HM Treasury

Draft Regulations for Alternative Investment Fund Managers

Policy Note

July 2026

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Chapter 1
Context

1.1 When the United Kingdom (UK) left the European Union (EU), the body of EU legislation that applied directly in the UK at the point of exit was transferred onto the UK statute book by the European Union Withdrawal Act 2018. Alongside EU-derived domestic law, this is collectively known as assimilated law.

1.2 The Financial Services and Markets Act 2023 (FSMA 2023) repeals assimilated law relating to financial services, subject to commencement. This enables the Government to deliver tailored and proportionate reform to financial services legislation. Assimilated law will be repealed and replaced with rules set by the independent financial services regulators, operating within a framework set by Government and Parliament.

1.3 As well as setting the UK regulatory framework for financial services, legislation also governs how the UK interacts with financial services regimes in overseas jurisdictions. Where relevant, legislation that covers overseas regimes will enable the Government to recognise the regulatory approach of an overseas jurisdiction for specific purposes.

Chapter 2
Purpose

2.1 The note sets out the policy background for the regulation of Alternative Investment Fund managers, a summary of the policy intent, how this is achieved by the statutory instrument (SI), and how to comment on the instrument.

2.2 The Government is publishing a draft version of this SI, alongside this explanatory policy note. It is being published for technical checks, such as any significant errors or oversights in the legal drafting that would mean that the instrument would not achieve the desired outcomes explained in this note, or that would lead to significant unintended consequences.

2.3 The draft instrument is still in development. The policy approach in this area is broadly settled, but the drafting approach and other technical aspects of the proposal may change before the final instrument is laid before Parliament.

2.4 The Government welcomes any technical comments on the draft instrument by 14 October 2026.

Chapter 3
Policy Background

What did any law do before the changes made by this instrument?

3.1 The Alternative Investment Fund Managers Directive (AIFMD) (Directive 2011/61/EU) was introduced in 2011 in the EU with the aim of harmonising the regulatory framework for funds and fund managers not already in scope of EU regulation. The AIFMD was established in the aftermath of the 2008 global financial crisis, which underlined how the activities of Alternative Investment Fund Managers (AIFMs) may serve to spread or amplify risks through the financial system.

3.2 The EU Directive therefore aimed to establish common requirements governing the authorisation and supervision of AIFMs to provide a coherent approach to the related risks and their impact on investors and markets in the EU.

3.3 The firms captured by the Directive included managers of hedge funds, private equity funds, investment companies, real estate funds, and some retail investment funds. The AIFMD also included requirements for firms acting as depositaries of Alternative Investment Funds (AIFs).

3.4 The AIFMD was implemented in the UK in 2013 via a combination of the Alternative Investment Fund Managers Regulations 2013 (AIFMR), EU Delegated Regulations (Level 2 Regulations), and Financial Conduct Authority (FCA) rules and guidance, in particular the Investment Funds sourcebook of the FCA Handbook. Post-Brexit, the European Union (Withdrawal) Act 2018 transposed EU law that was formerly directly effective in the UK (Level 2 Regulations) into UK law.

3.5 The AIFMR remains one of the key pieces of assimilated law governing the asset management sector, setting the regulatory framework for alternative investment funds, and prescribing a range of obligations, including the need for depositaries, conditions for performing external valuation of funds, and financial stability-related restrictions on leverage.

3.6 Although the AIFMR is generally well-regarded by industry participants, there are areas which can be brought up to date and streamlined, while maintaining financial stability and consumer protection.

3.7 As part of the Financial Services Growth and Competitiveness Strategy, the Government set out its core objectives for seizing the priority growth opportunity of asset management and wholesale services. One of those objectives was to reinforce the UK's status as a world leader for managing private markets assets, leveraging the UK's position as a leading global venture capital, private equity and private debt centre, as well as the distinctive advantages of our homegrown investment companies sector. To achieve this, the Government committed to commence the repeal of the Alternative Investment Fund Managers Regulations 2013, such that the firm facing requirements can be replaced with FCA rules.

Chapter 4

Summary of Statutory Instrument

What does the draft policy instrument do?

4.1 Under the FSMA model, Parliament, through legislation, sets the overall approach to financial services regulation including the regulators' objectives. Parliament also establishes the parameters within which HMT sets the 'regulatory perimeter' through secondary legislation, specifying which financial services activities should be regulated.

