

20 October 2026

Asset Management & Funds Policy Team

Financial Conduct Authority
12 Endeavour Square
London E20 1JN

Submitted by e-mail to: cp26-28@fca.org.uk

Dear Asset Management & Funds Policy team,

CFA UK letter in response to FCA's CP26/28 UK AIFM Regime – Discussion Chapters**

We are pleased to respond to this follow up to DP23/2 and the 2025 Call for Input, on both of which we have provided feedback.

Our answers to the questions, at Appendix 1, draw to an extent on our response to the Call for Input¹.

As previously, we have limited responses largely areas of **investments and disclosure**, as other responders will be better qualified to cover other aspects.

BACKGROUND TO OUR COMMENTS

We **support simplification proposals and a shift towards more principle based regulation**, in particular for funds not marketed to retail investors.

In our previous response we highlighted the dual/multiple regulation issue, recommended the following, and accordingly support most of the updated proposals:

- *“a more significant overhaul of the framework to ensure that the issue of dual regulation is properly addressed, with fund regulation trimmed back to only the essential aspects”.*

The threshold related and implementation time frame proposals are proportionate and **address our previously voiced “cliff edge” concerns**.

The proposals are also likely to support small fund innovation and growth.

¹ [cfa-uk--cfai-letter-in-response-to-fcas-call-for-input-on-alternative-fund-regulation--9th-june-2025.pdf](#)

KEY CONCERNS AND RECOMMENDATIONS

However, there are also areas where we feel the proposals go too far for proportionality, by adversely impacting transparency and investment governance.

For example:

1. We **disagree with the proposals relating to full flexibility on leverage calculation methodology** and do not see merit in removing well established frameworks that ensure consistency and credibility allowing a free for all. The existing disciplines support comparability, international alignment and reduce ambiguity. Rather than removing these methodologies, the FCA should engage with the industry and experts to seek improvements to the methodologies where required .
2. We **do not support the removal of all liquidity management aspects** for unlevered closed ended fund as investors are likely to benefit from retaining the important processes of ongoing assessment, risk management and governance of underlying assets liquidity.
3. In instances where **a residual CIS operator markets to retail investors, we recommend that an enhanced regulatory framework is applied**, including the Consumer Duty, SMCR and conflicts of interest management.
4. In relation to thresholds, we continue to believe that **NAV based boundaries should be supplemented** by explicit consideration of the nature of the client (retail or professional or counterparty only) and the degree of fund/firm complexity to focus on substance and impact rather than the single size metric.
5. Regarding valuation, we feel that alongside proportionality the baseline rules that apply to small AFM's should include a requirement to **document a comprehensive (Board approved) valuation policy**. This would ensure a degree of governance, robustness, independence and integrity is inherent in any valuation process.
6. We **do not see a material benefit of introducing a new AIFM annual summary**, as flexibility of content does not justify adding this complexity to the framework.
7. In the areas of scope of **delegation and clarification of Board v AIFM responsibilities, we feel that further work is required** as simple rule clarification under one regime may not suffice.

Overall, we support process and prescription simplification, provided they do not reduce retail investor protection and do not materially dilute the regulatory standards that the UK funds industry is known for globally.

We hope our comments are useful and would be grateful for the opportunity to meet and discuss our feedback.

We consent to our name and response being published.

Yours sincerely,

CFA Society of the United Kingdom

Nick Bartlett

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With thanks for their contributions to our volunteers: Chris Bamberry, CFA and the oversight of CFA UK's Ethics & Professionalism Steering Committee.

APPENDIX 1

RESPONSES TO QUESTIONS

Question 1: Do you agree with our proposed size calculation, i.e. the aggregate NAV of all CIS and non-CIS AIFs and non-AIF CIS, managed by the AIFM?

We support the three tier approach and the aggregate NAV based calculation methodology, as it ensures no unintended leakages in the size based regime through group structures or other arrangements.

We however reiterate our previous **recommendation to incorporate explicit consideration of the nature of the client (retail or professional or counterparty only) and the degree of fund/firm complexity**, to focus on substance and impact rather than just the single size metric.

