MODERNISING THE UK REGULATORY REGIME FOR ALTERNATIVE INVESTMENT FUND MANAGERS – THE REFORM JOURNEY CONTINUES

On 14 July 2026, HM Treasury and the Financial Conduct Authority (the "**FCA**") published a package of proposals (the "**Proposal**") for a significant overhaul of the UK regime for UK alternative investment fund managers ("**AIFMs**"). The Proposal would represent the most significant change to the regulatory framework since the Alternative Investment Fund Managers Directive ("**AIFMD**") was transposed into UK law in 2013.

The proposal package comprises three FCA consultations:

- CP 26/28 (the "**AIFMR Reform**") proposes, among other aspects, abolishing the distinction between "full-scope" and "sub-threshold" AIFMs and replacing these concepts with categories based on net asset value ("**NAV**") instead of assets under management (AUM);
- CP26/27 (the "**Remuneration Consultation**") proposes a more outcomes-focused framework, but firms will still need to ensure that remuneration appropriately reflects risk and promotes good conduct; and
- CP26/26 – FRAME (Fund Reporting for Asset Management Entities) ("**FRAME**"), where the FCA considers the current reporting landscape to be fragmented, with different reporting returns applying to different sectors of the asset management industry. FRAME is intended to create a single reporting framework with common data definitions, making reporting more consistent for firms and improving the quality of supervisory data received by the FCA.

CP26/26, CP26/27 and CP26/28 build on the FCA's and HM Treasury's call for input and consultation from April 2025 seeking market views on modernising the UK's regulatory architecture for AIFMs (the "**April 2025 Consultation**"). **See our previous briefing on this**.

Unlike the AIFMR Reform, both the Remuneration Consultation and FRAME are narrower in scope and are more operational than structural.

AIFMs should start considering three key areas:

1. the new proposed classification system for UK AIFMs and how it will impact their current classification;
2. the practical impact of the proposed reforms on the existing regulatory and reporting burden; and
3. planning for and transitioning to the new regime.

Below, we address 10 key questions on the Proposal.

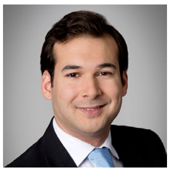
Question	Answer
1. Will our firm still be a "full-scope" UK AIFM under the new regime?	The concept of a "full-scope" UK AIFM is proposed to disappear. Instead, the FCA would categorise firms as authorised UK Small, Medium or Large AIFMs based on the aggregate NAV of the alternative investment funds ("AIFs") they manage. The proposed thresholds, which differ from those in the April 2025 Consultation, are: ▪ Small - below £750m of aggregate NAV; ▪ Medium - £750m to £5bn of aggregate NAV; and ▪ Large - above £5bn of aggregate NAV. A firm's obligations would also depend on whether the funds it manages are open-ended or closed-ended, leveraged and/or marketed to retail investors. This approach is intended to remove the current regulatory "cliff edge" associated with thresholds in the current regime. Baseline governance standards would apply to all authorised AIFMs, with additional requirements based on size and activity. Notably, the Proposal raises the minimum governance standard for smaller firms (see Question 2 below) while simplifying requirements for larger firms.
2. Our AUM is below the current €100 million threshold. Will we still be lightly regulated?	Not necessarily. The Proposal would abolish most of the existing registered AIFM regime (registration would be retained only for Registered Venture Capital Funds (RVECA) and Social Enterprise Funds (SEF) managers, and small internally managed listed investment companies would be exempted from the AIFM regime entirely). Many firms that currently benefit from a lighter registration process would instead need to become FCA-authorised and comply with a baseline set of governance, risk management and liquidity requirements. While those requirements would generally be less onerous than those for larger firms, they are more extensive than the current registered regime. If you are already a small authorised AIFM, you would remain authorised and would generally fall within the Small category, which would extend to £750m of aggregate NAV, but would become subject to certain new baseline requirements (e.g., on valuation, liquidity risk management and an investor annual summary).
3. We only manage closed-ended private equity funds. Will the reforms reduce our regulatory burden?	Potentially. The FCA proposes a simpler, more flexible and proportionate regime for managers of closed-ended, unleveraged funds. Many of the detailed liquidity management and risk management requirements currently derived from AIFMD would either not apply or would apply in a simplified form, but the Proposal stops short of a full-scale deregulation. The current requirements can be difficult to navigate because they are spread across the AIFMR, the retained EU Level 2 Regulation and FCA FUND rules. The FCA is now proposing to streamline the regime by consolidating the primary rules in the FCA Handbook rather than in legislation. Most firm-facing requirements would move from legislation into a new FCA sourcebook, ALTS, covering managers of unauthorised funds.
4. Will the way we calculate leverage change?	Yes. The FCA proposes to remove the mandatory gross and commitment leverage calculations required under AIFMD. Instead, managers would disclose the quantum of leverage using methodologies appropriate to each fund and its investment strategy (whilst ensuring that disclosure is clear, fair and not misleading for investors). This should reduce unnecessary complexity, particularly for private capital funds. However, fund-level borrowing (for example, under subscription facilities) may cause a closed-ended fund to be treated as leveraged, with liquidity rules applying. In addition, Small AIFMs of open-ended or leveraged closed-ended AIFs will face new baseline liquidity rules, including annual liquidity stress testing.

