While we welcome the proposed simplification of the investor disclosure and reporting rules in some respects, this should go further in respect of professional investors, particularly in the case of third country AIFMs, where information rights are typically a matter of negotiation among sophisticated parties. The requirement to prepare a bespoke set of disclosures (noting the UK rules will now differ from those in the EU) may serve as a disincentive to marketing in the UK.
- **Consequential changes.** We note a number of the changes discussed in Chapter 15 would represent substantive changes and an uplift in the compliance burden for certain firms, particularly small UK AIFMs. We would welcome the FCA assisting firms with such changes by way of a detailed mapping table and appropriate transition periods to implement any substantive changes.
- **Prudential regime.** We note that the UK is an outlier among major asset management centres (including the United States and Hong Kong) in applying AUM-based capital requirements to fund managers. Consistent with the FCA's secondary international competitiveness and growth objective, and its mission to be a smarter regulator and to reduce regulatory burden, MFA considers that there is a legitimate case for revisiting whether prudential requirements should apply at all for asset managers, particularly for those who deal only with professional investors.

MFA appreciates the opportunity to provide these comments to the FCA in response to the Consultation Paper. If you have any questions about these comments, or if we can provide further information, please do not hesitate to contact the undersigned rhailey@mfaalts.org at 020 3008 4377.

Yours faithfully

/s/

Rob Hailey
Managing Director
Head of EMEA Government Affairs

CHAPTER 2. FIRM SIZE THRESHOLDS

Q1: Do you agree with our proposed size calculation, i.e. the aggregate NAV of all CIS and non-CIS AIFs and non-AIF CIS, managed by the AIFM?

MFA Response

Use of NAV

MFA supports the use of NAV rather than leveraged assets under management. NAV is simpler, more stable and better aligned with the scale of the investment management business than a leverage-based metric.

MFA also agrees with the increased thresholds for the medium and large AIFM classifications as compared to those proposed in the Discussion Paper.

Aggregate NAV / calculations

The types of vehicles included in the calculation should include AIFs only, and should not extend to residual CIS. It does not seem relevant to determine the application of the AIFM regime to a firm's AIF management, based on the NAV of arrangements that fall outside or are excluded from the definition of an AIF (which indicates that such arrangements are not considered relevant to the AIFM regime). For example, a firm might manage AIFs with less than £750 million NAV in aggregate, but be appointed as operator of a joint venture vehicle. If that vehicle were considered a "residual CIS" and held a substantial asset, this could pull the firm into a higher AIFM classification, notwithstanding its limited AIF management activities.

Regarding the "small third country AIFM" definition used in ALTS 10.3, we understand the intention is that such AIFMs should include only AIFs (and not residual CIS), as the extension of the calculation to include residual CIS in ALTS 2.3 is stated to apply only to authorised UK AIFMs. However, guidance clarifying this point in ALTS 10.3 would be helpful. We also recommend that the calculation for small third country AIFMs should be limited to AIFs marketed in the UK (that is, "*regulation 49 AIFs*" as defined) to ensure the application of the rules is determined based on the third country AIFM's activities in the UK and not its broader business that may not have a UK nexus.

Consideration should also be given to ensuring the calculation does not result in double counting. For example, in the case of master-feeder structures where the AIFM manages both a master and a feeder AIF, we would welcome guidance clarifying that NAV should not be counted at both levels.

As to valuations, rather than prescribing fair value and arm's length transaction based tests in ALTS 6.2.2R, a more proportionate approach would be to permit NAV to be calculated in accordance with the approach set out in the fund's constitutional

documents and/or applicable accounting standards. This would prevent firms having to adopt a new, separate valuation methodology from the approach they use in the ordinary course of managing the fund.

Q2: 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?

MFA Response

MFA supports the move to a notification model and the delayed application of new rules for size increases.

To further reduce cliff-edge effects, MFA recommends that upward reclassification should be required only following a sustained threshold breach – for example, exceeding the relevant size threshold for at least two consecutive quarters or on the basis of a rolling-average figure.

We request that any triggers for recalculating firm size be made as objective as possible. To this end, the FCA could provide guidance on the terms “material change” and “significant change” as used in ALTS 2.3, which could tie each such term to a closed list of specific event types. We note the comment that “*material change is a defined term in regulation*”; however the draft rules do not reference the relevant definition.

Furthermore, the reclassification system should take into account the challenge firms will have in needing to renegotiate third party arrangements to comply with new rules on reclassification. While this is acknowledged in the longer transitional period for the application of depositary requirements, there are other examples. A firm reclassifying as a large AIFM would become subject to new rules on third party valuers in ALTS 6.2.11R, which may require it to change its valuers or renegotiate its existing agreements to address these rules contractually. Notwithstanding the 6-month delayed application of the rules of the new tier, firms may find themselves in a difficult negotiating position as a result of a mandatory requirement to agree renegotiated third party arrangements within 6 months.

