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The UK's New Regulatory Landscape: New Rules on AIFM Regime, Remuneration and Fund-Reporting

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Executive Summary

The FCA recently published three consultation papers that propose significant changes to the EU-derived regulatory framework for asset managers, with the intention to introduce a proportionate and internationally competitive regime. The papers are: CP26/28 "The UK AIFM Regime" (the "**UK AIFM CP**"), CP26/27 "Remuneration: Solo-regulated firms' rules reform" (the "**Remuneration CP")** and CP26/26 "Fund Reporting for Asset Management Entities (FRAME)" (the "**Fund Reporting CP**").

At the same time, the UK government (HM Treasury) published a draft statutory instrument to replace the Alternative Investment Fund Managers Regulations 2013, which partly implemented AIFMD into UK law, and the directly applicable EU Delegated Regulations, which were retained in UK law under the European Union (Withdrawal) Act 2018. Amongst other things, this removes the current thresholds that specify small authorized and full scope UK AIFMs, gives power to the FCA to incorporate provisions of the AIFMD Level 2 Regulation into the FCA rulebook and makes some simplifications to the rules on acquisition of control of unlisted companies.

The FCA's proposals are a significant step in amending AIFMD following the UK's withdrawal from the EU.

Under current rules, "small" AIFMs, which have less than €100m of assets under management for a leveraged AIF, or €500m for an unleveraged AIF, must obtain FCA authorisation as small authorised UK AIFMs. There are three categories of small authorised UK AIFMs, including managers of certain small property funds and managers of social entrepreneurship or registered venture capital funds, which are exempt from the requirement to obtain FCA authorization. The combined effect of HM Treasury's and the FCA's proposals is to replace this regime with a requirement for all AIFMs to obtain authorization, based on the tiers set out below, and remove the AIFM registration regime for all AIFMs except those managing social entrepreneurship or registered venture capital funds, for which the government will consider the regulatory approach later on. Internally managed listed closed-ended investment companies that are below the current small AIFM threshold will be exempt from the AIFM regime, subject to conditions. Other listed closed-ended investment companies will continue to be in scope.

The FCA also intends to change the regime for firms which are "Residual CIS [collective investment scheme] operators", which is the permission to operate some types of unregulated schemes which do not qualify as alternative investment funds (AIFs). Noting that some firms use this permission to operate CIS (such as joint ventures arrangements) as an administrative activity, and that some firms use this permission to operate schemes that pose similar risks to AIFs, the FCA asks for views on its proposal to apply some enhanced investor disclosure requirements to some categories of CIS.

The FCA aims to publish a final policy statement in 2027, with the new AIFM and asset management reporting regime being implemented in 2028 – see table below.

In its Remuneration CP, the FCA is adopting an approach based on firm governance and accountability in place of prescriptive remuneration rules, including reducing the circumstances in which firms apply adjustments to remuneration based on deferral, malus and clawback.

In place of "Annex IV" reporting under AIFMD, the FCA is proposing a new framework - Fund Reporting for Asset Management Entities (FRAME) - in the Fund Reporting CP, to increase the quality and consistency of fund data reported to the FCA. In particular, this introduces proportionate reporting requirements for managers of smaller funds.

The UK AIFM CP will be of interest primarily to UK AIFMs and other participants in the UK alternative investment fund sector. The Remuneration CP will be of interest to AIFMs, UCITS management companies and MIFIDPRU firms. The Fund Reporting CP will impact UK and non-UK firms that currently submit Annex IV reports to the FCA.

Firms should review the proposals to assess how they may affect their governance, remuneration arrangements and regulatory reporting obligations, particularly in light of the proposed tiered AIFM regime and the new FRAME reporting framework. Given the breadth of the reforms and the FCA's willingness to seek industry feedback, firms should also consider whether to respond to the consultations before the relevant deadlines, and begin identifying any implementation challenges.

Part I: Reform of the UK AIFM Regime

New AIFM Categorisation and Thresholds

The UK AIFM CP proposes replacing the full-scope and small AIFM categories under EU AIFMD with a three-tier regime, based on a net asset value ("**NAV**") threshold:

- Small UK AIFMs, with aggregate NAV of less than £750 million.
- Medium UK AIFMs, with aggregate NAV of £750 million or £5 billion.
- Large UK AIFMs, with aggregate NAV of more than £5 billion.

