Response to HM Treasury Consultation: Regulations for Alternative Investment Fund Managers

Consultation

Submitted by:

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Consent Statement

I confirm that I am responding to this consultation in an individual capacity. I give my consent for my name, **Andra T. Alcalá**, to be published in any official summary of responses or related documentation issued by HM Treasury.

Andra T. Alcalá

Introduction

I am submitting this response in an individual capacity drawing on my ongoing doctoral research into regulatory governance, operational resilience, and institutional design in the UK financial sector. My perspective is shaped by qualitative research into how regulatory frameworks adapt to evolving market structures, digitalisation, and systemic risk factors.

This submission focuses on a subset of consultation questions where I can most meaningfully contribute specifically those related to proportionality, authorisation regimes, regulatory coherence, and supervisory flexibility. My aim is to support the development of a future-ready regulatory model that balances innovation, investor protection, and institutional resilience.

Q1. Do you agree that legislative thresholds should be removed to give the FCA more flexibility in designing a proportionate regime for fund managers?

Yes, I agree. Removing fixed legislative thresholds is consistent with the UK's judgment-based regulatory approach, which enables the FCA to supervise based on the nature and scale of risk rather than on rigid size criteria. Static thresholds can obscure operational and systemic risks, particularly where smaller firms engage in complex strategies or have material third-party dependencies.

Providing the FCA with discretion allows for **more risk-sensitive and adaptive oversight**, ensuring high-risk activities are not excluded from scrutiny simply due to firm classification.

This reform also strengthens system-wide resilience by expanding supervisory visibility into firms previously underregulated due to size. It enables earlier detection of governance gaps, control failures, or external dependencies that might otherwise go unnoticed.

To ensure predictability for smaller firms, it would be beneficial for the FCA to publish **clear, tiered expectations** that outline how proportionality will be applied in practice.

This reform also presents an opportunity to future-proof the regime by embedding principles-based expectations that can evolve with digital business models and novel fund structures.

Q2. Do you agree that removing the Small Registered UK AIFM regime would improve regulatory outcomes?

Yes. The Small Registered Regime limits regulatory visibility over a subset of firms that may increasingly engage in complex or higher-risk activities, particularly as investment strategies evolve and digital operational tools become more embedded. Removing the regime would help close supervisory gaps and reinforce the FCA's ability to respond proportionately to emerging risks, regardless of firm size.

This change would also support greater **regulatory coherence**, ensuring that all firms in the AIF sector are subject to a baseline of operational, governance, and reporting expectations. It simplifies the framework for both firms and regulators by reducing the fragmentation created by carve-outs.

From a resilience perspective, all firms should meet minimum standards for internal controls, third-party risk oversight, and incident response preparedness. Exempting entire classes of managers undermines this principle and creates blind spots in a risk landscape that is increasingly **technology-driven, interconnected, and volatile**.

This proposal aligns with broader post-Brexit reforms aimed at improving **regulatory agility and accountability**, without compromising supervisory coverage.

Q4. What factors should be considered in designing a proportionate regime for VC managers?

A proportionate regime for VC managers should reflect both the **economic function** of venture capital and the **operational realities** of firms that support early-stage innovation. Key factors include:

- The sector's role in financing high-growth and tech-driven businesses
- The relatively high-risk tolerance and financial sophistication of many VC investors
- The lean structures typical of early-stage VC firms, often with minimal internal infrastructure

However, these traits do not eliminate the need for **baseline governance and oversight**. VC managers should still meet standards related to operational soundness especially where they rely on third parties for valuations, data services, or portfolio analytics.

A balanced regulatory model might:

- Set **tiered governance expectations**, focusing on decision transparency and valuation oversight
- Emphasize **robust record-keeping and clear investor communications**
- Require **basic incident reporting mechanisms**, particularly for cyber or tech-related disruptions

These expectations can be designed to avoid excessive burden while reinforcing **investor confidence and systemic accountability**.

From a regulatory design perspective, the goal should be to preserve **regulatory capacity**, ensuring the FCA can respond to misconduct or operational failures, without suppressing the VC sector's entrepreneurial flexibility. This supports the UK's broader ambition to be a competitive but resilient hub for financial innovation.

Q5. Should unauthorised property funds be required to seek FCA authorisation?

Yes. Requiring FCA authorisation for unauthorised property funds would improve governance, investor protection, and system-level resilience. Given the **illiquid and retail-facing nature** of many property funds, oversight gaps pose material risks especially during market stress, where redemption suspensions or valuation lags can destabilise investor confidence and trigger wider financial contagion.

