

**MEMO# 35012**

February 24, 2023

# **FCA Publishes Discussion Paper on Updating the UK Regime for Asset Management: Comments Due May 22**

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TO: ICI Global Members

Global Regulated Funds Committee SUBJECTS: International/Global RE: FCA Publishes Discussion Paper on Updating the UK Regime for Asset Management: Comments Due May 22

On February 20, the Financial Conduct Authority (FCA) published a [discussion paper\[1\]](#) on updating and improving the regime for asset management in the United Kingdom (UK). This comes in the wake of Brexit and the introduction of the UK's Future Regulatory Framework, which gives the FCA the mandate to make changes to the current regime in order to modernize and tailor it to the needs of the UK market. FCA staff have emphasized that, while they do not intend to alter the current regime for the sake of change, they are looking to explore a range of ideas for improvements.

Responses to the discussion paper are due by May 22, 2023. ICI Global will be consulting with members to determine if we should provide a response.

## **What is the FCA Considering?**

The FCA's stated objective of reviewing its asset management regime is to modernize existing regulation to improve outcomes for UK managers and consumers, as well as to promote London as a competitive, global hub for the industry. The FCA states that it seeks to ensure that any changes that are made:

- better meet the needs of investors, both domestic and international, and retail and professional;
- enable technological development, innovation and better use of data;
- are consistent with international standards and take account of rules in other jurisdictions, so that firms can continue to operate efficiently on a global basis; and,
- are effective and proportionate, simplifying and standardizing requirements where possible.

The specific areas on which the FCA is seeking feedback are:

- Simplifying/standardizing the rules for fund managers of different types and for portfolio managers: The FCA is mainly focused on the fact that existing EU regulation varies across types of managers, leading to duplicative rules and unnecessary costs of complying with broadly similar but technically different regimes. Specific areas the FCA is looking at include core conduct rules such as general organizational requirements, conflicts of interest management and outsourcing, as well as financial stability requirements and rules around portfolio management for retail investors.
- Improving the functioning of the current asset management regime: The FCA is looking to identify areas where regulation currently isn't leading to good outcomes for investors. Specifically, it is asking for feedback on the relationship between host authorized fund managers and portfolio managers, enhancing liquidity management and amending the rules around liquidity stress testing, clarifying expectations on investment due diligence, clarifying expectations for depositories, and improving fund rules like the eligible assets regime for UCITS or the prescriptive requirements around prudent spread of risk.
- The role of technology and innovation in fund operations: The FCA is focused on ensuring firms consider how technological changes could drive competition in the interests of consumers, while also balancing consumer protection. Specifically, it is considering modernization of the way fund units are bought and sold, fund tokenization, and investing in crypto assets.
- Improving investor engagement through technology: The FCA is looking to revise the post-sale information that fund managers give investors and the wider market about the fund and its activities, and how retail investors can interact with the fund manager and make their views known. Specifically, it is considering improvements to fund prospectus requirements, rules for managers' reports and accounts, and investor engagement through unitholder meetings.

### **What are the Next Steps?**

Alongside the discussion paper, the FCA plans to engage with a wide range of stakeholders in forums and roundtables, as well as individual meetings. The FCA may also convene groups or run policy sprints to support it in considering potential options and understanding the consequences of changes as it develops specific policy proposals.

The responses to the consultation will feed into the FCA's consideration of what, if any, amendments should be made to the UK regime for funds and asset managers as it incorporates elements of the retained EU law for funds and asset managers into the FCA Handbook.

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### **Notes**

[1] The Discussion Paper is available at <https://www.fca.org.uk/publication/discussion/dp23-2.pdf>.

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