It should also be stressed that having relaxed the threshold levels proportionately, adherence to the thresholds should be stringent and considered an important compliance requirement.

Question 2: Do our proposals for firms moving between thresholds, including SUP15 notifications and a delayed application of new rules, remove the cliff edge effects in the current regime?

In our previous response we had **called for a “smoother gradient between growth stages”** to mitigate a cliff edge effect, and accordingly support the proposals in this consultation.

Question 3: Do you foresee any challenges and practical issues because of the Treasury’s clarification of the definition of an AIF, and the potential for some non-AIF CISs to be reclassified as AIFs?

We do not foresee material challenges, as:

- Definition clarity will likely **encompass current non-AIF CIS’s that already undertake investment management or are marketed to retail investors**, and should ideally fall within the AIF regime. They should be prepared to achieve compliance with it, notwithstanding the implementation effort.
- For those that remain residual CIS operators, **the requirements on reporting and disclosure** should provide a smoother runway to potentially being classified as AIFs in the future.

Question 4: Do you think that the SYSC and COBS rules that currently serve as guidance should be applied as rules to residual CIS operators? Please explain why or why not. Are there any other rules that you think we should consider applying to residual CIS operators?

We support the application of core FCA principles of SYSC and COBS to residual CIS operators, given that AIF rules do not apply to these operators.

However, **were a residual CIS operator to invite retail investors, we recommend that an enhanced regulatory framework is applied**, of which investor disclosure has already been covered by you, but should potentially also include the Consumer Duty, SMCR and conflicts of interest management.

Question 5: Do you have any comments on our proposal to apply enhanced investor disclosure requirements to some categories of residual CIS?

We support the proposed disclosure regime for residual CIS's that are marketed to retail investors, as we see **no basis to dilute investor protection for consumers only on the basis of the type** of residual CIS.

Question 6: Should AIFMs only appoint an independent valuer subject to certain conditions? If so, do you agree with the conditions that we have proposed?

We agree with the expectations around **independence and competency** of independent valuers, while noting your proposal to remove mandatory appointment.

Question 7: Do the baseline rules we propose represent an appropriate standard to set for all AIFMs?

We agree with the baseline rules, but are concerned that these may be viewed as flexible guidance or a vague expectation.

Hence, we recommend that **all AIFM's regardless of size, should be required to document a comprehensive (Board approved) Valuation Policy** that includes:

- A robust process, especially with regard to harder to value assets
- Sufficient validation steps
- Demonstration of fair value
- Independence, even if performed completely internally by the firm

Question 8: Should we remove the gross and/or commitment method calculations or would you prefer the regime to retain an adjusted version of the calculations?

Question 9: Does a hedging exemption for closed-ended AIFs that use leverage only for hedging purposes work well to tailor our risk management and liquidity rules? If so, how should hedging be defined?

Question 10: Should we allow AIFs to undertake a de minimis level of leverage (for investment purposes)? If so, how should the de minimis level be calculated? What is the appropriate threshold?

We do not support the removal of the gross and commitment methods.

Leverage is a complex area with material potential risk and impact at both an investor level and a systemic market level. The gross and commitment methods are established calculations with slightly different purposes that the industry has been navigating for many years with well embedded processes and practices. The existing disciplines support comparability, international alignment and reduce ambiguity.

We question the rationale for dismantling the ability to objectively and consistently measure the degree of leverage, without which regulation of the activity will not be feasible. A degree of complexity, which is to be expected in any such process, should not be taken as a reason for fundamental change. Rather than removing these methodologies, the FCA should engage with the industry and experts to seek improvements to the methodologies where required.

However, alongside the above,

- **We support a reasonable exemption (the details of which will need more work) for pure hedging activity that results in reducing risk.** While a number of definitions exist, the focus of the chosen definition should be on the reduction of risk, while allowing flexibility on the means of using leverage.
- **Also support a de minimis exemption for leverage for investment purposes,** on the grounds of reducing complexity when the impact is not material.

We also have no objection to the proposals on a simple value approach that supports comparability, rather than customising to the type of derivative.