5. Will we still need a depositary for our funds?	Broadly, yes for Medium and Large AIFMs, but not for Small AIFMs. No new draft depositary rules have been proposed yet, and the FCA proposes to keep the current overall approach. Medium and Large UK AIFMs would therefore need to appoint a depositary for each UK AIF they manage. Whilst Small AIFMs would not be required to appoint a depositary (CASS 6 custody rules would apply instead), with a 12-month grace period for firms moving up a category, they may opt to become a Medium or Large UK AIFM. The Proposal discusses the potential to allow a UK AIF to use more than one depositary to carry out the depositary functions and the FCA agrees that this flexibility would be helpful. We expect further details of this 'split depositary model' to be published in the FCA's second consultation. The FCA is also seeking views on whether the current depositary requirements remain appropriate, particularly for private capital funds and closed-ended vehicles. The existing depositary framework therefore remains in place for now.
6. Will our investor disclosure documents need to change?	Probably. Although the FCA proposes to simplify many of the existing disclosure requirements, managers will still need to provide investors with clear information about matters currently required to be covered as part of pre-contractual disclosures, such as investment strategy, fees, valuation, leverage and conflicts. However, the proposals are intended to move away from the current prescriptive disclosure lists towards more principles-based disclosures, particularly for professional investors, to help them assess the merits, risks and costs of investing in the fund. Certain mandatory disclosures would be retained for market integrity reasons, including how fund assets are valued and how liquidity risk is managed. Retail protections would remain more prescriptive, creating a clearer distinction between the professional and retail disclosure regimes.
7. Will the Proposal make it easier to launch new private funds in the UK?	Potentially. The FCA's objective is to create a more proportionate regulatory framework for private funds "aligned to international standards" by reducing unnecessary procedural requirements and removing some of the distinctions inherited from AIFMD. While firms will still need appropriate governance and controls, the overall regime should be simpler to navigate, particularly for managers of closed-ended institutional funds. The FCA is also proposing changes to core concepts derived from AIFMD, including the definition of an AIF, to clarify grey areas. For example, the statute would clarify that "raising capital" may have occurred in the past and a defined investment policy may be implicit. It is expected that this change would bring more collective investment schemes ("**CIS**") and their operators into the AIFM regime. The FCA has also called for input on proposals to require CIS operators to provide investors with the same level of information as Small AIFMs, including the preparation of an annual summary and pre-contractual disclosures.
8. Will we still need to submit Annex IV reports?	The FCA proposes to replace Annex IV reporting with FRAME. Supervisory information would therefore continue to be collected, but through a redesigned framework intended to be more consistent, proportionate and less duplicative. The FCA estimates a 75% reduction in reporting burden across the fund manager population. The impact will depend on the type and size of each fund, rather than the firm: "essential" requirements would apply to funds under £500m NAV and more extensive "enhanced" requirements to funds of £500m NAV or more, with frequency set by fund type (quarterly for authorised funds and hedge funds; annual for other unauthorised AIFs). The FCA proposes to remove duplication and data fields that it considers no longer useful, while continuing to collect the information it needs for supervision. Around 90% of AIFs currently reporting would fall within the essential reporting tier only, while larger funds should expect to provide more detailed supervisory information. Firms with separate EU reporting obligations would still need to comply with the EU Annex IV reporting regime.