This issue could be addressed, for example, by guidance in ALTS 2.3.19R to the effect that, insofar as reclassification imposes rules with dependencies related to service providers or other third parties, the firm is subject to a “reasonable efforts” standard to ensure the requirements are in place with those third parties by expiry of the relevant period, and the firm will not be in breach of the relevant rules if such arrangements take longer to put in place in spite of the firm’s reasonable efforts.

CHAPTER 3. RESIDUAL CIS OPERATORS

Q3: 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?

MFA Response

HM Treasury states in the policy note accompanying the Draft Regulations for Alternative Investment Fund Managers ("**Draft AIFMR**") that the Draft AIFMR "*clarifies the definition of an AIF reflecting some of what was previously in FCA guidance*". Conversely, the FCA contemplates some current residual CISs falling within the revised AIF definition and therefore needing to be notified to the FCA as new AIFs under management, which implies it perceives the legislative change as expanding the AIF perimeter, rather than only clarifying its existing scope.

While we appreciate that comments on the AIF definition should be addressed to HM Treasury, we wish to note this to the FCA as the proposals on residual CISs do not seem to align entirely with HM Treasury's intent regarding the AIF perimeter.

Any substantive change in the AIF perimeter would have impacts in areas broader than just the UK AIFM regime given the extensive references to the "AIF" definition in broader UK and overseas legislation. Examples include tax legislation, the prudential framework for banks in the UK under the UK Capital Requirements Regulation (and the corresponding EU framework), and the funds regulatory regimes of certain other jurisdictions, such as Jersey (under the Alternative Investment Funds (Jersey) Regulations 2012). A divergence from the EU AIFMD definition of an AIF could also give rise to complexity for firms operating or marketing funds in the UK and the EU, and may result in certain vehicles being treated as AIFs in one jurisdiction but not the other.

Regarding the residual CIS proposals, the proposed glossary definitions of "carried interest vehicle", "excluded entity", "joint venture vehicle" and "single investor vehicle" may introduce considerable legal uncertainty and affect the regulatory analysis of existing arrangements in this area. Many arrangements of the nature described by the new definitions may not be considered CIS in the first place, and therefore the introduction of these definitions as types of "residual CIS" may give cause for market participants to reassess existing structures. An example is that of joint ventures, many of which are considered not to be CIS on the basis of the exclusion in paragraph 9 of the Schedule to the Financial Services and Markets Act 2000 (Collective Investment Schemes) Order 2001.

Secondly, we note the FCA has proposed to apply certain requirements, such as ALTS 9 disclosures and ALTS 10 annual summaries, to residual CIS that do not fall within the new definitions, on the basis the defined types of arrangements are considered low risk. However, it is not clear what the remaining population of residual

CIS is intended to capture, once those arrangements are carved out. We believe a specified list of arrangements the FCA wishes to make subject to these requirements may be clearer for firms than the current proposal, which would require firms to conduct a three-stage analysis as to whether a given arrangement is: (i) a CIS; (ii) an AIF; and (iii) within one of the excluded residual CIS arrangements.

Finally, we note that the current FCA guidance on the AIF perimeter (notably, in PERG 16.2) should be updated to reflect the new legislative definition. While HM Treasury seeks to codify some existing PERG guidance in the Draft AIFMR, much of the existing guidance is not captured and should therefore be retained, updated to reflect any amendments made in the finalised Draft AIFMR.

Q4: 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?

MFA Response

As discussed in Q3, we consider that more clarity is needed on the types of arrangements the FCA wishes to capture before a framework can be developed for the operators of such arrangements.

Q5: Do you have any comments on our proposal to apply enhanced investor disclosure requirements to some categories of residual CIS?

MFA Response

Please see our response to Q4 above.

CHAPTER 4. VALUATION

Q6: Should AIFMs only appoint an independent valuer subject to certain conditions? If so, do you agree with the conditions that we have proposed?

MFA Response

MFA welcomes the proposed removal of the statutory liability regime for independent valuers in the Draft AIFMR.

MFA supports basic competence and independence conditions applying in respect of the appointment of an independent valuer.

We would welcome guidance to the effect that third-party valuers can be deemed by the AIFM to meet the relevant competence and other requirements in ALTS 6.2.11R(2) where the valuer is a member of a recognised professional body.

Q7: Do the baseline rules we propose represent an appropriate standard to set for all AIFMs?

MFA Response

MFA supports reliable, timely and appropriately governed valuations as central to investor protection, dealing, fee calculation and risk management.