Question 11: Can you foresee any benefits or challenges in allowing firms to disclose to a fund's investors a leverage method that is best suited to the AIF?

We **support explaining the purpose of leverage and its intended** scope in the interest of investor understanding. This however can only work if accompanied by a consistent and standards based approach to calculation of the degree of leverage.

As mentioned in the previous answer, removing either or both of the established calculation methods is not consistent with this.

Having an array of calculation methods and explanations that differ across firms will not be in investor interest.

Question 12: Should all AIFMs be subject to baseline standards, with additional requirements applying according to the type of AIF managed and the size of the firm? If not, what alternative approach would you suggest?

Question 13: Should firms managing only closed-ended, unleveraged AIFs be subject only to baseline risk management requirements? If not, what alternative approach would better reflect the risks posed by those firms?

We agree all AIFM's including smaller firms should adhere to baseline standards and these can suffice of unleveraged closed ended funds.

However, **we find the baseline standard proposed, of simply research and due diligence, to be insufficient.**

The baseline should necessarily also include:

- The requirement to have a **risk management policy** in place. The existence of leverage is not the only area that benefits from risk management, even if the risk function were to sit within 1st line and be less independent.
- An expectation of reasonable and regular **assurance activities to test controls and governance** of risk management and regular policy review

Question 14: Should the largest firms should remain subject to a more detailed framework that preserves the substantive standards of the current regime, while simplifying the drafting where possible? If not, why not?

Yes, the largest firms should be held to high standards of disclosure, diligence, risk management and governance given their material role in investor impact and systemic risk.

We also support **reduction of process and prescriptive rules** where possible, in favour of simplification of regulation to make it more effective rather than a box ticking exercise.

Question 15: Should small AIFMs be required to comply with new, simplified liquidity risk management rules?

We agree that this sets a baseline that all AIFMs should comply with, which balances investor protection with the regulatory compliance effort required of small funds.

On the subject to liquidity more broadly, we **do not support the removal of all liquidity management aspects for unlevered closed ended funds**. While market tradability provides the liquidity route for these funds, we recommend that liquidity disclosure and proportionate liquidity monitoring should be expected from these funds as well.

For example, exclusion of stress testing is appropriate but **the absence of MI on liquidity and related governance and controls, is not.**

This approach is both to inform investors of the liquidity and nature of underlying assets and to ensure that ongoing fund management remains cognizant of measuring and monitoring liquidity as an important part of ensuring alignment with its own objectives, readiness for investor disclosure and wind up planning.

Question 16: We propose that medium and large UK AIFMs of open-ended AIFs that invest in other open-ended funds should be required to 'look through' to the portfolio of those other funds to better assess the liquidity risk. Can you foresee any issues that we should be aware of?

We **support the look through principle**, which is already followed by most major asset managers and provides a better sense of liquidity rather than simply classifying a holding of a daily dealing fund as liquid.

We recognise that in many cases the underlying fund may provide daily liquidity despite holding some less liquid assets, but this should not form the basis of assessing and monitoring liquidity, and the look through approach is more conservative and in line with assessing the impact of market illiquidity scenarios. It is however possible that in some cases the underlying liquidity may be masked by the fund limiting redemptions for other reasons, and therefore ideally both look through and non-look through liquidity profiles are required for a fuller picture.

Question 17: Are there any rules that are unnecessary for medium AIFMs or areas in which medium AIFMs should not be subject to the same level of prescription as large AIFMs?

AIFM operators will be better positioned to comment on this.

Question 18: Do you have any comments on our general approach to delegation?
Question 19: Do you agree with our proposals on delegation of investment management activities to entities that are not authorised or supervised for that activity?

The proposals as explained in the consultation are not that clear.

We have **concerns that trying to narrow the scope of such a broad and sweeping area that is constantly evolving (e.g. due to technology developments), runs the risk of creating inadvertent loopholes or gaps** in the regulatory perimeter. We recommend further consideration to a regime that simplifies the framework, rather than defining exclusions narrowly.

