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SNAPSHOT

UK government and FCA consult on major changes to AIFMD framework - HM Treasury issued a consultation paper on 7 April 2025 which was accompanied by a call for input from the UK Financial Conduct Authority ("**FCA**"). The purpose of the consultation is to streamline and simplify the regulations under the UK Alternative Investment Funds Managers Directive ("**AIFMD**") to, amongst other things, change the thresholds by which firms are categorised under AIFMD. The consultation closes on 9 June 2025. The consultation marks a pivotal shift and further divergence from the legacy of EU derived rules to a more flexible, proportionate and risk-sensitive UK regime.

FCA consults on reducing reporting and notification requirements – On 16 April 2025, the FCA has issued a consultation paper to consult on removing data collection requirements which it no longer requires. This should benefit approximately 16,000 firms in scope. The consultation closes on 14 May 2025. The three categories of data collection which will be relate to (1) FSA039 – reporting on client assets and client money activities (2) Section F of the Retail Mediation Activities Return (RMAR) – reporting on any changes to the close links and controllers of a firm and (3) Form G – reporting on individual adviser complaints notifications.

FCA completes multi-firm assessment of fund valuation practices and governance – On 5 March 2025, the FCA released its findings in a report on its review of private market valuation processes. The review covered valuation practices, processes and governance for valuing private equity, venture capital, private debt and infrastructure assets. Amongst other things, it concluded that firms demonstrated good practice in areas such as investor reporting, process documentation and use of third party valuation advisers. Areas which needed improvement included better identification and documentation of conflicts of interest in the valuation process and increased independence within the firms' own valuation teams and processes.

FCA publishes update on proposed regulations for the PISCES trading platform – On 10 April 2025, FCA published an update on the proposed regulations for the Private Intermittent Securities and Capital Exchange System ("**PISCES**") to reduce the disclosure obligations that companies traded on PISCES must comply with. PISCES will bring together buyers and sellers in the shares of private companies in a single regulated platform to provide new investment and trading options. The buyers will be institutions and retail participants who meet the criteria to be considered as sophisticated or high net worth investors. The proposed regulatory framework for PISCES will be established under a Financial Market Infrastructure (FMI) sandbox created by the Treasury. This update follows on from a consultation paper on PISCES issued in December 2024.

PRA and FCA consult on changes to the margin requirements for non-centrally cleared derivatives – On 27 March 2025, the Prudential Regulation Authority ("**PRA**") and the FCA issued a joint consultation paper setting out their proposal to implement an indefinite exemption for single stock equity options and index options from the UK bilateral margining requirements. The consultation also proposes two amendments to reduce the burden of the bilateral margining regime in the UK. The first amendment amends the margining treatment of legacy contracts for firms that subsequently fall out of scope of the requirements. The second amendment would permit UK firms when transacting with a counterparty subjected to margin requirements in another jurisdiction, to use that jurisdictions threshold assessment calculation periods and entry into scope dates to determine whether those transactions are subject to initial margin requirements.

UK GOVERNMENT AND FCA CONSULT ON MAJOR CHANGES TO AIFMD FRAMEWORK

The regulation of fund managers ("**AIFMs**") in the UK has its roots in EU AIFMD. AIFMD established a harmonised framework across the EU, imposing requirements on managers of hedge funds, private equity funds, real estate funds, and other alternative investment vehicles. Key features included:

- Threshold-based regulation: Full-scope AIFMs (managing assets above €100m, or €500m for unleveraged, closed-ended funds) were subject to comprehensive requirements, while sub-threshold AIFMs faced a lighter regime.
- Prescriptive rules on risk management, liquidity, leverage, depositary obligations, investor disclosures, and remuneration.
- A dual regime in the UK: The small authorised regime (for most sub-threshold AIFMs) and the Small Registered Regime (for certain categories, such as managers of social entrepreneurship and venture capital funds, unauthorised property collective investment schemes, and internally managed companies).

Following Brexit, the UK retained the AIFMD framework as "assimilated law," with only technical modifications. However, this was always intended as a transitional measure, and the current consultation seeks to create a bespoke UK regime. Given the changes implemented by the EU commission in AIFMD 2, this represents further divergence between the UK and EU regulatory framework for funds.

WHAT ARE THE KEY DRIVERS FOR REFORM?

The consultation identified several challenges with the current regime:

- Inflexibility of thresholds: The €100m/€500m thresholds are static, do not account for inflation or market growth, and create "cliff-edge" effects where small changes in assets can trigger disproportionate regulatory burdens.