"Aggregate NAV" comprises the NAV of all AIFs the firm manages, including AIFs that are not also classified as CIS, and any funds or other schemes that are classified as CIS and not AIFs.

Under the proposal, firms will calculate average NAV over the most recent calendar quarter and notify the FCA through a SUP 15 notification if their category changes. To reduce "cliff-edge" regulatory effects, firms moving into a higher category will generally have six months to comply with new requirements and 12 months to appoint a depositary to a fund, where required.

The scope of the FCA's rules for AIFMs will increase at each level, with small firms only subject to core high-level requirements, mid-sized firms subject to a proportionate but comprehensive regime, and larger firms broadly subject to the same for current full-scope AIFMs.

Smaller firms can voluntarily apply parts of the prescriptive rules for large firms, without entering into a different size classification, by notifying the FCA via a SUP15 notification.

The ALTS Sourcebook

The FCA proposes a new Alternative Investment Funds sourcebook ("**ALTS**") for managers of unauthorised funds. As the FCA notes, under its reforms, most of the AIFM regime will be contained in FCA rules. Firms will no longer navigate the regime through a mixture of UK regulations, assimilated EU level 2 legislation, FUND, and various cross-references to SYSC, COBS, SUP, and other sections of the FCA Handbook.

NPPR

The Treasury proposes to retain the National Private Placement Regime (NPPR) for the marketing of AIFs in the UK, with limited changes. The NPPR applies to UK AIFMs marketing non-UK AIFs in the UK, and to non-UK AIFMs marketing any AIFs in the UK, in each case primarily to professional investors. The existing requirement to notify the FCA of intention to market will remain. For UK AIFMs, the requirement to obtain approval at least 20 days before marketing a UK AIF will be replaced with a simple notification to the FCA. HM Treasury will give the FCA new powers to maintain public registers of NPPR-notified AIFs and AIFs whose marketing rights are suspended or revoked.

Funds that acquire control of unlisted companies

The current AIFMD regime requires fund managers acquiring control of unlisted companies to notify the FCA, ensure that employees are informed of the change in control and adhere to anti-asset stripping rules. Although stakeholders have questioned the value of these requirements, the Government concluded that there is insufficient evidence to justify their removal, and has largely retained the rules, with a number of simplifications, including to the conditions for making distributions under the anti-asset stripping rules and a proposal to remove the requirement in regulation 38(2) to notify the FCA when an AIF acquires control of a non-listed company, while retaining the obligation to notify the company and its shareholders.

Delegation

In relation to delegation by an AIFM of the core AIFM functions of risk management and portfolio management (the investment management functions), the FCA proposes to retain the current rules, including the principle that the AIFM retains responsibility for and must oversee any delegated function, with some simplifications. The delegation rules will apply to all authorised UK AIFMs, regardless of their size category.

Delegation of investment management functions to non-UK delegates will continue to be subject to regulatory co-operation arrangements being in place between the FCA and the relevant authority. Delegation to unauthorised entities is permitted where the delegated entity does not need to be authorised or registered or subject to supervision to manage assets in its own jurisdiction.

The FCA introduces additional core AIFM functions, covering valuation by a third-party valuer, regulatory compliance monitoring, and marketing of AIFs. Delegation of the core AIFM investment management function and additional core AIFM functions will be subject to the key controls on delegation, including that the AIFM should justify its delegation model with objective reasons, and that the delegation agreement should contain specific provisions.

The FCA proposes to remove the requirement to pre-notify the FCA of delegation arrangements. Instead, AIFMs must notify the FCA as soon as practicable after delegation becomes effective and confirm arrangements through its new proposed reporting system.

The FCA emphasises that AIFMs remain responsible for their investment management functions and cannot transfer regulatory responsibility to delegates. The rules continue to guard against firms becoming “letterbox” entities and require delegation arrangements to support effective FCA supervision and investor protection.