With regard to the framing of the current proposals, we **recommend that “risk management” is explicitly added** to investment management and additional core functions for greater controls.

Question 20: Do you agree with the proposed changes to the requirements applying to an AIF’s annual report? If not, please explain.

We broadly **support the proposals, which move from being prescriptive to more principles based**, without apparently impairing decision useful information for investors.

Similarly, related proposals such as the greater flexibility on content, simplification of remuneration disclosure and provision of regulatory reports to the FCA are supported on the same basis.

Question 21: What are your views on requiring small UK AIFMs and certain operators of residual CISs to prepare an annual summary for its investors?

We **do not see a material benefit of introducing an annual summary into AIFM annual reporting framework**, an altogether new concept that potentially increases complexity for firms and confusion for investors.

The annual reports for small AIFMs and in-scope residual CIS will in any case include financial information prepared as per accounting standards, core information and material changes information, so the new format benefit for firms could be limited. Further, your proposals already emphasise greater content flexibility that small AIFMs and in-scope residual CIS's can proportionately benefit from.

At most the only distinction in the regulatory framework for small AIFMs and in-scope residual CIS's could be to remove the requirement for the annual report to be audited.

Question 22: Have we struck the right balance between removing prescription from the disclosures to professional investors and ensuring that those investors can access the information they need? Are there areas of the rules that could be made more or less prescriptive?

We have no objection to a principles based approach to professional investors, while ensuring they continue to receive the **minimum required decision useful information such as on costs, risks, performance and any material developments** on an ongoing basis.

Professional investors should not be assumed to be sophisticated on investment matters, and are due a degree of transparency and disclosure, albeit less than retail and notwithstanding their ability to ask for more if required. This must include at a minimum: upfront and ongoing charges, liquidity profile, and historical performance.

We therefore **do not support the removal of historic performance disclosure** and **recommend not considering any further dilution to the proposals** as they may stray into unfair treatment of professional clients.

Question 23: Do you agree with our approach for AIFM retail disclosures? Do you think it is proportionate to the risks posed by these products?

Question 24: Do you agree with our proposal to disapply the COBS 16.3 periodic reporting rules and rely on our proposed disclosure rules instead?

As far as we understand the proposals, **the regime for retail disclosure remains largely unchanged**, for example PROM and frequency of disclosure and relatively more prescriptive rules than those for professional investors. Your point on flexibility with regard to supplementing CCI product information is agreed.

Overall, the approach appears reasonable and sufficiently protective of retail investors, given the expectation that their participation in different types of AIFM vehicles such as private equity and hedge funds will increase over time.

Question 25: Have we adequately taken account of the differences between the company board and the AIFM and reflected the split of responsibilities in the AIFM rules?

We support clarifying the respective responsibilities of the Board and the AIFM to avoid overlaps and ambiguity.

However, it is **not clear whether the proposed rules address this satisfactorily or are too simplistic** and require further legal work. For example,

- The AIFM is responsible for day to day operations, but does the Board remain ultimately accountable?
- While sub-delegation of its responsibilities may be carried out by the AIFM, should delegation of any primary functions not be the responsibility of the Board?
- Amongst its wide ranging accountabilities under other regulation, would ensuring compliance with applicable regulation not be required, even if the AIFM is responsible for compliance?
- Does the clarification in any way impair the authority of the Board, for example to be able to call shareholder votes, change the AIFM etc.

Question 26: Does our proposal to disapply the AIFM investor disclosure, and reporting and notification to investor rules for closed-ended investment companies admitted to trading on a UK regulated market, fully account for equivalent outcomes that are delivered through other requirements?

We **support the proposal as it is limited to disclosure**, and other activities such as risk management and valuation will continue to adhere to the AIFM regime.

Disclosure is an area of duplicative regulation that may confuse investors with greater volume and overlaps, rather than help to understand investments and the choices available to them. Primary compliance with UKLR requirements simplifies this for firms and investors, without materially reducing decision useful information.

Questions 27 to 47 and Question 1-4 relating to CBA

Less qualified to address these questions, or were part of the September tranche.

APPENDIX II

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