- Complexity and consumer confusion: The small registered regime, in particular, creates complexity and may mislead consumers about the level of FCA oversight
- Duplication and inefficiency: Overlap between AIFM rules and other regulatory requirements (e.g., listing rules for closed-ended investment companies) leads to unnecessary compliance costs.
- Need for proportionality: The one-size-fits-all approach does not reflect the diversity of business models and risk profiles in the sector.

WHAT ARE THE PROPOSED CHANGES?

The government and the FCA propose a fundamental shift from rigid thresholds to a more flexible, risk based and graduated regulatory framework. The key elements of the new framework are as follows:

ISSUES	SUMMARY
Removal of legislative thresholds	• The current asset based thresholds for determining regulatory scope will be abolished. • The FCA will be empowered to set proportionate rules for AIFMs of all sizes, based on their activities, investor base and risk profile. • This approach is intended to reduce cliff edge effects, encourage growth and allow for more agile regulatory updates.
Three tiered regulatory approach	The FCA proposes a three tiered system: • Tier 1 – Large AIFMs: The FCA propose an upper threshold of £5 billion net asset value to distinguish the largest firms. Only the largest firms will be subject to a regime similar to the current full scope AIFM rules, though with some reduction in prescriptive detail. • Tier 2 – Mid-sized AIFMs: Firms over the lower threshold (£100 million) but below the upper threshold (£5 billion) would be subject to a mid-sized regime, a more flexible and proportionate regime than the full scope regime. • Tier 3 – Small AIFMs: The FCA’s view is that the regime for smaller firms should be primarily for AIFMs in the early stage of development or which operate solely in a highly focused segment of the market. It proposes setting a threshold of £100 million of the net asset value of the funds managed by the AIFM.
Abolition of small registered regime	• The small registered regime which allowed sub-threshold managers to operate with minimal FCA oversight will be removed. • All AIFMs currently in this regime (except for those managing social entrepreneurship and registered venture capital funds, which will be reviewed separately) will be brought within the FCA's authorisation perimeter. • The change aims to enhance consumer protection and simplify the regulatory landscape.

ISSUES	SUMMARY
Treatment of specific fund types	• *Social entrepreneurship and registered venture capital funds*: the regulation of these funds will be maintained for now with a separate review planned for a later date. • *Unauthorised property collective investment schemes*: managers of these schemes previously exempt from authorisation if sub-threshold will now be required to seek FCA authorisation. This is in response to identified consumer protection risks. • *Internally managed investment companies*: The exemption for sub-threshold internally managed companies will be removed. All such companies will be required to seek FCA authorisation.
Listed closed ended investment companies	• These companies, which are listed on the London Stock Exchange and subject to the FCA Listing Rules will remain within the scope of AIFMD. The FCA will apply the three tier regime explained above to such companies. • The government considering removing these companies from the scope of AIFMD due to their unique structure (independent boards, traded shares etc) but concluded that the continued inclusion is necessary for financial stability and consumer protection. However, the FCA will streamline requirements for these entities to remove duplicative obligations. • The FCA is seeking feedback on whether there are any AIFMD requirements that, taking into account the respective responsibilities of the board and AIFM of a listed closed ended investment company should not be retained or where clarification would be helpful. • The FCA is considering disapplying the provisions in FUND 3.2 (Investor information) and FUND 3.3 (Annual report of an AIF) which require full-scope UK AIFMs of listed closed ended investment companies to disclose this extra information. This disapplication is on the basis that the FCA understands that investors may find these disclosures unnecessary and irrelevant.
Leverage	The FCA plans to evaluate the adequacy and effectiveness of current AIFMD provisions in addressing risks from leverage in line with the forthcoming FSB recommendations. It is also considering if it needs to be clearer about its expectations of risk management by highly leveraged firms and has requested feedback on how best to achieve this.
AIFM business restriction	• The AIFM business restrictions allow an external full-scope AIFM to undertake only AIFM management functions and the management of UCITS or other collective investment undertakings as its principal activities. The FCA will consider revisions to the business restrictions. • The existing rules were copied into AIFMD from the UCITS Directive and were intended to address conflicts of interest. However, the current rules