4.2 The proposed provisions in this draft Statutory Instrument (SI) make use of the powers of FSMA 2023. They are intended to replace those provisions contained in the assimilated law relating to the management of AIFs, once the repeal of this law is commenced.

4.3 The assimilated law that concerns the management of AIFs being replaced by this instrument includes:

- The Alternative Investment Fund Managers Regulations 2013
- Commission Delegated Regulation (EU) No 231/2013
- Commission Delegated Regulation (EU) No 694/2014
- Commission Delegated Regulation (EU) No 447/2013

4.4 The draft instrument proposes the establishment of a new legislative framework for the regulation of managers of AIFs. While some of the former regulations will be restated to maintain the overall framework for AIFM regulation, the Government is also proposing to tailor many of the remaining regulations to UK markets. Most of the firm facing requirements will not be restated in legislation, and the FCA will be empowered to put in place rules to create a new AIFM regime.

4.5 The FCA's first consultation papers on its proposed rules have been launched alongside the publication of this draft legislation. Following consultation, regulators will draft the rules that will apply, where it is appropriate that those provisions are replaced. The requirements in this instrument will come into force at the same time as the replacement FCA rules, ensuring there is no gap in regulation between the two regimes.

4.6 This instrument reforms the AIFMR by removing unnecessary and overly burdensome requirements and allowing the FCA to make rules to deliver a proportionate regime which will address the commonly recognised issues with the existing frameworks. With the FCA responsible for more firm facing rules, AIFMs and consumers will benefit from more agile, tailored rule-making that is better suited to UK markets. These reforms aim to incentivise firms to grow and make it easier to conduct business in the UK.

What will change?

4.7 In summary this instrument primarily uses powers under Section 4 of FSMA 2023 to:

- Remove most firm-facing requirements to allow new tailored requirements to sit in FCA rules.
- Clarify the definition of an AIF.
- Reform the registration regime, requiring property collective investment schemes to become authorised, while maintaining the regime for SEF and RVECA fund managers ahead of a wider reform of Venture Capital Regulation.
- Exempt small internally managed investment companies who meet certain conditions.
- Remove the thresholds at which firms are subject to significantly more requirements, which currently sit in legislation. This will allow the FCA to create a more proportionate regime, with requirements increasing incrementally as firms grow, and only the largest firms being subject to the most prescriptive rules akin to the current full-scope AIFM regime.
- Maintain the National Private Placement Regime for overseas AIFMs and AIFs while providing the FCA with additional powers to reform reporting requirements for domestic and overseas funds operating in the UK.
- Simplify private equity portfolio company disclosures.
- Make other minor changes to rationalise the regime with how the market functions.

Definitions

4.8 This instrument clarifies the definition of an AIF reflecting some of what was previously in FCA guidance, in order to make it clearer when a firm is managing a fund that is an AIF and therefore must be authorised as an AIFM, and with the permissions for the regulated activity of managing an AIF. This will clarify the existing scope of the regime, and limit the opportunities for regulatory arbitrage. Notably, this instrument clarifies that what is currently called a 'defined investment policy' can be implicit, and that the 'raising capital' criterion should not just apply to funds actively raising capital in the present moment.

4.9 Under AIFMR certain entities are listed as being excluded from being considered an AIF or an AIFM. The Government proposes to largely restate those entities which are currently excluded as well as to take a power to enable the Government to more easily update the AIF and AIFM exclusion lists in future.

4.10 Following feedback from industry, the Government has not made a broad-base exemption from this regulation for listed closed-ended investment companies, recognising that unwinding the overall regulatory framework, along with the contractual, legal and operational functions of the investment company and the AIFM, would create significant costs and market disruption. The market has adapted and evolved to incorporate the relevant requirements of the regime, and these are now well understood by market participants. Alongside this instrument the FCA is publishing its proposals to significantly streamline the rules applying to investment companies admitted to trading on UK regulated or recognised markets, further detail of which is in its consultation.

Registration Regime

4.11 AIFMD required EU Member States to establish a registration regime for AIFMs falling below a threshold of assets under management. The "small" AIFM threshold was set at €100m of assets under management for a leveraged AIF, or €500m for an unleveraged AIF. The small registered regime applies to three categories of sub-threshold AIFM and exempts them from the requirement to seek FCA authorisation when managing certain AIFs. This regime adds significant complexity and risks misleading consumers on the level of protection they are afforded, and the requirements firms are subject to.