As noted above, references to fair value should not override the fund's ordinary course valuation methodologies, and requiring a uniform methodology across all asset classes may conflict with current practices under applicable accounting standards for certain assets. MFA would support an alternative approach whereby AIFMs must ensure assets are valued in accordance with broad principles of consistency, good faith, impartiality, conflict management and appropriate verification, while allowing discretion to determine the appropriate valuation methodology to achieve such principles. Such an outcomes-based approach would also be more proportionate for global firms, which should be able to use group-wide valuation frameworks, provided they align with these basic principles.

CHAPTER 5. LEVERAGE CALCULATIONS

Q8: Should we remove the gross and/or commitment method calculations or would you prefer the regime to retain an adjusted version of the calculations?

MFA Response

MFA strongly supports the removal of the gross and commitment leverage calculations, the related reporting, and the rules tied to the “substantially leveraged” AIF concept. These requirements have contributed to unnecessary operational complexity and cost for firms.

However, if the existing regulatory definition of “leverage” is retained, we request that the FCA provide clarity as to whether the legacy supporting provisions and guidance on this definition (notably, in the AIFMD Level 2 Regulation², and certain ESMA AIFMD Q&As³) may continue to be applied in interpreting the definition. An alternative approach would be to remove all regulatory definitions in respect of leverage and move more fully to a principles based regime.

Additionally, as many firms will continue to be required to calculate leverage under the gross and commitment method for purposes of AIFMD disclosures and reporting in the EU, it would be helpful to confirm in guidance that the use of the legacy AIFMD methods meets the FCA’s standards (including as to being fair, clear and not misleading) to remove any uncertainty for firms that wish to align their approach across the EU and UK.

Q9: 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?

MFA Response

MFA agrees with the principle of a hedging exemption to help ensure proportionality in respect of different uses of leverage.

MFA notes however that the draft Glossary definition of an “unleveraged closed-ended AIF” may be narrower than intended, noting its limitation to currency and interest-rate hedging, as well as the condition that the derivatives “result in a verifiable reduction of market risk”, which introduces conditionality based on the result of the hedging rather than its intent. Removing the words “currency and interest rate” as well as limb (b)(iii) of the definition would address these issues,

² Commission delegated regulation (EU) No 231/2013, as retained as UK law

³ ESMA Questions and Answers on the Application of the AIFMD (ESMA34-32-352)

without broadening the scope of the definition beyond what could reasonably be considered as hedging.

Q10: 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?

MFA Response

MFA supports a de minimis level of leverage being allowed to ensure proportionality. However, we do not agree that this necessarily requires the re-introduction of a prescribed leverage calculation. Rather, AIFMs could be permitted to use the same leverage calculation methodology they use for investor disclosure purposes and for FRAME reporting in determining whether they meet any de minimis threshold.

Q11: 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?

MFA Response

We strongly agree that AIFMs should have flexibility to disclose the quantum of their leverage using a method best suited to their fund and investment strategy. As noted at Q8 above, it would be helpful to confirm that use of the legacy AIFMD methodologies meets the FCA's standards where firms wish to align their approach across the EU and the UK.

CHAPTER 6. RISK MANAGEMENT

Q12: 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?

MFA Response

MFA supports the general principle of common baseline standards on risk management for all AIFMs with further requirements applying for certain types of AIFs or firms.

However, as noted in MFA's June 2025 Response, we encourage the FCA to propose rules that provide flexibility to firms to design their risk management arrangements in the manner most suitable to their business and with regard to group arrangements.

To the extent possible, we encourage the FCA to consider turning current rules into guidance provisions for all firms to support the baseline principles set out in the rules for small AIFMs, so that firms have the flexibility to achieve the relevant baseline outcomes in a manner suited to their business, with guidance provisions in place for firms that wish to have greater certainty of the FCA's view as to how the outcomes may be achieved.

We note that the use of the term "risk limits" in the proposed approach to risk management, which implies there would be hard limits to how firms approach risk management. A more appropriate approach for unauthorised funds would be the concept of "risk stages" that represent the stages through which a firm would go in periods of stress. In contrast to a risk limit, which could both reduce a firm's room for manoeuvre and consequently accentuate market instability, a risk stage would help guide the firm's approach to monitoring, escalation, and management action.

Q13: Should firms managing only 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?

MFA Response

MFA agrees that such firms should be subject only to baseline risk management requirements given the lesser risks they pose.

Q14: Should the largest firms should 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?

MFA Response

MFA does not support preserving the substantive standards of the current framework for large AIFMs, as they are overly prescriptive. MFA would welcome further simplification of the current regime as carried over to medium and large AIFMs.

