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## British Government Efforts to Reform AIFM Regulations

### Introduction

The British government is actively reforming the regulatory framework for Alternative Investment Fund Managers (AIFMs) as part of its post-Brexit strategy. The consultation on the Alternative Investment Fund Managers Regulations, launched on April 7, 2025, outlines proposals to streamline regulations originally derived from the European Union's Alternative Investment Fund Managers Directive (AIFMD), aiming to reduce regulatory burdens and enhance the UK's competitiveness as a global hub for asset management.

### Background

The AIFMD, implemented in 2013, established a regulatory framework across the EU for AIFMs, covering hedge funds, private equity funds, and real estate funds. The UK adopted this framework through the AIFM Regulations 2013, including provisions for Small Authorised and Small Registered Regimes for sub-threshold AIFMs (those managing assets

below €100m or €500m for unleveraged funds, with no redemption rights for five years). Following Brexit, these EU-derived laws were retained subject to minor modification. The current consultation, conducted under the Financial Services and Markets Act 2023 (FSMA 2023), seeks to replace these with a UK-specific framework, as detailed in the consultation document ([AIFMD Consultation](#)).

### Objectives

The primary objective is to streamline the regulatory framework for AIFMs and their depositories, making it simpler and more cost-effective for asset managers to operate in the UK. This aligns with the government's broader mission to drive economic growth by channelling capital into infrastructure projects and enhancing returns for investors. The consultation emphasizes creating regulations that are proportionate and tailored to the UK market, reducing unnecessary administrative burdens while preserving core protections.



## Key Proposals and Divergences from EU Regulations

The consultation proposes several reforms that diverge from the EU's AIFMD framework, as summarized in the following table:

Proposal	Description	Divergence from EU AIFMD
<b>Three-Tiered Regulatory Approach</b>	Introduce a graduated system for AIFMs: large firms face regulations similar to current full-scope UK AIFMs, mid-tier firms have a flexible regime, and small firms adhere to baseline standards.	Replaces EU's fixed thresholds (€100m/€500m) with FCA-determined rules, avoiding "cliff-edge" regulatory shifts.
<b>Removal of Legislative Thresholds</b>	Eliminate fixed asset thresholds to allow the FCA to set proportionate rules based on firm size and activities.	Moves away from EU's rigid threshold-based system, addressing inflation and growth disincentives.
<b>FCA Authorization for Sub-Threshold Managers</b>	Require FCA authorization for managers of unauthorised property collective investment schemes and internally managed investment companies.	Increases oversight compared to EU's lighter sub-threshold regimes, enhancing consumer protection.
<b>Regulation of Listed Closed-Ended Investment Companies</b>	Retain these companies within the regulatory scope with streamlined requirements for financial stability and consumer protection.	Maintains EU-aligned protections but adjusts for UK-specific needs.
<b>Removal of Specific Requirements</b>	Consider removing the 20-day marketing notification for professional investors and private equity for acquisitions of unlisted companies.	Eliminates EU-mandated administrative processes deemed unnecessary in the UK context.
<b>External Valuer Liability</b>	Propose removing legal liability for external valuers, maintaining contractual liability to AIFMs.	Diverges from EU's stricter liability rules to encourage valuation services.
<b>Definition Adjustments</b>	Transfer definitions to the Regulated Activities Order and review restrictions on non-AIFM activities.	Simplifies EU-derived legislative structures for UK applicability.

## Implementation and Stakeholder Engagement

The consultation, closed on June 9, 2025, invited responses from asset managers, depositories, and industry associations. The FCA issued a concurrent Call for Input. Following the consultation, HM Treasury plans to publish a draft statutory instrument for further feedback, with the FCA expected to consult on detailed rules in 2026.

## Expected Outcomes

The proposed changes are expected to reduce regulatory complexity, lower operational costs for asset managers, and enhance the UK's attractiveness as a global financial hub. By empowering the FCA to set tailored rules, the reforms aim to create a more dynamic and competitive regulatory environment. The government anticipates that these changes will support the UK's asset management industry, which manages £14 trillion in assets and has grown 50% over the past decade, in driving economic growth and financing key priorities.

## Conclusion

The consultation on AIFM regulations represents a pivotal effort by the British government to move away from EU-derived regulations, replacing them with a streamlined, UK-specific framework. By addressing rigid thresholds, administrative burdens, and outdated requirements, the government seeks to foster a more efficient and competitive financial sector while ensuring robust protections for consumers and markets.



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