4.12 This instrument therefore removes the AIFM registration regime for all AIFMs except those managing Registered Venture Capital Funds (RVECA) and Social Enterprise Funds (SEF). The Government will consider the regulatory approach to RVECA and SEF managers in due course, as part of a review of venture capital expected in 2028, including whether a registration regime remains appropriate for these fund managers. This means that unauthorised property fund managers and those internally managed AIFMs outside the new exemption described in paragraph 4.14 will need to become authorised under the new regime.

4.13 Unauthorised Property Collective Investment Schemes are funds which are not FCA-authorised, mostly invest in land, and also qualify for the small registered regime. Prior to the AIFMD, the Investment Managers for these schemes were not FCA-authorised because property is not a 'specified investment' under FSMA. In the time since these regulations were introduced, it has become clear there are some consumer protection risks arising from these funds. Furthermore, there is no evidence that these funds operate differently to other unauthorised fund types holding non-specified investments, which are subject to the AIFMR.

4.14 Following stakeholder feedback, the Government has provided an exemption for internally managed listed closed-ended investment companies (LCICs) that are below the current small AIFM thresholds (i.e., those currently eligible for the small registered regime) from the AIFM regime entirely. To qualify for the exemption, funds must be admitted to trading on a UK multilateral trading facility, or a UK recognised investment exchange. In practice, these closed-ended funds trade on the London Stock Exchange Main Market or Specialist Funds Segment, the Alternative Investment Market, or Aquis Stock Exchange.

4.15 To maintain the regulatory perimeter, it is necessary for this instrument to restate the Assets Under Management calculation methodology from the level 2 regulation. This calculation will only be used to determine the perimeter for the regulatory perimeter as it relates to small registered SEF and RVECA funds, and exempt LCICs.

4.16 The Government has heard from stakeholders about the importance of addressing barriers to entry for the smallest asset managers, and that some in industry consider that there should be a new regime to support asset managers starting new funds, where they raise money from institutional investors. The Government intends to consider this matter further, as part of its reforms for venture capital fund managers.

Size Thresholds

4.17 This instrument removes size thresholds from legislation (other than for exempt and registered AIFMs as set out above). This will allow the FCA to create a more proportionate and dynamic regime in its rules, with regulatory requirements increasing incrementally as firms grow, and only the largest firms being subject to the most prescriptive rules. Further detail on the new proposed calculation methodology, and the operation of the new thresholds, can be found in the FCA's consultation paper.

4.18 Removing the definition of a 'full scope' AIFM from legislation has required several changes across the AIFMR to rationalise the application of the new regime. This approach was broadly supported by respondents to our consultation in April last year. There will also be several consequential changes to legislation as a result of this (see paragraph 4.32)

Market Access and Reporting

4.19 This instrument makes minimal changes to the National Private Placement Regime (NPPR) for UK and third country AIFMs marketing certain AIFs in the UK, a position which received broad support at consultation.

4.20 The AIFM Regulations contain a number of provisions relating to Gibraltar based AIFs being marketed and Gibraltar based AIFMs marketing into the UK. In most cases, the effect of the legislative changes in this instrument is to maintain the status of Gibraltar based firms in the AIFMR and NPPR regimes, ahead of the implementation of the Gibraltar Access Regime (GAR) which is intended to be the permanent legislative framework governing financial services market access between the UK and Gibraltar.

4.21 This instrument also implements a simplified process for the FCA to suspend and revoke permission to market under certain grounds, making the process and expectations of firms significantly clearer for firms, while also enabling the FCA to take action against firms who are not complying with the rules.

4.22 For authorised UK AIFMs, this instrument specifies that rather than needing to seek permission to market a UK AIF, the AIFM must simply notify the FCA, significantly streamlining the process where AIFMs are already subject to FCA rules and authorisations. AIFMR allowed Gibraltar AIFMs not relying on passporting rights to apply for authorisation to market to retail investors. HM Treasury understands that at present no Gibraltar AIFMs rely on authorisation in this way, and therefore HM Treasury proposes to remove this feature via this instrument.

4.23 Following feedback to the consultation in April 2025 the Government has decided to remove the requirement to notify the FCA a full 20 days prior to marketing a fund. Respondents to that consultation agreed these notifications are unnecessary, and so they are not being replaced in the new SI.