Risk Management

For risk management rules, draft ALTS 5 proposes a tiered approach, depending on the size of the AIFM and whether it manages leveraged or unleveraged, or open or closed-ended funds. All AIFMs must identify material risks arising from investments, manage those risks, and conduct appropriate due diligence in selecting investments. All firms that manage AIFs other than closed-ended, unleveraged AIFs must establish and maintain a risk management function to identify, measure, monitor and manage material risks, and medium and large AIFMs managing open-ended AIFs or leveraged closed-ended AIFs face more detailed rules on governance and oversight of risks, risk limits, and risk measurement, including to maintain a risk management function that is independent from the portfolio management function.

For medium-sized firms, other than those managing closed-ended unleveraged AIFs, additional obligations include a documented risk management policy, formal independence between risk and portfolio management, risk limits, conflict management measures and periodic reviews of risk frameworks. Large AIFMs will remain subject to a governance regime for risk broadly aligned with current AIFMD standards, including detailed requirements for independent oversight, reporting to senior management, risk committees and annual reviews.

Valuation

Draft ALTS 6 contains the proposed valuation rules. As a general principle, AIFMs will be required to carry out valuations impartially and with due skill, care and diligence, manage valuation conflicts, and operate robust valuation governance.

The FCA has set rules for the largest firms in line with the current AIFMD rules, including the requirement for independence of the valuation function. Medium-sized firms will adhere to a sub-set of the current AIFMD rules. For small firms, the FCA has only set the principle that they must have valuation policies and procedures and must regularly review them. Small and medium-sized firms may consider the more detailed rules as guidance for best practice, but they do not have to comply with detailed provisions, which may not be relevant or proportionate to their business.

HM Treasury proposes to remove the existing rules relating to the appointment of external valuers, including strict liability for valuations. In place of the existing rules, the FCA proposes that AIFMs only appoint an independent valuer if it meets certain criteria, including that the valuer has the knowledge, skills and experience to value the relevant assets, sufficient personnel and technical resources, and can act independently of the AIFM.

Liquidity Management

Draft ALTS 7 contains fund liquidity rules. The FCA proposes that liquidity risk management rules will not apply when an AIFM is managing an unleveraged closed-ended AIF, including those which use derivatives only to manage risk.

For small AIFMs managing open-ended AIFs, the FCA proposes a core requirement to ensure that a fund's redemption policy is aligned with its investment strategy and liquidity profile, both at launch and on an ongoing basis. These firms will need appropriate liquidity risk management systems, controls and processes, maintain suitable liquidity management tools, and conduct liquidity stress testing at least annually. Medium and large AIFMs would be subject to these baseline requirements plus more detailed rules, in line with the rules that currently apply to full scope UK AIFMs, including the obligation to conduct stress testing and periodic reviews of its liquidity risk management system. For open-ended AIFs that invest in other funds, the FCA also proposes to introduce a "look through" requirement, to require the AIFM to consider the liquidity of the investments in the underlying fund that it invests in.

Leverage

The AIFMD rules on leverage include set methodologies for all firms to calculate leverage under the gross and commitment methods. In an important simplification, the FCA proposes to remove these methodologies, and instead require firms to disclose how they intend to use leverage and the amount of their leverage to investors using measures most relevant to their investment strategy, whilst retaining the current definition of leverage as any method by which AIF exposure is increased through borrowing, leverage embedded in derivatives, or any other means. As the FCA proposes to remove the leverage calculation methodologies, it also proposes to remove the current requirement to report leverage under these methodologies to investors and to the FCA, and to remove the "substantially leveraged" threshold which firms must monitor.

Funds that use derivatives only for hedging will be treated as unleveraged for the purpose of the risk management and liquidity risk management rules, whilst funds that use derivatives for investment purposes will be treated as leveraged.

Investor Disclosure and Annual Reports

Draft ALTS 9 and ALTS 10 cover pre-contractual disclosure and reporting to investors.

For pre-contractual disclosure, the FCA proposes a simpler set of rules for funds marketed only to professional investors, with disclosure based on the principle that firms should provide the information investors reasonably need to assess a fund's risks, merits and costs, supplemented by a limited set of mandatory disclosures covering matters such as valuation and liquidity risk management. Firms will also be required to respond to investors' reasonable requests for additional information. Various *ad hoc* reporting requirements to investors will remain.

