IIMI Independent Investment Management Initiative

Strengthening The UK's Asset Management Industry: Views From IIMI's Membership

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Introduction

As the UK recovers from COVID-19, it is vital that the country's highly successful asset management industry remains competitive. While Brexit has thrown up a number of operational and logistical challenges for domestic asset managers marketing into the EU, the UK's new-found autonomy does give it much greater flexibility to shape regulation and policy as it relates to funds. The Independent Investment Management Initiative (IIMI) spoke to its diverse membership about how the UK government could potentially stimulate future growth in the asset management sector.

Streamlining authorisations

In order to strengthen the domestic asset management industry, one IIMI member stresses that the application process for start-up investment firms needs to be simplified. Despite repeated calls for the UK government to expedite fund manager approvals, HMT - in its response to the 'Call for Input' on the review of the UK funds regime - said the current authorisation times are perfectly satisfactory. Some IIMI members, however, disagree, arguing that the time-frame for FCA authorisations should be reduced from six months to one month.

Other IIMI members urge the FCA to rethink how it supervises investment firms who are marketing and selling funds to purely institutional clients. An IIMI member says that while regulators need to carefully monitor fund managers distributing investment products to retail investors, he suggests that firms whose target client base is wholly institutional should be allowed to engage in a certain degree of pre-marketing ahead of being authorised. Such a provision, continues the IIMI member, would help boutique asset managers expedite the growth of their businesses at a time when their overheads are rising exponentially.

More Proactive Promotion of the UK as an Asset Management Centre

Aside from augmenting the regulatory authorisation process, several IIMI members are calling on the FCA/government to adopt a more proactive approach when promoting the UK as an asset management centre. Such steps would help boost the competitiveness of the UK asset management industry, especially following Brexit.

An IIMI member highlights that in comparison to the CBI (Central Bank of Ireland) and the CSSF (Commission de Surveillance du Secteur Financier) in Luxembourg, the FCA is simply not as engaged in dialogue with the industry as it should be. The IIMI member continues that it is critical the FCA communicates more regularly with asset managers in general - as this will help promote best practices.

Simplifying regulations

The funds industry will also benefit from more streamlined financial services regulation. The UK government does appear to be open to this idea - given that it is conducting reviews into certain EU rules, which have incurred criticism from the industry for being excessively burdensome. Solvency II – an EU regulation which subjects insurance companies to stringent risk-weighted capital requirements – is one such example. Insurance companies have derided the rules for forcing them to hold excessive amounts of capital at a time when interest rates are low, thereby precluding investment into illiquid assets such as infrastructure.

According to experts, an easing of Solvency II requirements would free up enormous amounts of capital – estimated to be around £95 billion - which could then be allocated into infrastructure and green energy projects, for example. Although modifications to Solvency II are welcome, there have been calls from some within the funds industry to revise other regulations too.

Already, the UK government has implemented changes to MiFID II (Markets in Financial Instruments Directive II) by exempting research on small cap companies from the unbundling rules – a welcome development. One IIMI member urged that PRIIPs (Packaged Retail Investment and Insurance Linked Products) rules be amended – something which the FCA is actively considering – amid widespread concern about the performance scenario reporting and its reliance on flawed methodologies.

But should rules such as the AIFMD (Alternative Investment Fund Managers Directive) or UCITS be altered? The UK has transposed both the AIFMD and UCITS into UK law and while amendments have been made to the AIFMD, these have been purely administrative, mainly to minimise disruption to funds' operations now that the UK is outside of the EU.

Most significantly, the UK government said in 2021 that it had no plans to make any revisions to the AIFMD or UCITS. Several IIMI members believe it would be imprudent to scrap rules like AIFMD and UCITS – namely because they offer such solid investor protections – something which has helped cement the reputation of EU mutual fund wrappers worldwide.

Developing a New Fund Regime

Over the last few years, the IIMI has been a firm advocate for a domestic UK fund regime, and the government does appear to be listening. Having issued a 'Call for Input' on a review of the UK funds regime in 2021, HMT has since published its response. Among its priorities are the establishment of a new open ended fund vehicle which can invest into illiquid asset classes along with a review of the current VAT treatment of fund management services – which perversely incentivises funds to domicile outside of the UK.

A number of IIMI members said they would support the removal of VAT on management fees – "VAT is something which needs to be looked at by the government," according to one member. The UK is home to a wide range of asset management talent, best in class service providers, a deep pool of legal and accountancy expertise, and a solid regulatory and common law regime. As such, the country is in an excellent position to support the re-onshoring of funds and, with it, asset servicing jobs.

Should there be widespread re-domiciliation of funds, this could have a significant impact on the fortunes of the UK economy. With the incumbent government now prioritising regional economic development, IIMI believes the asset management industry could help facilitate this.

If the UK is able to develop a popular fund structure, it could result in a huge increase in asset servicing roles. Many of these functions do not necessarily need to be carried out in London. In fact, a number of leading fund administrators already have thriving offices across several regional UK cities including Birmingham; Bournemouth; Belfast; Glasgow and Liverpool. If more professional services firms - such as fund administrators - establish themselves in the regions, local economies will flourish. Again, this is an idea which the UK government is actively exploring.

IIMI's Recommendations

- The UK regulator should consider streamlining the fund authorisation process- especially for managers who are only selling their products to institutional investors.
- There needs to be greater engagement by the regulator with the industry about ways to strengthen and enhance the UK asset management sector's position in the global market. The UK regulator also needs to replicate its peers in Luxembourg and Ireland in terms of its commitment to promoting the UK as an asset management hub.
- Reform of certain regulations – such as PRIIPs – would help support the local funds industry, as would sweeping changes to existing VAT rules.
- If such reforms are enacted, there is likely to be greater re-domiciliation of funds into the UK – a shift which could result in asset servicing jobs being created across the entire country.

About IIMI

The Independent Investment Management Initiative is a think tank that offers an independent, expert voice in the debate over the future of financial regulation.

Founded in 2010 as New City Initiative and relaunched as IIMI in 2021, the IIMI counts amongst its members some of the leading independent asset management firms in the City and the continent. The IIMI gives a voice to independent, owner-managed firms that are entirely focused on and aligned with the interests of their clients and investors.

Over the last decade, an old fashioned "client-centric" approach has enabled entrepreneurial firms in the Square Mile and beyond to emerge as a growing force in a financial industry dominated by global financial giants. Now, more so than ever, these firms play a key role in preserving the stability and long-term focus of the financial sector, which is of benefit to society at large.

About the Author

Charles Gubert is a consultant to IIMI and Head of Regulation. He is founder of GTL Associates, a research, copy-writing and marketing consultancy to financial services institutions, and a contributing editor at Global Custodian Magazine. Prior to this, he was a research manager at Thomas Murray IDS, a consultancy and editor at COOConnect, an online title aimed at chief operating officers at alternative and long-only fund managers. He started his career as a reporter at Risk Magazine and Hedge Funds Review.

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