4.24 More broadly, the draft instrument replaces most of the AIFMD regulatory reporting requirements from the face of legislation with rule making powers for the FCA in relation to AIFs and AIFMs in the UK, those using the NPPR, Overseas Funds Regime, and Section 272 of FSMA. This will enable the FCA to reform reporting requirements to establish a simplified, coherent reporting regime for all asset managers. The FCA has launched a consultation on Fund Reporting for Asset Management Entities (FRAME) alongside this draft SI.

4.25 In addition to reforming regulatory reporting for AIFs marketing through the NPPR, this instrument makes provision for the FCA to maintain a public register, or registers, of AIFs notified under the NPPR, as well as those who have had their entitlement to market suspended or revoked. This will assist investors or potential investors when making investment decisions, and is consistent with the FCA's broader powers over authorised funds, as well as with overseas funds marketing through the Overseas Funds Regime or through section 272 of FSMA.

4.26 Part Five of the AIFM Regulations 2013 relates entirely to AIFs taking large shareholdings of companies. The regulations aimed to ensure fund managers are transparent in building stakes in unlisted companies, and ensure employees are kept informed of company takeovers. Questions have been raised by stakeholders over whether these disclosures are valuable to investors and employees, nevertheless the Government has not seen sufficient evidence that would justify total removal at this stage and the instrument therefore retains most of these regulations. However, the Government is satisfied that the requirement for AIFMs to notify the FCA of their control of voting rights in a portfolio company at regular intervals is unnecessary and burdensome, given that the FCA has no means to use this data. The instrument therefore removes this requirement.

Delegation

4.27 AIFMs are able to delegate or outsource certain functions to external providers. Currently, the AIFMR requires AIFMs to obtain approval from the FCA if they choose to delegate investment management functions (risk management and portfolio management) to an unauthorised entity. The instrument maintains the requirement that AIFMs remain liable to the AIF and its investors when functions have been delegated, but removes the majority of the remaining requirements from the face of legislation, to enable to the FCA to replace these with appropriate rules. The FCA has published further detail on its proposed delegation and delegation reporting requirements.

Depositaries

4.28 This instrument restates the existing regulations around depositary liability, and maintains the requirement that a UK AIFM marketing a non-UK AIF in the UK must appoint one or more entities to carry out the depositary functions. The FCA has published further details on its proposed approach to depositaries as part of its consultation.

External Valuers

4.29 Under the existing regulations, managers of AIFs may choose to appoint an outside firm to value the investments in a fund and calculate its net asset value (NAV). The legislation refers to these firms as 'external valuers.' Having an independent third-party valuer with professional expertise can benefit fund investors. The legislation places unlimited liability onto an external valuer for any losses caused by the valuer being negligent or intentionally failing to perform its tasks.

4.30 In our consultation in April 2025, we proposed reviewing the unlimited liability provisions. Respondents were near unanimous that the risk to firms from having unlimited liability has prevented the market for external valuers from developing. They argued that the legislative provision should be removed. So, the Government proposes to remove this requirement from legislation. In its consultation, the FCA provides further details on its proposed rules around valuation and the use of third-party valuers.

Impact on wider legislation

4.31 In 2023 the Government consulted on draft legislation to repeal and replace the UK Money Market Fund Regulation, and, in May 2026, confirmed its intention to lay legislation by Q4 2026 to put in place a new regime for Money Market Funds (MMFs), subject to parliamentary time and approval. The current AIFM regulations make provision for an MMF to apply for authorisation under MMFR, without needing to be authorised as a collective investment scheme. Given the wider reform, this authorisation route will no longer be required, and has not been restated.

4.32 This instrument does not restate the provisions of level 2 regulation so, upon commencement, the current legislation which sets out prescriptive remuneration requirements for AIFMs (and some MiFID firms) will be removed and the FCA will be given powers in the new legislation to institute a replacement remuneration regime for solo-regulated firms which will be simpler and more flexible.

4.33 This draft instrument does not include the consequential amendments which will be required across financial services legislation. In general, the Government intends to remove references to “full-scope AIFM” from legislation, in line with its approach to the wider AIFMR, and will maintain where possible the application of broader legislation. Under the proposed SI, exempt AIFMs will still be required to comply with requirements in legislation which are not AIFMR-derived where they are undertaking the relevant activity, such as securitisations. This maintains the existing position in legislation, where such requirements applied to them by virtue of being small registered AIFMs.

