# Conflicts of Interest in Focus: The FCA's Approach to Private Markets

**11 November 2026**

## Overview

The means by which private funds manage conflicts of interest and promote fair investor treatment continue to attract regulatory focus in the United Kingdom. The Financial Conduct Authority (FCA) published on 23 October 2026 detailed findings from its multi-firm review into firms' approaches to conflicts of interest in private markets assets, looking at the practices of UK alternative investment fund managers (AIFMs) and other UK firms providing portfolio management and advisory services involving private equity, private credit and real estate assets.

The FCA identified areas of good practice and areas where firms may need to strengthen their controls and now expects firms to identify gaps in their approaches based on the FCA's review. Firms should study the FCA's recommended best practices and either adopt them or be able to justify clearly why they have not adopted a particular practice, which may be on the grounds that it is disproportionate to the risk involved at their firm. Firms should also bear in mind that the FCA has regularly investigated and brought enforcement action against asset managers in recent years for failures in managing conflicts of interest, so this is a high-priority issue for the FCA.

This work accompanies the FCA's publication last year of its review of valuation practices in private markets, reinforcing the FCA's recent supervisory focus on private markets.

## Key Practical Takeaways for Firms

In summary:

- The assessment and resolution of conflicts of interest is the responsibility of the business teams, the legal and compliance teams, and the firm's management (the

three lines of defence), with need for clear escalation procedures (from, for instance, compliance to management) and appropriate oversight of major conflict events and transactions.

- The management of conflicts requires a clear audit trail and ideally a single integrated system to manage the identification and monitoring of all conflicts.
- UK adviser-arrangers which take an active part in the investment process should review their group conflicts policies as against the FCA's guidance.
- Where firms use Limited Partner Advisory Committees (LPACs) for the purpose of conflict management, these should supplement the firm's own governance and conflicts management processes.
- The FCA gives detailed guidance on its expectations for gifts and entertainment policies, requiring firms always to set thresholds for obtaining approval and caps where approval will not be granted and requiring firms to provide a business rationale, in particular for the receipt of high-value hospitality.
- The FCA outlines its expectations for firms' effective use of information barriers and best practice to manage conflicts that arise in investment allocation.
- The FCA sets out its expected practices for firms to adopt for connected party transactions, such as the transfer of assets to continuation vehicles. In some respects, the FCA's expectations go beyond existing industry practices, so firms should consider whether to adopt the FCA's expected practices or whether there is a strong reason for not doing so.

## The FCA's Conflict of Interest and Fair Customer Treatment Review

The FCA's review is organised under the following sections.

### Conflicts Frameworks

All firms need a framework to identify conflicts, assess risks and take appropriate steps to avoid or mitigate conflicts. Conflicts frameworks should reflect the substance of firms' activities. In that regard, for firms which are UK investment advisers with a separate overseas investment manager, the FCA found that some UK firms' conflicts frameworks did not address the involvement of UK staff in the full investment life cycle. UK firms with "adviser-arranger" permissions should assess whether a conflicts framework which is maintained by an overseas affiliate adequately captures UK

activities and addresses the FCA's finding and consider whether a specific UK conflicts framework or additional UK arrangements are appropriate.

## Identifying Conflicts Promptly

The FCA makes the following points in relation to firms' obligation to identify conflicts at the level of the business and individual transactions:

- Responsibility to identify conflicts lies across all "three lines of defence", comprising the business teams, legal and compliance teams, and the firm's management.
- Firms should identify conflicts arising from the firm's ownership structure, investment strategy and particular products.
- All staff should be aware, through training, of the importance of identifying conflicts and the internal arrangements for reporting conflicts.
- There should be defined thresholds to escalate material conflicts to be determined by a higher decision-making body, such as a conflicts committee.
- Firms should identify conflicts as an ongoing process, with checks as soon as a transaction is proposed, covering all potential conflicts, with scope to re-assess conflicts at the due diligence, deal structuring, allocation, valuation and exit stages.
- Firms should develop an integrated system to capture transaction information, enterprise relationships and personal conflicts within a single framework to support automated conflicts checks, governance reporting and ongoing monitoring.

