



2022 Forecast of the Future UK Funds Regime by Verena Charvet

January 2022

As is well-known, the UK Government during 2021 launched reviews of several areas of financial regulation. 2022 will see the outcomes of this work and regulatory policy take shape. It should be noted that in many areas the UK is looking to international standards rather than EU rules.

A keenly anticipated focus is a review of the UK funds regime. Many may recall that this was first announced by the UK government in the Budget 2020. Subsequently, in November 2020, the Chancellor made a statement on the UK's future approach to financial services, reiterating an intention to enhance the UK's attractiveness for asset management. Following on from this, in January 2021, the Treasury published a **Call for Input** on a review of the UK funds regime.

A key purpose of the review is to identify options which hold the potential to enhance the UK as a location to set up, manage and administer funds. The review also seeks options that will support a wider range of more efficient investments that are well devised to meet investors' needs. Specifically excluded was any review or analysis of the UK's versions of AIFMD and the UCITS Directive.

“the UK government “remains committed to the highest standards of regulation and appropriate levels of supervisory oversight and investor protection” That said...

Areas for change

It is important to recall that the Call for Input is framed with a state intention that the UK government “remains committed to the highest standards of regulation and appropriate levels of supervisory oversight and investor protection”. That said the review signifies that the UK government is

alive to the necessity to adapt and evolve the regulatory and statutory framework for funds. There is clearly a sense that the Call for Input is looking for areas of enhancement to the UK's existing fund structures and, more broadly, the funds environment. It is also clear that the review seeks to create new fund structures, to facilitate investment in long-term, illiquid assets as well as to meet the needs of alternative investment funds (AIFs) for professional investors.

One area that has attracted high level of interest is the potential for the use of authorised fund structures for certain types of professional investors (including DC pension schemes), and how potential constraints such as speed to market and the authorisation processes might be improved.

The regime for Qualified Investor Schemes (QISs) also gets a lot of focus. A number of suggestions for improvement are set out in the Call for Input, including expanding the range of QIS permitted investments to allow for loan origination and investment in a wider range of other funds, increasing the 100% cap on borrowing, and further optimising the QIS sub-fund structure.

The Call for Input also considers issues such as:

- > How to enhance the UK's reputation as a location for the creation of new funds (i.e. encouraging the "redomiciling" of existing funds), as well as proposals to enhance the UK's reputation as a location for AIFs;
- > New fund structures, including structures aimed only at professional investors; and
- > Possible enhancements to the Investment Trust Companies framework

As the Call for Input closed in April 2021, it is anticipated that in the coming year the government will consult on specific proposals, with there being a prioritisation of measures that have the greatest impact and those that can be delivered swiftly.

Finally, there is a workstream on Long Term Asset Funds (LTAFs) - also launched as part of the review of the future of the UK funds regime. In this regard, in October 2021, the FCA published final rules for new category of open-ended authorised fund designed for investing in long-term illiquid assets like venture capital, private equity, private debt, real estate and infrastructure. The LTAF is aimed at DC pension schemes, sophisticated investors and some high net worth individuals (HNWIs). The FCA's intention is to ensure that investment in long-term illiquid assets is a viable option for investors with long-term investment horizons who understand the risks.

An FCA consultation is intended for the first half of 2022 to consider the potential for widening the distribution of the LTAF to a broader range of retail investors.

Merlys helps smaller businesses in the sector; ensuring they spot and are fit and ready to grasp opportunities, and to avoid the risk of non-compliance.

All day every day we at Merlys are ensconced in all things regulatory across the funds and asset management sectors.

Our Mission is to assist smaller firms within the sector, to implement regulatory, business and cultural change efficiently and effectively; to be the advice; knowledge, expertise and support needed, when needed.

What makes us stand out from the crowd of consultancies is our in-depth commercial experience gained from decades of working in private practice and in-house, both on the legal and business sides of banks and asset managers.

Author

Verena Charvet MBA | Managing Director at Merlys Consulting



Connect: www.linkedin.com/in/verenacharvet/
Email: verena.charvet@merlys.uk
Call us +44 (0)20 7821 0191
Follow us: www.linkedin.com/company/merlys/
Website: www.merlys.uk

This briefing note is intended to act as general guidance. Merlys is happy to assist with any aspect of the content in this article, as it relates to your business.