For example, the requirement to establish a functionally and hierarchically separate risk management function which meets independence requirements is an overly prescriptive way of addressing conflict of interest concerns. These issues could instead be addressed by a more outcomes-focused requirement to ensure risk management activities are conducted with appropriate independence, allowing firms discretion to determine the governance and organisational structures that best support this principle. This is particularly important for firms operating within international groups, where the design of group governance and organisational structures may be within the remit of group entities outside the UK.

CHAPTER 7. LIQUIDITY RISK MANAGEMENT

Q15: Should small AIFMs should be required to comply with new, simplified liquidity risk management rules?

MFA Response

MFA supports the principle of simplifying the liquidity risk management rules for small AIFMs, provided these remain outcomes-focused and proportionate. However, we note that certain areas remain somewhat prescriptive, such as the rules on liquidity risk management frameworks in ALTS 7.2.4R and on monitoring and managing liquidity risk in ALTS 7.2.6R, which are in some respects more detailed than existing requirements in Article 47 of the AIFMD Level 2 Regulation.

Regarding mandatory annual stress testing, we believe small AIFMs should have full discretion to determine an appropriate frequency.

Q16: 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?

MFA Response

MFA has concerns with a mandatory portfolio-level look through, and notes that this goes further than current requirements in respect of investments in collective investment undertakings in Article 47 of the AIFMD Level 2 Regulation, which require consideration only of the redemption terms and approach of the underlying manager.

A look through to the assets of an underlying open-ended fund has practical data limitations. A UK AIFM may not receive position-level information from a third party-managed underlying fund, and information that is made available may be delayed or aggregated.

We consider it more proportionate to retain the current rule, whereby an AIFM must consider only the redemption terms and policy of the manager of the underlying funds. The obligation should in any event be limited to information reasonably available to the AIFM.

Separately, we request that the FCA make clear that the proposed look-through is confined to the specific purpose of assessing liquidity risk under ALTS and does not alter the legal character of the investing AIFM’s exposure, or infer a broader regulatory principle that the UK AIFM should otherwise assess the underlying fund’s portfolio positions. This distinction is important for investments in non-UK funds, including US-managed funds, as any suggestion that a liquidity-risk look-through

operates as a general regulatory look-through could create conflicting or duplicative obligations across regimes. For example, the UK securitisation framework applies investor due diligence obligations on an in-scope institutional investor that holds a securitisation position; the introduction of an ALTS liquidity look through should not be interpreted to mean that an AIFM that holds units in an underlying fund that holds securitisation positions should apply such due diligence requirements beyond the AIFM's existing obligations under the securitisation framework. We request that the FCA state expressly in guidance that look through under ALTS has no bearing on the application of other regulatory regimes.

Q17: Are there any rules that are unnecessary for medium AIFMs or areas in which medium AIFMs should not be subject to the same level of prescription as large AIFMs?

MFA Response

MFA supports the principle that medium AIFMs should not be subject to the same level of prescription as large AIFMs. The regime should permit simpler documentation, governance and validation where the AIF's liquidity profile and investor base do not warrant the full framework.

In particular, we request that the FCA consider simplifying the detailed stress testing provisions, the frequency and formality of effectiveness reviews, and the proposed look through obligation (as above).

CHAPTER 8. DELEGATION

Q18: Do you have any comments on our general approach to delegation?

MFA Response

MFA strongly supports preservation of the global delegation model and agrees with the assessment that it currently works well. Delegation enables UK AIFMs and their investors to access specialist expertise, global markets, and have the benefits of continuous coverage and operational scale.

MFA does not consider it necessary to extend the rules to the proposed “additional core AIFM functions” of valuation, regulatory compliance monitoring and marketing, given these services do not pose risks in the same way as the AIFM investment management functions do and, in the case of valuations, separate rules in ALTS 6 will already apply. Imposing enhanced controls, an “objective reasons” requirement and prescribed written agreement rules would require the renegotiation of third party arrangements for these services without a commensurate benefit.

MFA agrees with the simplification of current notification rules, including the post-event notification and periodic confirmations through FRAME. MFA requests clarification that existing delegation arrangements will be grandfathered (including of any “additional core AIFM functions”, if introduced) and will not require notification as a result of new regime taking effect.

Q19: Do you agree with our proposals on delegation of investment management activities to entities that are not authorised or supervised for that activity?

MFA Response

MFA supports removal of a prior approval requirement and the proposed condition regarding delegation to unauthorised entities.

CHAPTER 9. ANNUAL REPORTING TO INVESTORS

Q20: Do you agree with the proposed changes to the requirements applying to an AIF's annual report? If not, please explain.

MFA Response

MFA supports the FCA's move towards a more principles-based annual reporting framework, including the removal of the detailed measures in articles 103 and 104 of the AIFMD Level 2 Regulation. However, we suggest certain further amendments below.

