

Joshua Carlton  
Financial Conduct Authority  
12 Endeavour Square  
London  
E20 1JN

By email: [cp25-38@fca.org.uk](mailto:cp25-38@fca.org.uk)

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Dear Joshua,

**RE: CP25/38 Enhancing fund liquidity risk management**

UK Private Capital is the industry body and public policy advocate for the private equity (PE), venture capital (VC) and private credit ecosystem in the UK. With a membership of 600 firms, we represent UK-based private capital firms, as well as their professional advisers and a large base of UK and global investors. The private equity, venture capital and private credit industry has a vital role to play in driving national and regional growth. Currently over 13,000 companies, employing more than 2.5 million people, are backed by private capital investment in the UK.

We welcome the opportunity to respond to the FCA's consultation CP25/38 on enhancing fund liquidity risk management. While the consultation primarily focuses on liquidity risk management for UCITS schemes and NURS, this response is concerned with Chapter 6, which looks ahead to potential reforms for alternative investment funds (AIFs) as part of the FCA's planned AIFMD consultation in 2026.

We recognise that Chapter 6 does not propose immediate rule changes. Instead, it provides early indications of areas for potential reform. We welcome the indication that the FCA only expects to make limited changes to the AIF liquidity framework, noting that current UK rules already align closely with international standards, including the IOSCO recommendations. We also welcome the emphasis on flexibility, particularly for unauthorised AIFs, and the acknowledgement of the diversity of the AIF sector, where risks and appropriate controls can vary significantly across different types of funds.

Given the potential significance to private capital of any changes to AIF liquidity risk management and leverage rules, we are providing a high-level response to the themes discussed in Chapter 6 in light of their potential impact on investment in UK businesses and international competitiveness.

Baseline liquidity management rules for small AIFMs

Chapter 6 signals an intention to introduce a baseline set of liquidity management standards for small AIFMs. At a minimum, this is expected to propose that open-ended AIFs managed by small AIFMs should ensure consistency between the fund's redemption policy and the liquidity of its portfolio.

UK Private Capital considers that proportionality and competitiveness should remain central as these baseline standards are developed. A requirement for consistency between redemption terms and portfolio liquidity is reasonable, aligns with established regulatory principles and is commercially essential. Ensuring that investors can redeem their investment in an open-ended or semi-liquid fund on terms that reflect the liquidity of underlying assets is a fundamental aspect of sound fund design and investor protection.

However, any expansion of regulatory expectations for small AIFMs must be carefully calibrated. Small and early-stage fund managers play a vital role in channelling capital to growing UK businesses and in supporting innovation, competition and long-term economic growth.

They are often responsible for backing emerging sectors and technologies and providing capital to founder-led and regional businesses that may not yet be accessible to larger funds. A dynamic pipeline of new and growing managers is essential to maintaining competition, diversity and resilience within the UK investment ecosystem.

These firms often operate with limited resources at an early stage of development. New baseline standards should therefore avoid imposing disproportionate compliance burdens or inadvertently creating barriers to entry.

A proportionate, outcomes-focused approach for small AIFMs with open-ended and semi-liquid funds would support regulatory objectives while preserving the UK's attractiveness for small and emerging managers and new funds. This will help ensure that the UK remains a competitive jurisdiction and continues to facilitate investment in SMEs and grow businesses across the UK.

We also note that most, if not all, of our members that are small AIFMs manage closed-ended structures, where there is no redemption right and therefore no liquidity risk. In this context, we do not consider that additional liquidity rules are required for closed-ended funds. Any new requirements should clearly be limited to open-ended or semi-liquid funds where liquidity risk is present.

#### Listed closed-ended investment companies

We welcome the FCA's recognition that listed closed-ended investment companies (LCICs) have unique characteristics and that it must take account of the specific nature of that market and their wider regulatory framework. We consider it is important to recognise the extensive regulatory and governance frameworks to which these vehicles are already subject.

LCICs are subject to the UK Listing Rules, the Disclosure Guidance and Transparency Rules, the Market Abuse Regulation, UK company law, and the requirement to report against the UK Corporate Governance Code (or where applicable, the AIC Code). These frameworks impose high standards on both LCIC boards and AIFMs, particularly in relation to disclosure, investment restrictions, director independence, risk management and reporting.

LCICs typically operate a top-down governance structure, whereby the ultimate parent entity comprises a majority of independent non-executive directors. LCIC boards are responsible for key decisions, including setting the investment policy and restrictions.

The FCA's Remuneration Code can also introduce additional complexity, particularly where staff are employed directly by the LCIC rather than by the AIFM, and where there are established market expectations regarding executive remuneration and malus and clawback arrangements.

Given the FCA's wider objective to support growth as a smarter, more efficient regulator, we would strongly suggest that any areas of overlap in the AIFM Regulations be carefully reviewed and, where appropriate, streamlined or removed to avoid duplication.

As the FCA has acknowledged, the unique structure of LCICs presents an opportunity to clarify respective roles and responsibilities of LCIC boards and AIFMs and to establish a more harmonised and proportionate regulatory framework.

### Leverage rules review

In relation to the FCA's intention to review leverage rules for different types of AIF, UK Private Capital considers it important that long-established principles underpinning the current framework continue to be reflected in any future reforms.

AIFMD leverage requirements have always been intended to capture leverage at the level of the AIF itself, rather than the capital structure of underlying SPVs and portfolio companies. For example, article 6(3) of the AIFMD Delegated Regulation makes clear that, for AIFs whose core investment policy is to acquire control of non-listed companies or issuers, exposures existing at the level of those companies should not be included in leverage calculations where the AIF or AIFM does not have to bear potential losses beyond its investment in the relevant company or issuer.

Where portfolio company or acquisition vehicle debt is legally and economically ring-fenced, with no recourse to the fund or its investors, the fund's maximum loss remains capped at its equity investment. In such cases, the borrowing does not increase exposure at AIF level and should not be treated as fund leverage. This approach reflects both the text and intent of Article 6(3) and avoids mischaracterising ordinary equity investment as leveraged activity. This would be a good opportunity for the FCA to clarify that this approach is appropriate to all private capital investments and fund structures.

It is also important to avoid double-counting financial stability risks. Portfolio company debt is already captured within the prudential framework applicable to lenders. Requiring such exposures to be reported as fund-level leverage would risk creating a misleading picture of risk transmission and may dilute the usefulness of leverage reporting for macroprudential monitoring. It is important to ensure that supervisory data meaningfully reflects risk, rather than overstating exposures that do not transmit losses to the fund.

Proportionality and international consistency are critical. Treating portfolio company or SPV debt as AIF leverage, where the AIF does not bear potential losses beyond its investment, would risk reclassifying funds as leveraged despite no increase in fund exposure. This could impose disproportionate burdens and could adversely affect the UK's competitiveness as a global hub for private capital firms and private capital investment.

A leverage framework grounded in actual exposure, loss transmission and economic substance would best support the FCA's objectives of financial stability, investor protection and sustainable growth.

If you have any questions or there are points it would be helpful to discuss further, please contact Nick Chipperfield (nchipperfield@ukprivatecapital.co.uk) and Tom Taylor (ttaylor@ukprivatecapital.co.uk).

Yours sincerely,



**Tim Lewis**  
Chair, UK Private Capital Regulatory Committee