

The UK is taking steps to reform the Alternative Investment Fund Managers Directive (AIFMD). Originally implemented 13 years ago in response to the 2008 financial crisis, AIFMD aimed to manage systemic risks posed by alternative funds. Post-Brexit, the UK retained the EU framework but is now considering targeted reforms to align with its broader objective of supporting economic growth and enhancing international competitiveness (the “Growth Objective”).

The reforms advocate for proportionate regulation based on firms’ size and activities, while also eliminating unnecessary regulations and reducing administrative burdens for alternative fund managers.

In contrast, the EU’s reform of AIFMD, which takes effect in 2026, focuses on investor protection and financial stability. While the EU’s reform introduces additional requirements, the UK’s reform aims to ‘fine-tune’ the existing framework. The regulatory goals remain the same, but the tools to achieve them will change.

The proposals are set out in an FCA [‘Call for input’ paper](#) and an [HM Treasury consultation](#), and are described at a high-level. Additional detail will follow; the FCA will publish a Consultation Paper in the first half of 2026 which will likely be followed by the publication and then adoption of the new rules.

This process may take some time; the FCA states that it will give firms time to adapt to the new regime. However, the regulator also asserts that certain unnecessary rules will be removed relatively quickly, thereby indicating a ‘phased’ approach to implementation.

1. AIFMD will remain

The core AIFMD framework is not being dismantled. It will continue to operate alongside MiFID (managed accounts) and UCITS (retail funds), though the

Differences between the AIFMD and MiFID regimes in particular have led to certain inconsistencies and a sometimes-illogical approach most felt by firms subject to both of these frameworks. However, the FCA aims to address overlaps and inconsistencies,

2. FCA Powers

As part of the UK’s post-Brexit regulatory agenda, more authority is being handed to the FCA to set detailed rules, replacing certain legislative provisions. This enables a faster and more adaptable regulatory response to evolving market conditions and supports the Growth Objective.

Following Brexit, the UK aims to create a competitive financial framework by revoking EU law related to financial services and replacing it with legislation tailored to UK markets. In addition, where appropriate, legislation is replaced with rules set by regulators including the FCA.

Compared to the legislative updating process, FCA rules can be updated more quickly and efficiently in response to changes in financial markets, emerging risks and replacing inefficient requirements. This should facilitate alignment of AIFMD reform and the Growth Objective.

3. Proportional Regulation by size

Currently there are – broadly – two regulatory categorisations for AIFMs – above-threshold (or full-scope) AIFMs and below-threshold (or small authorised or small registered AIFMs). The regulatory requirements for the latter are significantly less when compared to the former.

The thresholds are based on ‘gross’ AUM figures established in 2011 (€100m, or €500m for unleveraged AIFs with a 5+ year lock-in period). A change of regulatory status from below-threshold to above-threshold (or vice versa) requires a variation of permission application to the FCA.

It is proposed that three categories of AIFM will be created. This will facilitate the application of a more ‘proportionate’ approach:

- Large: AUM of £5bn or more: Subject to a regime similar to the current regime for full-scope AIFMs but with unnecessarily burdensome rules disapplied. There are currently 64 firms in this category currently, representing 74% of AUM.
- Mid-sized: AUM of £100m to £5bn: Subject to all major aspects of the regime, but not more detailed procedural requirements.
- Small: AUM of under £100m. Rules set baseline standards essential for maintaining appropriate levels of consumer protection and market integrity.

The thresholds are based on ‘net’ AUM figures. It is worth noting that under the proposal that moving categories would require a notification to the FCA, not a variation of permission.

4. Proportional regulation by type

It is recognised that AIFMD has a ‘bias’ towards ‘hedge fund’ strategies. As such, some FCA rules are unsuitable for other investment approaches such as private equity, venture capital, real estate and infrastructure.

The FCA therefore intends to create tailored rules to reflect these differences, for example, regarding risk management.

More bespoke regimes might also be put in place, for example, for managers of venture capital/growth capital funds and investment trust managers.

5. Key Clarifications and Simplifications

The HM Treasury and FCA papers provide some proposals on clarifications and simplifications to AIFMD. However, these are not exhaustive, and more details will follow.

- Marketing: Currently, full-scope UK AIFMs are required to notify the FCA of their intention to market AIFs in the UK, and the FCA has 20 working days to grant or refuse approval. HM Treasury proposes revising the legislation so that marketing can commence at the point of notification.
- Leverage: Since most of the leverage exposure lies with firms in the ‘large’ category, the FCA alludes to a proportionate approach regarding leverage. The regulator also states that they are considering if they need to be clearer about their expectations of risk management by highly leveraged firms.