MFA wishes to reiterate its response to the FCA's 2023 discussion paper on Updating and Improving the UK Regime for Asset Management (the "**2023 Discussion Paper**") that any rules aimed to protect retail investors should not be applied to funds that are offered only to professional investors. Accordingly, we request the FCA to consider whether certain of the more prescriptive content requirements (for example, relating to the percentage of assets subject to special arrangements arising from their illiquid nature) are truly necessary for professional investors, or whether, for such funds, annual investor reports prepared in the ordinary course and under the law and accounting standards of the fund's home jurisdiction should be considered sufficient in light of the sophistication of the recipients of such reports.

Relatedly, we welcome the amendments to the remuneration disclosure requirements, which we agree should be at an aggregate level and limited to material risk takers. We also welcome the limitation of this requirement to UK AIFMs (and specifically, medium and large UK AIFMs), noting that non-UK AIFMs are not subject to FCA remuneration rules requiring them to identify their material risk takers. However, guidance stating this explicitly in the application provisions for third country AIFMs (ALTS 10.1.3) would be helpful in removing any ambiguity on this point.

While we acknowledge the investor protection intent behind the "reasonable request" rule in ALTS 10.3.7R, in the context of professional investor-only funds, we are concerned this would interfere with existing market practices. Investor information rights are ordinarily a matter of negotiation between sophisticated investors and fund sponsors. We believe the investor protection principle behind this rule is already adequately covered in existing rules on acting in the best interest of AIF investors. Accordingly MFA requests that this proposed rule be deleted.

Please also see our comments in Q1 regarding the "small third country AIFM" definition in ALTS 10.3.

Q21: What are your views on requiring small UK AIFMs and certain operators of residual CISs to prepare an annual summary for its investors?

MFA Response

MFA agrees with the proposal not to apply annual reporting to small UK AIFMs and residual CIS operators. As to the application of the annual summary to residual CIS operators, we reiterate our comments in Q3 above.

Please also see our comments in Q1 regarding the “small third country AIFM” definition in ALTS 10.3.

CHAPTER 10. INVESTOR DISCLOSURES

Q22: 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?

MFA Response

MFA supports the move away from prescriptive disclosures, but the proposal to introduce new rules regarding the concepts of a “reasonable request” and “all investors” should be reconsidered. If these new rules are pursued, then they require material modification and clarification.

As noted in our response to Q20, professional investors do not require the same level of prescribed disclosure and protection as retail investors, and an AIF offered only to professional investors should be able to satisfy the core rules through its existing offering memorandum, constitutional documents, subscription materials, audited statements, investor reports, due diligence materials and side letters. This is particularly the case for non-UK AIFMs that may already be required to report in accordance with the requirements of its home jurisdiction.

For the same reasons discussed in relation to the corresponding requirement in ALTS 10, the requirement to provide information on “reasonable request” in ALTS 9.2.4R should not apply in respect of professional investors.

For funds marketed under the NPPR, we would welcome explicit clarification that the ALTS 9 obligations apply only in respect of UK investors.

Finally, a guidance provision making explicit that disclosing in accordance with the legacy AIFMD-derived investor disclosure requirements in FUND 3.2 satisfies the new ALTS 9 requirements for professional investors would be helpful for managers managing or marketing funds in the EU as well as the UK, and which may wish to apply a uniform approach across both jurisdictions.

Q24: Do you agree with our proposal to disapply the COBS 16.3 periodic reporting rules and rely on our proposed disclosure rules instead?

MFA Response

MFA supports removal of duplicative reporting, and accordingly, disapplying COBS 16.3 for firms subject to reporting under ALTS.

CHAPTER 12. NPPR AND CROSS-BORDER MARKETING

Q27: Do you have any comments on our proposed guidance on the NPPR?

MFA Response

MFA strongly supports retention of the NPPR framework and the notification model. The NPPR has been an efficient route for global managers to offer institutional strategies to sophisticated UK investors. We consider the removal of the proposed 20-day waiting period to be a welcome change.

However, third country AIFMs marketing funds under the NPPR will continue to incur material additional costs with regard to ongoing compliance with the AIFM regime requirements, which are largely duplicative of regulatory compliance carried out under other rules. Examples are discussed below.

Annual reporting

As noted in our response to Q20, the requirement to produce an annual report, rather than allowing the third country AIFM to provide reporting produced in the ordinary course of operation of the AIF, can disincentivise managers from marketing in the UK, particularly given the sensitivity of certain of the information requirements (such as remuneration). MFA asks the FCA to consider whether the annual reporting rules for third country AIFMs could be further simplified where the AIFM is subject to investor reporting requirements in its home jurisdiction.