## Internal Conflicts Documentation

All firms should maintain registers to record specific conflicts and are required to have a framework document that describes the procedure to identify, monitor and oversee conflicts.

The FCA's suggested good practice is as follows:

- Firms may consider developing specific procedures to address particular areas of conflicts, such as allocation of investment opportunities and the transfer of investment positions between investment pools, in each case with clear triggers, based on materiality, to escalate the conflict to a higher decision-making body, such as a conflicts committee.

- Firms' procedures should assign the responsibility to identify conflicts and operate mitigating controls to designated individuals and should specify the information to be shared with the firm's internal committees and forums for decision-making purposes.

- Firms should regularly review conflicts procedures to reflect changes in business models, products and firm ownership.

- Firms should retain documents, such as allocation memoranda, valuation materials, personal account dealing approvals, gifts and hospitality approvals, material interest assessments and records of governance discussions, to evidence the actions and decisions taken with respect to each individual conflict. Some firms use proprietary or third-party software to track conflicts and create a full audit trail for how each conflict is handled.

In relation to training, good practice includes supplementing new joiner training with annual refreshers, maintaining records of the training completed and ensuring all firm members complete the training. The FCA notes that certain firms have built practical case study examples into their training which are relevant to the firm's particular business model or tailored to particular employee groups to reflect the conflicts they are exposed to.

## Oversight of Conflicts

Firms need strong oversight arrangements for conflicts, such as a committee with responsibility to review the effectiveness of the firm's conflicts arrangements. Best practice includes:

- Referrals to the relevant committee as part of a firm's standard approach to handling key conflicts, such as new deal allocation and transfers of investment positions between different investor pools, with ad hoc meetings to review and approve decisions on specific events, if no standard practice exists for that event.

- Conflicts committees will typically comprise representatives from the investment team and legal and compliance teams.

- UK management should review conflicts that are material in the context of UK operations and group governance should review conflicts arising at group level.

The FCA notes the use of LPACs to address investment-related conflicts. In the FCA's view, LPACs are not always effective as a conflict management tool, given only the largest limited partners of a fund are permanently represented, with smaller investors

having less direct input. The FCA also flags that some firms exercise discretion in deciding whether to consult LPACs, which may lead to inconsistent outcomes. The FCA states that firms should clearly specify where a conflict is escalated to the LPAC, typically after having been assessed by the firm's conflicts committees. The FCA does not preclude firms from using LPACs for conflict management, so long as they are used in a consistent manner and alongside the firm's own decision-making for managing conflicts.

### Personal Account Dealing and Gifts and Entertainment

The FCA highlights personal conflicts as a source of risk, as employees may have financial interests which overlap, compete or otherwise interact with their firm's or clients' activities. All firms have staff gifts and entertainment policies, approval thresholds and reporting arrangements. In relation to those policies, the FCA makes the following points:

- Firms must demonstrate that their gifts and entertainment oversight arrangements operate effectively, including through detailed records, defined escalation routes and active oversight. Firms should set thresholds for obtaining approval and caps where approval will not be granted.

- Firms should record all gifts and hospitality both given and received, including the business purpose, basis of the valuation, relevant conflict and inducement considerations, and rationale for approval.

- Observing that the value and nature of some gifts and entertainment is greater than typically allowed for public market managers, such as those involving air travel and high-value sporting events, firms should be able to explain the rationale for compliance approval.

- Other information which firms can collect includes occasions where hospitality was offered but not accepted and where a firm has paid market price for attendance, rather than accepting hospitality.

- Firms should assess the risk of "cumulative exposure", which is the risk arising from receiving hospitality from the same provider over a period.

- Firms should apply enhanced scrutiny to high-value hospitality events. Records of these events may include details of attendees, whether the host was present and how the value of the hospitality was assessed. Where firms do not identify a clear business rationale for an event, it should be considered a gift and, as a result, be subject to lower monetary limits to be acceptable.