9. Will our remuneration policies need to change?	The FCA proposes to replace the existing three remuneration codes with a single, more principles-based and proportionate remuneration code. Firms will still be expected to maintain remuneration arrangements that support sound governance, effective risk management and good customer outcomes. The proposed new code would apply to solo-regulated firms, but with a narrower scope than today: ▪ non-SNI MIFIDPRU investment firms; ▪ UK AIFMs (full-scope initially, transitioning to Medium and Large AIFMs once the AIFM reforms take effect); and ▪ UK UCITS management companies. SNI MIFIDPRU firms (and, once the AIFM reforms are implemented, Small AIFMs) would be removed from remuneration requirements entirely. Firms may have greater flexibility in how they design their remuneration arrangements, but they will still need to demonstrate that those arrangements achieve the FCA's regulatory objectives. The FCA has stated that firms compliant with the existing UK codes, or equivalent EU codes, should generally expect to remain compliant under the new code. Fixed deferral structures would be replaced by a principles-based rule, with the management body deciding whether and how deferral applies (the FCA is also consulting on a threshold-based alternative); malus and clawback would be retained as tools firms must consider, but their application would no longer be mandatory. For firms operating across multiple regulatory sectors, the main benefit is simplification. Rather than navigating three overlapping remuneration codes, firms would be able to apply a single, more coherent framework with greater flexibility to tailor remuneration arrangements to their business model.
10. When will these changes take effect and what preparatory steps can be taken?	The Proposal is still subject to consultation and will require final Treasury legislation and FCA rules before it takes effect. The consultation responses to the AIFMR Reform are due by 22 October 2026 and the final statutory instrument is expected to be laid in early 2027, with final FCA rules to follow in 2027 and implementation intended for 2028. No grandfathering is currently proposed for registered AIFMs that need to become authorised. As such, firms may wish to begin assessing how they would be classified under the proposed Small, Medium or Large AIFM framework, whether any currently registered entities would require authorisation, how their reporting processes would transition from the Annex IV reporting to FRAME, and whether existing governance policies would need updating or could be simplified. CIS operators will need to review and, where necessary, vary their FCA permissions to permit them to manage an AIF, while firms that already manage AIFs may need to review their portfolios and notify the FCA of any new AIFs under management. Firms that currently submit the Annex IV reports or other existing FCA returns are likely to need to update their reporting systems and internal controls to accommodate the new FRAME reporting templates and data model in due course. The consultation period with respect to the Remuneration Consultation has now closed, with a policy statement anticipated in Q1 2027. The new remuneration code would apply to performance periods beginning on or after commencement, and to AIFMs in two stages, aligned with the AIFMR Reform. In terms of reporting, firms should identify which existing FCA reporting obligations would be replaced by FRAME, consider how their current reporting systems map to the proposed data requirements, and monitor the consultation as the FCA finalises the reporting framework and implementation timetable. Consultation responses are due by 22 October 2026.

FOR MORE INFORMATION

For further information, please contact the authors below or your usual Weil contact.



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