From a regulatory governance perspective, the continued operation of property funds outside the core authorisation perimeter creates **asymmetric oversight**. This introduces opportunities for regulatory arbitrage and reduces supervisory visibility, undermining the goal of proportionate but consistent risk management.

Bringing all such funds into the authorisation framework would:

- Establish a **baseline of governance and control expectations**
- Enable the FCA to monitor liquidity risk and redemption policies
- Improve access to structured data and flag risk signals earlier

It would also support **resilience principles** by reinforcing the ability of both firms and regulators to respond to shocks including those triggered by operational disruptions, outsourced valuation issues, or market-wide investor reactions.

This reform would enhance the coherence of the UK's regulatory regime and help prevent future gaps in oversight.

Q6. Should internally managed investment companies be required to become authorised?

Yes. While IMICs are structurally distinct from externally managed funds, their operational profiles in terms of asset allocation, investor exposure, and systemic interconnections, often closely mirror those of authorised AIFs.

Requiring IMICs to be authorised would establish a consistent baseline for governance, disclosure, and operational resilience across comparable risk profiles. This helps avoid regulatory arbitrage, reinforces investor protection, and strengthens regulatory coherence within the AIF framework.

From a financial stability and resilience perspective, authorisation would allow the FCA to:

- Monitor concentration risk where IMICs are embedded in larger group structures
- Track operational dependencies or liquidity mismatches that could otherwise go undetected
- Ensure incident reporting, capital adequacy, and risk oversight apply proportionally to firms whose activities impact market integrity

This change would close a potential blind spot in the current regime and support the Treasury's objective of streamlining while enhancing supervisory reach in line with actual risk exposure, not merely legal form.

Q10. Are there duplicative or inconsistent requirements within the current UK regime that should be addressed?

Yes. Stakeholders often face overlapping obligations across AIFMD, the FCA Handbook, and retained EU legislation. These duplications increase compliance complexity without always delivering proportional improvements in risk mitigation.

Common examples include:

- Multiple valuation disclosure obligations across different frameworks
- Inconsistent terminology or thresholds between fund types
- Redundant or differently timed reporting duties

Beyond creating administrative burden, this fragmentation can also **undermine operational resilience**. It raises the risk of misreporting, delayed response, or confusion in stress events particularly for firms with lean compliance teams or complex outsourced functions.

A targeted review should map and reconcile these overlaps as part of the UK's transition to a more tailored regulatory model. Streamlining would:

- Improve regulatory clarity and efficiency
- Support **regulatory agility** in future updates
- Enhance **data quality and supervisory interoperability**
- Free up compliance resources to focus on **core control and risk functions**

This reform would advance both firm-level resilience and supervisory effectiveness in a fast-evolving investment environment. Beyond operational simplicity, this also supports a future-ready regulatory infrastructure, one that can adapt more efficiently to innovations in fund structures, technology use, and cross-border supervisory coordination.

Q13. Should the current 20 working day marketing notification period be removed?

Yes, but with safeguards. The 20-day fixed pre-notification period was designed for a regulatory environment that pre-dates today's digital distribution and product iteration cycles. While it offers supervisory foresight, its rigidity can unnecessarily delay market access, especially for well-governed firms offering low-risk or repeat products.

Instead of a blanket removal, the regime could evolve toward a **tiered, risk-based approach**:

- **Low-complexity or routinely offered funds** could qualify for a shortened or post-notification window, subject to transparency and disclosure standards.
- **Higher-risk or novel offerings**, particularly those targeting retail investors, should retain a pre-notification buffer with clear FCA criteria.

This would preserve the FCA's ability to detect marketing missteps early while aligning oversight more closely with actual risk exposure. It would also strengthen operational efficiency both for firms managing fund rollouts and for supervisors processing notifications.

Importantly, this reform supports broader regulatory objectives: promoting competitiveness and innovation without eroding investor protection. As part of implementation, the FCA might consider publishing examples or thresholds to guide firm classification and compliance planning under a reformed timeline regime.

Conclusion

These proposals, taken together, reflect a welcome shift toward a more proportionate, adaptive UK regulatory framework. To fully realise their potential, it will be essential to embed operational and supervisory resilience into the design and implementation of the new regime. This includes not only right-sizing compliance expectations, but also ensuring that oversight mechanisms remain responsive to emerging risks, evolving fund structures, and digital distribution models. Doing so will help ensure that innovation is matched with accountability reinforcing the long-term stability and integrity of the UK investment ecosystem.

I would be glad to provide further input or contribute to ongoing dialogue around implementation priorities.

Kindest regards,

Andra T. Alcalá