The provision in ALTS 14.3.5G(1) that requirements applying to a “large UK AIFM” only “in so far as relevant” creates uncertainty and risks importing domestic rules that were not intended for an overseas manager. This apparent tension between ALTS 14.3.5G(1) and the small third country AIFM annual summary regime in ALTS 10.3 should be resolved, confirming that they are an exception to the position referred to in ALTS 14.3.5G(1).

Professional investor disclosure

As noted in our response to Q20, MFA strongly recommends that funds marketed by non-UK AIFMs under the NPPR solely to professional investors should be permitted to satisfy ALTS 9 and 10 through the fund’s existing private placement memorandum, constitutional documents, audited financial statements, investor letters and negotiated reporting, prepared under the law and standards of the home jurisdiction, and therefore the UK-specific disclosure requirements should be removed for this investor population.

Draft AIFMR

MFA has concerns with the supervisory cooperation condition in regulation 49(3)(e) of the Draft AIFMR, particularly in respect of small third country AIFMs that may currently be marketing in the UK without having need to satisfy this requirement on registering under the NPPR. We request the FCA to consider with HM Treasury whether an appropriate grandfathering or alternative route could be allowed for managers that use the current NPPR for small third country AIFMs but could lose UK market access solely if new NPPR conditions are introduced that their jurisdiction does not satisfy.

Other

As a drafting point, we note ALTS 14.1.1G(1) refers to the marketing of “a non-UK AIFM”, rather than a “non-UK AIF”. We also note that the draft Handbook text uses “third country AIFM” and “non-UK AIFM” interchangeably, where use of one of the two terms consistently would improve clarity.

We refer to our response to Q20 in relation to the remuneration disclosure requirements and the need for explicit guidance concerning the exclusion of third country AIFMs (ALTS 10.1.3) so as to remove any ambiguity about the requirements for such firms.

CHAPTER 15. CONSEQUENTIAL CHANGES: OPERATING CONDITIONS

Q36: Do you agree with our approach to consequential changes in these sourcebooks? If not, what do you disagree with and what alternative approach would you suggest?

MFA Response

MFA supports the principle of consolidating rules across various sourcebooks within the new ALTS sourcebook.

To support firms in transitioning to the new rules, we request the FCA to publish a comprehensive mapping table showing each current provision, its new location, whether its legal status change, the firms and funds to which it applies, and new or revised definitions, similar to the mapping table in PS25/13 (the MiFID Organisation Regulation).

MFA notes that certain provisions that currently apply only to full-scope AIFMs are being extended to all AIFMs, and hence are more substantive policy changes, than consequential changes. Examples are discussed below.

SYSC

We support the principle that all authorised AIFMs should maintain appropriate governance, resources and systems and controls. However, the proposed SYSC amendments go further than this. For example, under the current rules, SYSC 6.1.3R, requiring a permanent and effective independent compliance function, is not applied as a binding rule to sub-threshold UK AIFMs in the same way as to full-scope AIFMs. Under SYSC 1 Annex 1, firms falling within the relevant Column B treatment may consider SYSC 6.1.3R as guidance, with specific guidance stating that the issue of whether a separate compliance function is appropriate depends on the nature, scale and complexity of the firm's business.

By contrast, proposed SYSC 6.1.3R would expressly require all authorised UK AIFMs to maintain a permanent and effective compliance function operating independently. Draft SYSC 6.1.5R provides for proportionality only in respect of certain independence requirements in SYSC 6.1.4R, but not the underlying obligation to maintain the compliance function.

The same issue arises in relation to the proposed extensions of SYSC 4.1.2B–4.1.2D, new SYSC 4.1.6AR, new SYSC 4.1.10–AR, and SYSC 4.2.1R–4.2.2R. The proposed rules would, among other things, require all authorised UK AIFMs to employ appropriate resources and procedures, maintain business-continuity arrangements, regularly review systems and controls, ensure senior personnel have relevant experience and ensure that management is undertaken by at least two reputable and experienced persons. As FCA acknowledges, the two-person requirement in SYSC 4.2.2R does

not currently apply to sub-threshold UK AIFMs and this would therefore represent a policy change and, in practice, may require some firms to hire additional staff.

MFA does not object in principle to an appropriate “two minds” governance standard for an authorised manager. However, this is a substantive new requirement and accordingly consideration should be given to providing firms an appropriate transition period. We would also welcome clarity on whether the existing guidance in SYSC 4.2.4G–4.2.5G, which focuses on whether at least two individuals exercise genuine judgement over significant decisions rather than simply holding particular titles, should remain the governing principle.