ISSUES	SUMMARY
	appear to create costs and inefficiencies, requiring firms to seek top-up regulatory permissions for some regulated activities or create new legal entities to perform those activities outside the AIFM, once the AIFM passes the size threshold.
National Private Placement Regime (NPPR)	The NPPR which governs the marketing of overseas funds in the UK will be broadly maintained as no significant concerns were raised by market participants.
Private equity notifications	The obligation of AIFMs to notify the FCA of acquisitions of control in non-listed companies (aimed at preventing asset stripping) will be reviewed, as the FCA has limited powers to act on this information.
External valuation	The legal liability of external valuers (currently making them liable to the AIFM for losses due to negligence will be reconsidered, as it has made it difficult for valuers to obtain insurance and discouraged market participation. The proposal is to shift liability to a contractual basis, with the AIFM retaining ultimate responsibility.
Depositaries	The FCA do not expect to change the rules that apply to depositaries of authorised funds in any material way. Small authorised AIFMs and those full-scope AIFMs that manage overseas AIFs not marketed in the UK are not required to appoint a depositary and the FCA has confirmed to does not expect to make any change to this in the future.

WHAT ARE NEXT STEPS?

The consultation closes on 9 June 2025. HM Treasury will draft a statutory instrument for further feedback and the FCA will consult on its proposed rules for AIFMs.

The FCA has indicated that it will consult more widely at a later date on (i) simplifying the requirements of AIFMs into a single set of rules in the FCA Handbook (ii) prudential and leverage rules for AIFMs (iii) broader regulatory reporting requirements under AIFMD (iv) requirements for AIFMs relating to disclosure, distribution and marketing to retail investors (v) remuneration requirements for AIFMs and (vi) the AIFM business restriction.

FCA CONSULTS ON REDUCING NOTIFICATION AND REPORTING REQUIREMENTS

The FCA is consulting on the removal of data collection requirements that will benefit approximately 16,000 regulated firms. This process has been described by the FCA as a data decommissioning programme. These proposals will impact a wide range of authorised firms including:

- MIFIDPRU investment firms, securities and futures firm.
- Investment management firms and collective portfolio management firms.
- Firms with retail investment advisers.

WHAT ARE THE KEY DRIVERS FOR REFORM?

The FCA and the Bank of England are working together with industry to transform data collection from the UK financial sector. The Transforming Data Collection ("**TDC**") programme was set up in 2021 and one of its outcomes is that data collections meet and are proportionate to regulators' needs. Data decommissioning is of the TDC work streams.

Complying with regulatory reporting requirements costs authorised firms time and other resources. The FCA only wants to collect the data that it needs. Removing data collection requirements that no longer provide useful data or duplicate information in other returns helps to reduce firms' cost of compliance.

WHAT ARE THE PROPOSED CHANGES?

The FCA propose to cease collecting data on the following three categories:

FSA039 – Client Money and Client Assets	• FSA039 is collected every six months. It asks two questions: (a) has the firm held client money or client assets in the reporting period? (2) does the firm undertake stock lending activities using client custody assets?
Section F of the Retail Mediation Activities Return (RMAR) RMA-F	• The FCA propose to stop collecting this data. The rationale for this is that some of this data is already made available in the client money and asset return delivered by firms. Additionally, the stock lending question is high level, so the FCA need to ask for more details if it wants to use this information for supervisory purposes.
Individual adviser complaint notification: Form G	• As part of these changes, the FCA propose to delete FSA039 from SUP 16 Annex 24R and the related guidance from SUP 16 Annex 25G. The FCA also propose to remove the return from the RegData catalogue. This means that firms will no longer be able to resubmit any previous information in RegData.

FCA COMPLETES MULTI-FIRM ASSESSMENT OF FUND VALUATION PRACTICES AND GOVERNANCE

The FCA published its finding on its multi firm review of fund valuation practices and governance. The multi-firm review will be of interest to asset managers, alternative investment fund managers (AIFMs), investment and portfolio managers and investment advisers.

The scope of the review included firms managing funds or providing portfolio management and/or advisory services in the UK for private equity, venture capital, private debt and infrastructure assets. The review did not include UCITs. The FCA sample covered approximately £3 trillion of global private assets under management (AUM). Of that, UK private AUM was around £1 trillion.

In Phase 1, the FCA sent a questionnaire to a sample of 36 firms asking for information on their private market activity and their approach to valuing private assets. The FCA used these responses to select a subset of firms for Phase 2. In Phase 2, the FCA conducted an in-depth review of governance and processes through document requests and on-site visits, including data on asset-level valuations to select case studies.

WHAT ARE THE KEY DRIVERS FOR REFORM?

The FCA issued this review at a time when there is growing interest in the valuation practices in private markets globally. In the FCA's view, investors need fair and appropriate valuations to understand the performance of their investment and make informed decisions, such as on asset allocation and manager selection.

