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UK: Will UK Listed Investment Companies Continue To Be Alternative Investment Funds In 2024?

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by [Ocorian](#)

Ocorian

Baroness Altmann recently introduced her private members bill in the House of Lords calling for amendments to the Alternative Investment Fund Managers Regulation (AIFMR) including that UK-listed investment companies should no longer be classified as alternative investment funds.

In this article, [Cheryl Surgeoner](#), Head of [Depository](#) UK at Ocorian examines what this might mean for nearly a third of PLCs that are listed on UK exchanges.

Context to the AIFMR changes

Post-Brexit, the UK is reflecting upon its legislative and regulatory regime to cement the UK's position as a leading global hub for investment while adapting to its new relationship with the European Union.

In the recent Autumn Statement (November 2023), the UK Government recognised that the disclosure regime for investment companies needs review. In addition, Ashley Alder, Chair of the Financial Conduct Authority (FCA), stated in a recent speech that a key priority for the FCA was to have a focus on proportional regulation which does not place an undue burden on asset managers which can evolve and differ to that of the EU.

While the FCA have consulted on the rules for asset managers in 2023 and plan to undertake a full review of The Alternative Investment Fund Managers Directive (AIFMD) in 2024, changes to the Alternative Investment Fund Managers Regulation (AIFMR) are already being proposed.

What are the proposed changes to AIFMR?

Baroness Ros Altmann has recently introduced a private members bill in the House of Lords calling for its amendment. The core of her bill focused on reforms to reduce costly disclosures (also governed by MiFID and PRIIPs legislation where applicable); however it has also called for investment companies to be removed from the scope of AIFMR.

What does the proposed change to AIFMR mean?

Should this Private Members Bill progress to the House of Commons, closed-ended investment companies whose shares are admitted to trading on any market or venue operated by a United Kingdom recognised investment exchange would no longer be classified as alternative investment funds (AIFs).

This would see the following changes apply to UK based investment managers with investment companies in the UK:

- Enable investment managers to undertake other activities (e.g. provision of the activities and services they currently provide to the funds they manage to third parties, provided no conflict of interest exists) which currently have to be segregated from the alternative investment fund manager (AIFM) function (although this is also part of the proposed AIFMD II reforms and will be likely implemented in the future by EU jurisdictions)
- Decrease the level of reporting required to the FCA
- Remove requirements around the valuation process (although in reality, valuation procedures would still likely continue as investment companies would need to meet audit, listing rules and other reporting requirements)
- Remove the need to appoint a depositary

However, should UK investment managers market their products in Europe, they would still be required to comply with the requirements of AIFMD as enacted in each separate EU jurisdiction, especially Germany and Denmark where the AIFMD requirements are gold plated.

Who does the bill affect?

Any investment company listed on a UK recognised exchange. Currently 32% of UK PLC's are owned by Investment Managers¹.

What will the likely impact of the bill be?

Over the past number of years, the cost of compliance in the UK has significantly increased, due to the introduction of the Senior Managers and Certification Regime (SMCR) and the Consumer Duty by the FCA, to name but a few. This is especially the case when compared to other jurisdictions such as the US, where arguably higher investor protections are provided via a lower regulatory compliance burden.

This proposed change would reduce UK investment managers' regulatory burden and cost base, enabling them to return their primary focus to investor returns. For EU funds sold into the UK and UK managers marketing in other EU jurisdictions, having a two tier system would likely mean more complex requirements to ensure managers meet both UK and EU reporting standards.

With regards to the removal of a depositary service, this would dilute investor protections.

At Ocorian we believe that the appointment of an independent [depositary service](#) adds value to the fund manager and protection to the investor. As a leading provider of depositary services in the alternatives industry, the accumulated insight acquired by overseeing the actions of multiple investment managers places depositary service providers like Ocorian in a knowledgeable position. We are able to both safeguard investor interests whilst supporting investment managers, advising them on how to implement best practice approaches and ensure they have robust internal governance procedures.

When will the bill be implemented?

The road to regulatory reform is generally long due to the FCA consultation process; however, with the current level of focus it is possible that statutory instruments, such as the introduction of this Private Members Bill, could be used as a quicker way to change the legislative landscape. Watch this space.