COBS – best execution

Under current COBS 18.5.4R, a sub-threshold UK AIFM managing an unauthorised AIF, and a residual CIS operator of a fund whose documents include a statement that best execution does not apply in relation to the fund, are expressly exempt from the AIFM best execution provisions where either no investor is a retail client or no current investor was a retail client when it invested.

The draft instrument deletes COBS 18.5.4R and the associated guidance. Instead, proposed COBS 11.2D.1R would apply the new AIFM best execution regime to every authorised UK AIFM carrying on AIFM investment management functions for an unauthorised AIF (which, per Q3, is expected to include a larger set of AIFMs / AIFs than in the previous regime). The only proposed disapplication in COBS 11.2D.2R is where there is no choice between execution venues.

For a current full-scope AIFM, much of COBS 11.2D is principally a relocation and simplification of existing obligations derived from Article 27 of the AIFMD Level 2 Regulation. For any firms that currently rely on COBS 18.5.4R, however, this is a new regulatory obligation.

MFA considers that the existing exemption in COBS 18.5.4R should be preserved in COBS 11.2D. There is no obvious investor protection case for removing an exemption specifically designed for an unauthorised AIF whose investors are professional only and whose constitutional or offering documents expressly record the position. This is consistent with MFA's longstanding position that regulatory protections designed for retail investors should not automatically be extended to professional-only funds and that the FCA should take a holistic approach to reducing unnecessary requirements in the professional-investor context.

If the FCA nevertheless considers that a best-execution obligation should apply universally, firms should at minimum be permitted to satisfy it through an existing global or group execution policy that achieves the regulatory outcome, without requiring a separate UK AIFM policy.

COBS – shareholder engagement

While we acknowledge that extending the shareholder engagement rules in COBS 2.2B to all AIFMs may simplify the Handbook as well as scoping considerations for firms, it should be acknowledged that this represents an uplift in the compliance burden for small UK AIFMs today and, accordingly, an appropriate transition period for such firms should be considered.

There also remains a potential duplication issue which has not been corrected in the proposed rules. Proposed ALTS 3.3.6R, derived from Article 37 of the AIFMD Level 2 Regulation, requires a large UK AIFM to maintain a strategy governing exercise of voting rights and, on request, make information concerning that strategy and its implementation available to investors. At the same time, amended COBS 2.2B would apply the separate shareholder engagement framework to all authorised AIFMs where they invest in regulated market shares. We request the FCA to consider consolidating these requirements into a single rule to address the duplication.

ALTS 3

MFA supports consolidating AIFM-specific operating conditions presently spread between COBS, FUND and the AIFMD Level 2 Regulation into ALTS 3, provided any substantive changes in the relevant requirements are signposted to firms (by way of the mapping table proposed above). For example, existing COBS 2.1.4R(2) requires a full-scope UK AIFM to act in the best interests of the AIF it manages “or” the investors in that AIF and the integrity of the market. Proposed ALTS 3.3.2R(1)(b) instead requires an authorised UK AIFM to act in the best interests of the AIF “and” its investors. Proposed ALTS 3.3.2R also separately introduces the obligation to ensure that the AIF and its investors are not charged undue costs. Where these are intentional changes in the substance of the rules, we would welcome this being signposted to firms.

Interaction with legislative changes

HM Treasury states in its policy note accompanying the Draft AIFMR that the Draft AIFMR does not contain the consequential amendments required across wider financial services legislation, and that those amendments will generally remove references to “full-scope AIFM” while seeking to preserve the application of broader legislation where possible. HM Treasury also confirms that the Draft AIFMR does not yet contain transitional provisions. The FCA similarly says that further Handbook consequential amendments will depend on consultation outcomes and HM Treasury's final legislation and will be included in the second consultation on the UK AIFM regime.

Accordingly, MFA considers that consequential changes of the type covered in Chapter 15 should only be finalised once stakeholders have had an opportunity to review the complete set of legislative and Handbook consequentials together.

One example is Article 72AA of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001. Article 72AA currently provides that, where a person has Part 4A permission to manage an AIF, activities carried on in connection with or for the purposes of managing that AIF are excluded from other regulated activities in the RAO, other than managing the AIF itself. The interaction between that exclusion and the revised statutory definition of an AIF, as well as the proposals for the new ALTS regime, should be considered holistically.

Q37: Are there areas of the asset management regime we should consider first to ensure consistency and remove unnecessary differences in our rules?

MFA Response

MFA considers the AIF perimeter and related permissions issues a priority. The revised AIF definition, the residual CIS regime, PERG 16 and the consequential COBS application rules should be reviewed holistically.

CHAPTER 17. DISCUSSION CHAPTER: REVIEWING THE PRUDENTIAL REGIME FOR FUND MANAGERS

Q39: 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?