Where open ended fund structures invest in private assets or firms transfer private assets between vehicles, transaction prices can often rely upon valuations, meaning robust valuations are important for fairness between buyers, sellers and remaining investors. In some cases, firms may also use valuations to calculate management and performance fees paid by investors.

WHAT WERE THE FCA FINDINGS?

Governance Arrangements	• Nearly all firms had specific governance arrangements in place for valuations. Firms with committees dedicated to making valuation decisions tended to demonstrate greater independence and oversight of the valuation process. • The FCA noted that firms should consider whether their governance arrangements ensure there is clear accountability for valuation and robust oversight of the valuation process, including accurate and detailed record-keeping of how valuation decisions are reached.
Conflicts of interest	• There are a number of potential conflicts that can exist between the interests of firms valuing private assets and the interests of investors, or between different groups of investors. If not properly identified and prevented or managed, these conflicts may impair judgement applied to valuations and lead to poor outcomes for investors.

	• Firms have obligations under the FCA Handbook, the MIFID Ord Regulation and AIFMD 2 Level 2 Regulation to identify and manage conflicts of interests. • Many firms had conflicts in their valuation process around fees and remuneration and other valuation related conflicts but these were only partially identified and documented. Only a few firms demonstrated strong awareness and control over valuation related conflicts. • Specific areas of concern identified by the FCA included (i) conflicts arising when fees paid by investors are linked to valuations (ii) conflicts arising where assets are transferred e.g. when the manager's valuation determines the transfer price affecting the interests of buyers, sellers and remaining investors.
Redemptions and subscriptions	• Phase 2 managed open ended funds priced redemptions and subscriptions using the firm’s net asset value. with periodic and judgement-based valuations there is greater potential for harm and conflicts between new, exiting and remaining investors, who could be transacting at prices that do not always reflect the value of the fund's investments. • While investment trusts do not offer redemptions and subscriptions, they are traded continuously on recognised markets and their announcements on NAV, calculated using valuations, are important for investors buying and selling investment trust shares as well as other stakeholders who might use this information, and so can also have a form of this valuation-related conflict. • Most firms had actively identified, but had not documented, that these products had greater risks around valuation.
Investor marketing	• Where firms use the unrealised performance of existing funds to support fundraising for new vehicles, they may have an incentive to show positive and stable movements in value over time. • Only a few firms identified and documented conflicts around marketing unrealised performance. Many argued that their investors are sophisticated, and firms would risk their reputation if they were found to provide inappropriate valuations. • Good practice included documenting this conflict and clearly separating unrealised and realised investments in marketing materials, making clear that unrealised performance was based on the firm's approach to valuations, and presenting the components of unrealised value.
Secured borrowing	• For borrowing secured against a fund's portfolio of assets, such as NAV financing, common covenants include a minimum level of diversification within the portfolio and a maximum loan-to-value ("**LTV**") ratio. The NAV depends on how the borrower values their unrealised investments. This can lead to a potential conflict of interest where valuations could be

	inflated to attract a greater amount of initial borrowing or avoid breaching an LTV covenant. • Most firms did not proactively identify and document this potential conflict.
Uplifts and volatility	• There is a potential conflict in the valuation process where firms consider investors prefer valuations that display a certain return profile, such as a smooth return profile over time. Many firms discussed the importance of reputation risk and noted that investors often preferred an 'uplift' on exit, as well as stable valuations over time. • Valuation methodologies that are applied consistently over time can give investors greater confidence that their assets are being valued fairly, even when this would lead to less stable valuations. Firms that demonstrated a strong awareness of conflicts proactively discussed these issues in valuation committees and had identified the risk of overly conservative and stable valuations.
Employee remuneration	• Where remuneration is linked to valuations, this can create a conflict. In most cases, the FCA found that employee remuneration was not directly linked to valuations. Variable pay awards were most often linked to employee performance assessments which evaluated performance against financial and non-financial metrics. • The FCA saw firms identify conflicts and demonstrate good practice by seeking additional assurance for in-house valuations. Usually, additional independence and expertise was obtained through engaging a third-party valuation adviser.
Functional independence and expertise and policies and procedures	• The FCA expect firms to assess whether they have sufficient independence in their valuation functions and the voting membership of their valuation committees to enable and ensure effective control and expert challenge. • Clear, consistent and appropriate policies, procedures and documentation are core components of a robust valuation process. They help firms ensure consistency in approach to valuations and enable auditors and investors to test that the valuation process is adhered to.
Valuation policies and valuation models	• Not all firms provided detail on the rationale for selecting methodologies and their limitations, nor the required inputs and data sources as required under the AIFMD Level 2 Regulation. Also, most did not include a description of safeguards for the functionally independent performance of the valuation task nor the potential conflicts in the process. • Most firms used valuation templates to ensure a consistent and clear approach. Most firms also demonstrated good practice by clearly highlighting changes in inputs, assumptions and value, as well as providing qualitative information on the context and performance of the