The FCA proposes to retain a more prescriptive disclosure regime for unauthorised AIFs marketed to retail investors. Disclosures will continue to cover matters including liquidity, leverage, valuation, conflicts of interest, investor rights and complaints procedures, together with regular periodic reporting. This requirement will sit alongside the separate requirement to produce product summaries under the Consumer Composite Investments regime.

For investor reporting, medium and large UK AIFMs will be required to prepare an annual report and audited financial statements for each unauthorised AIF under management. In place of the detailed requirements on the contents of the AIF annual report in AIFMD, the FCA proposes some baselines rules derived from international accounting standards, and a requirement for the use of consistent terminology and methodology over consecutive financial years.

The report must also include details of aggregate remuneration paid to material risk-takers.

Where an investor makes a reasonable request for further information about the activities of the fund that is not contained in the annual report, the firm must provide the information to them and make it available to other investors as well.

Small AIFMs will be required to provide a simplified unaudited annual summary, providing core financial information and details of material changes to the fund.

Depositaries

The FCA proposes to retain the requirement for AIFMs to appoint a depositary to each fund, in relation to medium UK AIFMs and large UK AIFMs, with an opt-in right for small AIFMs. The FCA also states that it is open to feedback on whether the depositary requirement is disproportionate to certain types of AIFs, such as private equity funds.

Regulatory capital

In a "discussion chapter", the FCA acknowledges the complexity of the current regulatory capital regime for AIFMs undertaking activities within scope of the MiFID prudential framework, the inconsistent treatment for sub-threshold AIFMs and the lack of alignment in some respects between the AIFMD and MIFID prudential frameworks. To improve consistency, the FCA is minded to bring AIFMs within scope of its Core Prudential Sourcebook (COREPRU), and seeks views on how key individual components of COREPRU could be applied to fund managers.

Part II: Fund Reporting for Asset Management Entities (CP26/26)

FRAME: Purpose and Scope

The FCA's view under the current AIFMD regime is that the requirement for fund managers to report Annex IV fund level data across a range of fund types produces inconsistent data that is difficult to use and interpret, cumbersome for firms to report and not always targeted to the risks that the FCA monitors.

As a significant change to the current regime, the FCA proposes a new regulatory reporting framework, called Fund Reporting for Asset Management Entities (FRAME), which will simplify the rules for fund level reporting to all types of fund manager, including authorised UK AIFMs; UK UCITS management companies; managers of RVECA and SEF funds; third-country AIFMs marketing under NPPR; operators of recognised schemes under the Overseas Funds Regime and section 272 FSMA; residual CIS operators; and certain MiFID investment managers and advisers, including collective portfolio management investment firms and segregated portfolio managers and advisers.

Under FRAME, managers of funds with NAV below £500 million will supply a basic data set of "essential reporting" (fund profile and strategy, investor base and distribution, performance and flows, liquidity profile, and, for some funds, Value at Risk data and counterparty exposure), and funds with NAV of £500 million or more will complete "enhanced reporting" in addition to essential reporting. Firms may opt up if they wish to report according to a single consistent set of requirements. For the purpose of the regime, funds will need to classify each fund as a hedge fund, loan origination fund, private equity fund, infra/real estate fund or other, with quarterly reporting required for hedge funds and UCITS funds, and annual reporting for most other type of fund. The FCA has proposed new data points in place of those in the existing Annex IV report. Reporting will be tailored for fund types, with, for instance, private equity funds reporting on continuation funds and asset valuations.

The FCA proposes to replace leverage reporting based on the set methodologies with reporting on data on overall exposures and sensitivities, as well as on the leverage provider, the form of leverage and the funds' resilience.

The FCA has published a prototype version of its essential reporting requirements alongside the CP for firms to test on a voluntary basis, and has explained that further reporting prototypes will follow, with the FCA asking firms to estimate the cost of completing reporting based on its proposals.