Placeholders in the Draft Statutory Instrument

4.34 This draft instrument does not include transitional provisions for the implementation of this legislation. The Government understands concerns from industry that the transition to the new regime should allow firms sufficient time to adapt to the new framework and will determine the appropriate transitional arrangements in the run up to the new regime being in force in 2028. HMT expects to allow reasonable time and is working with the FCA on an efficient authorisation route for those firms that will enter the regulatory perimeter.

4.35 This instrument contains a number of placeholder references to the FCA Handbook of rules. The FCA will be consulting on these rules alongside this SI, allowing us to refer to specific rules in the final legislation where appropriate.

Chapter 5

Stakeholders and Contact

5.1 In April 2025 the Government consulted on its proposals to make the UK a more attractive place to manage alternative investment funds. The consultation received broad support from industry, with the majority of respondents agreeing with the overall approach to move towards a more streamlined regime, as well as some of the specific requirements being removed from the face of legislation. The Government received mixed responses to its proposals to change the perimeter for small, registered firms, and we have taken on board that feedback in developing this SI.

5.1.1 This consultation is accompanied by several FCA consultations, which will outline what they propose their rules will look like under this new regime. Those consultations are:

- CP 26/28: The UK AIFM Regime
- CP26/26: Fund Reporting for Asset Management Entities (FRAME)
- CP26/27: Remuneration: Solo-regulated firms' rules reform

5.2 While the policy approach set out above is settled; specific drafting and several discrete elements remain in development.

Comments on this SI

5.3 HM Treasury will consider technical comments on this draft statutory instrument, focused on any changes that need to be made to this draft instrument to achieve the policy intent set out in this policy note.

5.4 Any comments should be provided to AIFMR@hmtreasury.gov.uk by 14 October 2026.

Processing of personal data

5.5 This section sets out how we will use your personal data and explains your relevant rights under the UK General Data Protection Regulation (UK GDPR).

Data subjects

5.6 The personal data we will collect relates to individuals responding to this call for evidence. Responses will come from a wide group of stakeholders with knowledge of a particular issue.

The personal data we collect

5.7 The personal data will be collected through email submissions and are likely to include respondents' names, email addresses, their job titles, and employers as well as their opinions.

How we will use the personal data

5.8 This personal data will only be processed for the purpose of obtaining opinions about government policies, proposals, or an issue of public interest. Processing of this personal data is necessary to help us understand who has responded to the consultation and, in some cases, contact certain respondents to discuss their response. Consultation responses will be used to consider any appropriate amendments to the draft legislation.

Lawful basis for processing the personal data

5.9 The lawful basis we are relying on to process the personal data is Article 6(1)(e) of the UK GDPR; processing is necessary for the performance of a task we are carrying out in the public interest. This task is consulting on the continued development of the draft SI.

Who will have access to the personal data

5.10 The personal data will only be made available to those with a legitimate business need to see it as part of the consultation process. There is no intention to share personal data collected during this consultation with any other data controllers.

5.11 As the personal data is stored on our IT infrastructure, it will be accessible to our IT service providers. They will only process this personal data for our purposes and in fulfilment with the contractual obligations they have with us.

How long we hold the personal data for

5.12 We will retain personal data contained within consultation responses until work on the consultation is complete and no longer needed.

Your data protection rights

5.13 You have the right to:

- request information about how we process your personal data and request a copy of it
- object to the processing of your personal data
- request that any inaccuracies in your personal data are rectified without delay
- request that your personal data are erased if there is no longer a justification for them to be processed
- complain to the Information Commissioner's Office if you are unhappy with the way in which we have processed your personal data

How to submit a data subject access request (DSAR)

5.14 To request access to your personal data that HM Treasury holds, please email: dsar@hmtreasury.gov.uk

Complaints

5.15 If you have concerns about Treasury's use of your personal data, please contact our Data Protection Officer (DPO) in the first instance at: privacy@hmtreasury.gov.uk

5.16 If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner at casework@ico.org.ukor via this website: https://ico.org.uk/make-a-complaint.

Chapter 6
Next Steps

6.1 HM Treasury will consider the responses and set out a timeline for laying this statutory instrument once responses have been received and considered, we expect to lay the legislation in early 2027, subject to parliamentary time.

6.2 This legislation will commence at the same time as the FCA makes new rules.

HM Treasury contacts

This document can be downloaded from www.gov.uk

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