## Origination and Deal Sourcing

In its review, the FCA paid particular attention to conflicts that arise in the investment life cycle, such as through deal sourcing, including biased referrals, hidden incentives (such as receipt of arrangement fees from third parties), related-party transactions (such as continuation fund transactions) and opportunities where a firm or its affiliates have an interest on both sides of a transaction. In this regard, the FCA recommends that:

- Firms embed conflicts identification into their deal origination and approval processes to assess potential conflicts at an early stage of deal origination rather than once terms are agreed or capital is committed. Overlapping mandates could raise fair allocation concerns between investors if funds or accounts managed by the same firm have strategies with claim to the same opportunity, whilst potential deals may favour one group of investors over another in continuation fund or cross-transfer situations.

- Firms can review potential conflicts through forums such as pipeline reviews, steering committees and investment screening committees.

- Retrospective reviews by compliance functions are common but are regarded as a weaker form of control.

## Information Controls

The FCA states that information controls address the risk of information flowing between deal teams, trading desks or affiliated businesses, giving rise to conflicts between different client mandates or the misuse of material non-public information. In this regard, the FCA recommends that:

- Firms should adopt clear physical, organisational and system-based separation through information barriers, zoning teams into separate areas with gated access or using digital permissions to prevent staff servicing one asset class from accessing documents relating to another.

- Stronger arrangements include compliance monitoring of information barriers, the establishment of information trees (likely referring to a record for specific transactions of which individuals have accessed confidential information) and chaperones for discussions that risk crossing information barriers.

## Investment Allocation

The FCA highlights the risk of unfair investment allocation decisions arising across different funds, mandates and investment vehicles. In this regard, the FCA states that:

- Allocation methodologies should consider the relevant investment strategy, mandate suitability, portfolio construction and investor objectives.

- Firms should clearly document their allocation frameworks, supported by pre-defined allocation criteria. This includes using *pro rata* methodologies for over-subscribed opportunities, with documented reasons on how the firm considered investor fairness in the specific circumstances of the transaction.

- Firms should consider having dedicated allocation committees, memoranda and periodic review processes.

### Connected and Multi-Party Transactions

By connected and multi-party transactions, the FCA refers to fund-to-fund transactions, continuation vehicles, warehousing arrangements and other types of related-party transactions where conflicts can arise when determining the sale price and the timing and terms of the sale. End-of-fund transactions, such as extensions, liquidations and secondary transactions, may also raise conflicts.

In terms of best practice:

- Firms should recognise these transactions in their conflicts frameworks. Conflicts arising may be escalated to the governance function, over and above the investment function.

- LPAC engagement (either through consent or disclosure) can supplement the firm's review of the conflicts.

- Where different groups of investors are on each side of a transaction with potentially competing interests, firms should use separate decision-making teams for each side of the transaction, with recommended practice for each side to commission separate independent valuations. In the FCA's view, the use of third-party valuations without clear separation of decision-making responsibilities may not be sufficient.

- Weak practice is to rely on first-line judgement and management approvals, without clear evidence of how competing investor interests have been balanced and transactions priced fairly.

Where a sponsor arranges the transfer of an asset to a continuation vehicle, with different groups of investors participating in the sale and the acquisition of the asset, the FCA's expectations in relation to separation of decision-making and independent valuations go beyond existing market practice. Where firms follow the guidance

published by the Institutional Limited Partners Association, this could potentially provide some justification for not adopting the best practices outlined by the FCA.

## Investor Alignment and Fairness

The FCA states that fee and expense arrangements, fund-raising activity and the timing of capital deployment can create conflicts between the manager and investors. The FCA does not give specific examples of the types of conflicts that may arise here but points to the use of transaction reviews, governance committee scrutiny and LPAC engagement to resolve conflicts.

In relation to the grant of most favoured nation (MFN) clauses and other preferential rights in side letters, the FCA's view is that they should be subject to compliance oversight, with assessment of the "cumulative impact" of the grant of preferential rights on other investors.

## Disclosures

In its guidance on disclosure of conflicts or potential conflicts, the FCA states that disclosure is a supplementary tool and not a substitute for conflict management. Firms should prioritise avoiding conflicts or, where this is not possible, take steps to mitigate and manage them before considering disclosure.

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