Part III: Remuneration (CP26/27)

Current landscape

The remuneration framework applicable to UK asset managers and investment firms is currently divided into three separate remuneration codes. These are SYSC 19B (AIFM Remuneration Code), SYSC 19E (UCITS Remuneration Code), and SYSC 19G (MIFIDPRU Remuneration Code). Under the MIFIDPRU Remuneration Code in particular, small and non-interconnected (SNI) investment firms are subject to a minimum, "core" level of remuneration requirements. These including disclosing information on approach to remuneration for staff, key characteristics of remuneration policies and procedures, as well as information on different components of remuneration, and a summary of the financial and non-financial performance criteria used across the firm. More detailed requirements apply for non-small and non-interconnected (non-SNI) investment firms, which must develop and disclose their framework and criteria used for risk adjustment of remuneration, including how malus (where relevant) and clawback are applied. Malus is reduction or cancellation of deferred remuneration prior to payment, whereas clawback is recovery of remuneration already paid. Certain non-SNI investment firms must also develop policies and disclose information on how variable remuneration is deferred (paid out over a future period rather than immediately) and vested, to ensure pay adequately reflects risk-based time horizons.

A Single Consolidated Code

Under the FCA's proposal in CP26/27, a single Solo-Regulated Firms Remuneration Code in SYSC 19AA will replace the three overlapping remuneration codes described above.

SNI MIFIDPRU firms will be out of scope of the remuneration regime, so the new code will only apply to non-SNI MIFIDPRU investment firms. The rules will only apply to medium and large AIFMs under the new size categories proposed above.

Material Risk Takers

The new SYSC 19AA will apply general remuneration requirements to all staff, and additional remuneration principles to material risk takers ("**MRTs**"). The proposed MRT definition is narrower and more focused than the current concept of "code staff". An MRT is a staff member whose professional activities or remuneration incentives have a material impact on the firm's conduct in relation to clients and investors, the interests of investors, AIFs and UCITS schemes, or the firm's compliance with regulatory obligations.

Deferral

Under draft new rules, the management body must decide whether it is appropriate for remuneration policies to include a deferral policy for variable remuneration for MRTs. Firms will decide on minimum deferral periods, proportion subject to deferral, cash and instruments split, vesting schedules or holding periods. Firms will consider whether performance adjustment mechanisms are appropriate, but the FCA does not propose to make malus and clawback mandatory.

Governance

The FCA has removed the requirement for larger firms to have remuneration committees and to hold annual independent reviews. Firms will remain responsible for ensuring appropriate governance and oversight of remuneration arrangements through their wider systems and controls framework.

Reporting

The FCA has removed the annual report on remuneration data (MIF008) that firms are required to supply to the FCA. Firms will be expected to maintain sufficient records to demonstrate how remuneration policies operate in practice.

Next Steps

Firms must send feedback on the UK AIFM CP to the FCA by 14 October 2026. The FCA intends for the AIFM regime and fund reporting regime to be implemented in 2028, but pending feedback to the CP, and the Treasury's draft SI, the FCA will consider where it can delete rules sooner than 2028.

The Remuneration CP closes on 16 September 2026. The FCA is proposing that the new remuneration rules and guidance come into force the day after the FCA publishes the relevant Policy Statement (except for AIFMs), which the FCA anticipates publishing in Q1 2027.

The Fund Reporting CP closes on 22 September 2026. The FCA aims to produce further prototype forms that firms can use to test its new reporting framework before the end of 2026. A policy statement with final rules is expected to follow in the first half of 2027.

Consultation Timetable

Paper	Consultation Closes	Policy Statement (expected)	New rules in force (expected)
CP26/28 (AIFM Regime)	14 October 2026 (main); 18 September 2026 (discussion chapters)	2027 (with HMT SI)	2028
CP26/26 (FRAME)	22 September 2026	H1 2027	2028
CP26/27 (Remuneration)	16 September 2026	Q1 2027	Day after PS (AIFMs transition with broader reforms)
HM Treasury Draft SI	14 October 2026 (technical comments)	Early 2027 (lay legislation)	2028 (simultaneous with FCA rules)

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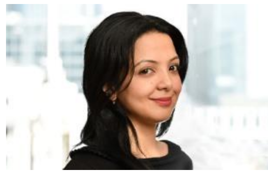

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