MFA Response

MFA welcomes the FCA's review of prudential requirements applicable to fund managers. Currently, the UK is an outlier among major asset management centres (including the United States and Hong Kong) in applying AUM-based capital requirements to fund managers. For example, in the United States, registered investment advisers (even managers of the largest investment companies/mutual funds) are not subject to any net capital requirements.

Consistent with the FCA's secondary international competitiveness and growth objective, and its mission to be a smarter regulator and to reduce regulatory burden, MFA considers that there is a legitimate case for questioning whether prudential requirements should apply at all for asset managers, particularly for those who deal only with professional investors. Removing the current requirements would increase firms' ability to grow in the UK (particularly among smaller AIFMs).

Should the FCA nevertheless decide to retain a prudential regime for asset managers, MFA supports the FCA's objective of simplifying and consolidating the prudential framework. That said, the calibration must reflect core principles relevant to asset managers i.e. the materially different risk profile of asset managers compared to banks and market intermediaries, where deposit/asset protection are guiding principles. MFA's June 2025 Response emphasised that alternative asset managers generally manage client or fund assets rather than trading on their own account and do not ordinarily present the same counterparty or balance sheet risks as banks, and therefore should not be required to hold capital calibrated to risks that their business model does not create.

MFA understands that certain other major asset management centres utilise a base capital and expenditure-based capital regime for asset managers, rather than an AUM-based capital framework. Similarly, prior to the AIFMD (and subsequent Investment Firms Prudential Regime), UK asset management firms were required to maintain capital of at least 25% of their annual fixed overheads – equivalent to approximately three months' fixed operating costs. This operated as a minimum prudential buffer relevant to ensuring that a firm had sufficient resources to absorb losses and facilitate an orderly wind-down.

Accordingly, should the FCA maintain certain concepts from the current UK prudential framework, a proportionate base capital framework may be appropriate, as such capital would help absorb losses and facilitate an orderly wind-down. If the

FCA also retains activity-based requirements, this should be linked to identifiable risks, rather than fund AUM alone. In particular, MFA recommends that the new framework should not impose more punitive capital requirements solely because an AIFM manages a larger volume of segregated fund assets.

Q40: 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?

MFA Response

MFA does not consider AUM or NAV, standing alone, an accurate proxy for the amount of capital needed to compensate investors for errors, negligence or misconduct. As MFA noted in its June 2025 Response, fund assets are managed for investors and do not generally create the same balance sheet exposure as proprietary positions. Operational or conduct losses are not necessarily influenced by scale; they do not increase linearly with AUM and may depend more directly on the firm's activities, controls, contractual exposures, insurance and the nature of the investor base. Any metric relating to errors, negligence or misconduct should not therefore scale with AUM. Such risks might more simply be factored into the quantum of a base capital requirement.

Q41: 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?

MFA Response

MFA agrees that an AIFM should maintain resources sufficient for an orderly wind-down, but the requirement should be calibrated to the firm's own wind-down plan. MFA's June 2025 Response recognised orderly wind-down as an appropriate prudential objective while objecting to disproportionately high capital requirements for asset managers. A liquid asset requirement should therefore reflect realistic wind-down expenses, existing cash and liquid resources and the firm's operating model, and should not duplicate the fixed overhead requirement or capital held against the same risk.

Q43: 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 such expectations be calibrated proportionately across firms of different sizes, complexity and risk profiles?

MFA Response

Structured wind-down planning should be proportionate and should recognise that fund assets are segregated from the AIFM's own estate. MFA's June 2025 Response

noted that asset managers are already subject to effective wind-down obligations. The FCA should build on those arrangements rather than impose bank-style recovery and resolution expectations. The focus should be continuity or orderly transfer of management functions, liabilities of the management entity, access to records and service providers, and an executable plan for an orderly cessation of the firm's regulated business.

Q45: How could our data collection be improved, and where firms are subject to multiple prudential regimes, how significant are overlapping or duplicative reporting requirements?

MFA Response

MFA strongly supports eliminating overlapping prudential reporting. The move to the new framework should be used to create a single reporting framework, with consideration given to any prudential reporting that can be removed in light of the new FRAME regime.

Q47: How could the prudential framework for CPMIs be designed to better reflect the nature of their combined fund management and MiFID investment activities?

MFA Response

For CPMIs, the objective should be a single consolidated prudential framework that applies in respect of both the AIF management and MiFID business of the firm, and without double counting. In practice, the AIF management and MiFID activities are typically not thought of as distinct businesses other than for compliance purposes, and the relevant prudential risks are similar. Accordingly, a single consolidated capital regime across both businesses would be simpler for firms, and more closely aligned with how their businesses are considered outside the context of the FCA rules.