	asset. Some also maintained logs capturing assumption changes across assets.
Auditors and Backtesting	• Firms demonstrating good practice described how they support external auditors to perform their role by involving them in the valuation process. Examples included inviting auditors to observe valuation committee meetings, raising auditor challenges at those meetings and taking proactive measures of managing conflicts of interest involving the audit service provider, such as rotating audit partners and audit firms. • Firms demonstrating good practice described using the results of backtesting to inform their approach to valuations, such as identifying insights about current market conditions, and potential limitations in models, assumptions and inputs.
Ad hoc valuations and transparency to investors	• A less frequent valuation cycle risks stale valuations – a valuation that no longer reasonably reflects the current conditions of an investor's holdings. • Full-scope UK AIFMs must ensure they calculate the NAV at each issue or subscription or redemption or cancellation of units or shares and at least once a year in accordance with AIFMD. • Firms should consider where they can improve their reporting to and engagement with investors on valuations, including providing detail on fund-level and asset-level performance, to increase transparency and investors' confidence in their valuation process.

WHAT ARE THE NEXT STEPS?

The FCA will engage with firms and industry bodies on the findings from its review. We look forward to discussing the challenges faced by the industry as raised in this review, and the opportunities to further enhance valuation practices to support confident investing in private markets.

The FCA will also share its findings with other bodies, such as the Bank of England and IOSCO.

FCA PUBLISHES UPDATE ON PROPOSED REGULATIONS FOR THE PISCES TRADING PLATFORM

The FCA has issued an update on the regulatory framework for the new Private Intermittent Securities and Capital Exchange System ("**PISCES**"). PISCES will be a trading venue for the intermittent trading of private company shares.

The FCA observes that private markets have become increasingly important in supplying capital to businesses in recent years. One of the objectives of PISCES is to offer an effective and transparent alternative to existing private market transactions, helping companies expand and eventually prepare for an initial public offering. As a result, the FCA proposes that the regulatory framework for the PISCES sandbox should be based on private market requirements, rather than those applied to public markets.

The FCA's update follows on from the completion of its 2024 consultation on the draft rules for the PISCES sourcebook.

WHAT ARE THE PROPOSED CHANGES?

Material changes are not proposed by the FCA to the draft framework shared in the consultation paper CP 24/29. The changes made are largely technical in nature and include:

- amendments which simplify the core disclosures which companies will be required to make;
- clarification of expectations on operator oversight; and
- excluding post-trade disclosures on major shareholders' positions and director's transactions.

The FCA expects to publish a policy statement and final rules for the PISCES sandbox in June 2025. Applications will then open for potential PISCES operators. Regulations to create PISCES as a financial market infrastructure sandbox are expected to be laid before Parliament by May 2025.

WHAT ARE NEXT STEPS?

Final rules for PISCES will be set out in a FCA Policy Statement which the FCA expect to publish in June 2025

PRA AND FCA CONSULT ON CHANGES TO MARGIN REQUIREMENTS FOR NON-CENTRALLY CLEARED DERIVATIVES

On 27 March 2025, the Prudential Regulation Authority ("**PRA**") and the FCA issued a joint consultation paper setting out their proposal to implement an indefinite exemption for single stock equity options and index options from the UK bilateral margining requirements.

Asset management firms who use derivatives as a risk management tool become subject to margin requirements when they transact with UK banks and investment firms which are subject to these requirements.

The proposed consultation also proposes three amendments to reduce the burden of the bilateral margining regime in the UK.

- The first amendment amends the margining treatment of legacy contracts for firms that subsequently fall out of scope of the requirements.
- The second amendment would permit UK banks and investment firm when transacting with a counterparty subjected to similar margin requirements in another jurisdiction, to use that jurisdictions threshold assessment calculation periods and entry into scope dates to determine whether those transactions are subject to initial margin requirements.
- Finally, the PRA and the FCA propose to remove the requirement to exchange initial margin for legacy contracts once a counterparty subsequently falls out of scope of the margin requirements. Note these requirements only impact firms with trading volumes exceeding EUR8 billion.

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