UK financial regulation

UK to dilute rules for smaller private equity firms and hedge funds

Government proposes lighter regulatory regime in push to encourage investment

Some in the sector fear the proposed changes could trigger a regulatory backlash from the EU © Chris Ratcliffe/Bloomberg

Martin Arnold, Financial Regulation Editor

Published APR 7 2025 | Updated APR 7 2025, 12:21

The UK government has set out plans to water down rules for private equity and hedge funds by introducing a lighter regulatory regime for smaller groups to encourage more investment.

The Treasury on Monday announced that it would lift the size threshold for which alternative asset managers are subjected to the main rules for the sector, from €100mn of funds under management to £5bn.

A new, less onerous post-Brexit regime will be introduced for groups with between £100mn and £5bn of assets, which the Treasury hopes will save them time and money and enhance the UK's position as dominant hub for private equity and hedge funds in Europe.

The move, on which the government and the Financial Conduct Authority plan to consult with the industry, is likely to be welcomed by many private equity and hedge fund managers. But some in the sector fear it could provoke a regulatory backlash from the EU.

"Eliminating costly and duplicative requirements will help increase capital flows, strengthen public and private capital markets, and foster innovation," said Rob Hailey at the Managed Funds Association, which represents many of the world's largest hedge funds.

The FCA said the proposal to lift the threshold from €100mn to £5bn would reduce the number of alternative asset managers subjected to the full rules from 699 to 64. It estimated the proportion of net asset value caught by the rules would fall from 99 per cent to 74 per cent.

"The regime for the largest firms will ensure that the strictest risk management standards apply to the firms with a broad reach and potential for harm," the watchdog said.

But the Labour government may face internal criticism over the move. While ministers have signalled that economic growth is their top priority, any perception that rules are being diluted to further enrich wealthy financiers is likely to anger Labour MPs already concerned by recent welfare cuts that will hit disabled people.

The FCA is working with the Treasury on creating separate regulatory regimes that are adapted for the specific requirements of investment trusts and venture capital firms.

Emma Reynolds, City minister, said the proposals would mean “tearing down unnecessary barriers to investment, such as costly regulation that prevents asset management firms from growing and provide capital for businesses across the country to grow”.

The Treasury last month committed to cut the overall cost of red tape for business by a quarter to boost investment and inject more dynamism into the country’s stagnant economy.

As part of the planned consultation, officials at the Treasury and FCA will also look for ways to reduce the burden of reporting requirements on alternative fund managers and to eliminate overlap with other rules.

“We want rules, better tailored to UK investment managers,” said Simon Walls, the FCA’s interim executive director of markets. “These could allow them to operate more efficiently, further supporting competition, competitiveness and economic growth.”

The government plans to repeal the alternative investment fund manager legislation — covering venture capital funds, investment companies and real estate funds, as well as private equity and hedge funds — which the UK inherited from the EU.

In its place, officials aim to introduce a more streamlined regime covering disclosure, pay, capital, leverage, risk management and conduct of business that is graduated according to the size of alternative asset managers.

Michael Moore, chief executive of the British Private Equity and Venture Capital Association, said: “This consultation is an important step in securing the UK’s status as one of the world’s leading private capital hubs.”

When the EU updated its rules for alternative fund managers last year, there were fears in the industry it would stop allowing EU funds to delegate many of their activities to countries outside the bloc, such as the UK.

In the end, Brussels left the delegation rules in place while tightening controls and disclosure requirements on them.

The EU’s rules apply to alternative investment managers with more than €100mn of assets, or those with more than €500mn that have no leverage and lock in investors for five years.

Some private equity and hedge fund executives think the UK should not dilute its rules for the sector too much, worrying this could trigger a regulatory backlash from Brussels and put the delegation regime at risk.

Hedge funds in the UK manage £355bn of assets, which is 85 per cent of the total in Europe, according to the Alternative Investment Management Association trade body.

The UK also accounted for more than half the €1.15tn of private equity capital under management in Europe in 2023, according to consultants Arthur D Little.

Additional reporting by Alexandra Heal and Lucy Fisher

Follow the topics in this article

EU business regulation

London fights for its future

Fund management

UK companies

Hedge funds