- **Private equity notifications:** Full-scope UK AIFMs are currently subject to notification requirements where they acquire control of non-listed companies and issuers. HM Treasury is considering whether to remove this requirement.
- **Business restrictions:** Currently, a full-scope UK AIFM is limited in the range of other regulated activities it can perform, primarily restricted to certain 'buy-side' related activities. This was initially implemented to prevent conflicts of interest. However, the concept of addressing the conflicts with a blanket restriction is now viewed as conceptually flawed, leading to an intention to remove this 'business restriction'.

6. What's staying

The UK's national private placement regime, the inclusion of investment trusts, and the external valuer requirement will remain. Cross-border marketing into the EU remains governed by each member state's rules, with no sign of passporting rights returning for UK AIFMs.

7. Some potential 'cost' considerations

While the reforms aim to reduce inefficiencies, some cost-heavy areas are under further review:

- **Depositories:** No radical changes expected, but potential easing for non-retail funds is on the table. Notwithstanding this, the regulator welcomes input on whether they should explore proportional alternatives that meet global regulatory standards.

In addition, the FCA states that it does not expect to extend the depositary requirements beyond the current scope i.e., small authorised AIFMs and full-scope AIFMs that manage non-UK domiciled AIFs that are not marketed in the UK will continue to be out-of-scope.

- **Prudential Requirements:** A streamlined approach is being considered for mid-sized firms, including lower capital requirements and a review of dual AIFMD/MiFIDPRU obligations. At present the prudential regime for AIFMs is a combination of different frameworks dependent upon the firm's status. Some smaller AIFMs with a venture capital strategy have a regulatory capital requirement of £5,000 whereas conversely full-scope UK AIFMs that also perform so-called 'MiFID top-up activity' are caught by both AIFMD and MiFIDPRU.

One option for reform would be to put in place a more proportionate set of rules for mid-sized firms. Some suggestions, albeit these are by no means exhaustive include:

Reducing the minimum capital requirement from €125,000 to £75,000, to align with a typical asset manager operating under MiFID.

Revisit and potentially remove the 'additional own funds' concept, designed to address professional indemnity insurance risk.

Eradicate unnecessary complications caused by the overlap of AIFMD and MiFIDPRU prudential regimes, as most mid-sized asset managers subject to both regimes have a single operation and not one divided into 'AIFMD business' and 'MiFID business'.

- **Reporting:** Simplifying Annex IV reporting and tailoring disclosure obligations professional investors could ease burdens for smaller AIFMs.

Relaxing the Annex IV reporting requirements would likely be advantageous to many firms while continuing to ensure that the regulator is provided with key information. Over 70% of NAV, and most of the leverage risk, is concentrated in circa 64 firms. It is possible that the FCA will consider the value of information provided by over 1,000 firms representing under 30% of NAV, in the context of the burden of completing and submitting the returns.

Where providing information to investors, one option would be relaxing the requirements for professional investors.

8. Wider Context

AIFMD is only one element of the overall regulatory framework for AIFMs. The Senior Managers and Certification Regime (“**SMCR**”) and the Consumer Duty are separate concepts and some AIFMs are also subject to MiFID based requirements.

Actual or proposed initiatives include:

- Reviewing the FCA handbook to remove any unnecessary rule deviations, including between AIFMD and MiFID, for example regarding conflicts of interest.
- Reviewing regulatory reporting requirements i.e., RegData filings.
- An upcoming review of SMCR.
- Updating certain requirements related to financial promotions.
- Extending rules introduced in 2024 adding a new ‘joint payment’ method for paying for research and execution services to UK AIFMs and UCITS managers.
- Removing outdated rules and guidance.

AIFMs should therefore consider AIFMD reform in the context of an integrated approach.

9. Stakeholder engagement

HM Treasury and the FCA are seeking feedback by **9 June 2025**, with further opportunities during the consultation phase. This is in contrast to the original AIFMD when ambitions were not necessarily so aligned as there was a political motivation to take action to regulate ‘hedge funds’ post-financial crisis and this often did not line up with the views of the asset management sector.

Potentially this reform represents a collaborative effort between regulators, policymakers, and the asset management industry.

If you wish to discuss anything in this document or other matters please do not hesitate to contact us by emailing enquiries@rawlinsreg.co.uk or by telephone 0330 043 4288

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