Independent Investment Management Initiative
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IIMI Independent Investment Management Initiative

Dear Ms Reeves,

1st November 2024

We congratulate you on your recent appointment as Chancellor. As a group of 53 specialist asset managers, predominately based in London and Edinburgh, we echo the government's planned support of sustainable and inclusive economic growth, investment in the UK, and innovation.

Led by consultation with our members, we have several constructive ideas for regulatory reform which align with these objectives. We believe these can help make the UK an increasingly attractive, sustainable and diverse financial hub to support inclusive growth, improved choice, and value for consumers.

In this letter, I have taken the opportunity to share with you some of the views of our 53 member firms on regulatory reform. Collectively, we represent around $500bn in client assets and around 3000 members of staff. Our members are typically smaller in size and include several start-ups. We predominantly manage money from across the UK including Scotland.

We take pride in the robust regulatory framework which has helped make the UK a trusted financial centre. However, we want to ensure that regulatory volume, complexity and cost is not disproportionately shouldered by smaller firms. We strongly believe that inclusive regulation of our financial system – which takes account of size, risk and resources - can support with growing the economy and enabling good outcomes for clients. It can also help secure the UK's position as the pre-eminent financial centre, supporting innovation and entrepreneurialism.

Our recommendations span a number of topics, summarised under three themes:

a) **Enhancing the international competitiveness of the UK investment management industry**
b) **Promoting competition and innovation within UK investment management**
c) **Encouraging healthy cultures in our industry**

***Enhancing the international competitiveness of the UK investment management industry***

1. **Practical suggestions for implementation of regulation**
   1.1 We suggest a Practitioner's Advisory Body (or similar) to look at regulations from a practical, commercial and competition perspective before their implementation. This can help ensure that our regulatory framework is both rigorous and enabling of investment management. It could also help review where regulatory alignment with international practices is of benefit, and where it makes sense to differentiate.

2. **Review Investment Trusts (ITs)**
   2.1 We are cognisant of efforts to address the shortcomings in the current rules around Investment Trusts, particularly regarding costs and charges.

2.2 We should create a bespoke regime for ITs. This could be done by taking ITs out of scope for AIFMD and CCI and using listing rules to put additional obligations on Its.

**3. Consider suitable UK fund structures for alternative investments**

3.1 Consider suitable UK fund structures for alternatives. The closest UK fund type to a “hedge fund” in terms of investment flexibility is a Qualified Investor Scheme (QIS). But there are multiple operational challenges with these.

**4. Ensure UK sustainability regulations are consistent with international standards**

4.1 Consider ensuring that sustainable finance regulations are consistent with existing international standards and terminology. There is also need for harmonisation; it could be argued that the FCA’s TCFD and SDR regulations could be consolidated.

4.2 The value chain of sustainability should also be front of mind - from ensuring quality of data from providers to consistency in the timing of reporting for asset managers and the companies in which they invest. Relatedly, we welcome live proposals to regulate ESG ratings providers.

***Promoting competition and innovation in investment management***

**5. Revisit aspects of Consumer Duty to focus on retail investor protection.**

5.1 We see many ways in which Consumer Duty might be improved to better focus on retail consumer protection. For example, we see room for clarity around which firms should be embedding the Duty and refocusing on those with retail investors. We would also point to the related challenge of availability of data, particularly via platforms, to help ascertain the presence of retail clients.

5.2 More widely, we would argue differentiate rules, and reporting requirements, are merited for funds with and without retail investors.

5.3 The due diligence, and reporting requirements, of institutional investors are substantial, and often bespoke. Products and services sold to institutional investors should not, in our view, be required to produce KIIDs, KIDs or similar documents designed for retail investors.

**6. Revisit size thresholds of AIFMD.**

6.1 To promote competition, and encourage the development of new entrants, we suggest a more proportionate approach to AIFMD as opposed to the current authorisation options. We propose that fund size, complexity and risk are considered.

6.2 Equally we support a lighter-touch approach to LTAFs. A firm must be a full-scale AIF to be an LTAF which makes this challenging for smaller, more innovative firms.

**7. Lower capital requirements and barriers to entries for start-ups.**

7.1 Likewise, to slightly lower the considerable barriers to entry in investment management, we advocate for a simplification of the regulatory capital rules and the need to conduct a full ICARA in its current form. For instance, this could mean waiving the K-Factor calculations.

7.2 The increase in regulation, both in terms of cost and complexity, is also providing challenges for diversity in our industry. Individuals require considerable resources to start a business meaning that those from a high socio-economic background are still more likely to succeed. The increases in employer national insurance contributions announced in the autumn budget may exacerbate this issue, and we recommend exploring mitigants for small businesses.

7.3 We suggest a reassessment of the rules around the definitions of 'retail' versus 'professional' versus 'sophisticated' clients to better protect true retail clients whilst enabling young firms to raise capital from a wide range of appropriate individuals. Current EU rules may not be fit for purpose e.g. an individual is deemed sophisticated if they trade frequently and minimum trade requirements are high.

**8. Revisit value for money approaches**

8.1 We see value as a multidimensional concept, beyond cost. This includes consumer choice, risk management, client service, stewardship and sustainability. We see the current value for money approach for defined contribution (DC) funds as potentially narrow. This can encourage a simplistic approach to investment choices and presents a revenue challenge to specialist firms. We suggest a tax break for small firms to support their net fee on UK DC assets.

**9. Consider appropriate regulation for investment advisors**

9.1 Investment advisors cannot remain impartial when delivering investment advice if they are offering their own investment products to clients. We recommend that investment consultants are subject to regulations to help to manage potential conflicts of interest

**10. Reconsider forced LGPS pooling**

10.1 While pooling may reduce costs by achieving greater economies of scale and unlock capital for UK infrastructure, it will inhibit allocations to smaller, more innovative capacity constrained investment funds which will dampen competition and investment choice.

***Encouraging Healthy Cultures in our Industry***

**11. Review aspects of the Senior Managers and Certification Regime**

11.1 We consider that size and complexity should be front-of-mind in determining whether businesses should fall under the enhanced regime which is currently ambiguous.

11.2 We welcome more clarity on non-financial misconduct. Currently, individuals within firms must make complex moral judgements regarding behaviours outside of work. More detailed guidance could create more consistency in application, and help set rigorous, unambiguous standards across our industry.

**12. Broaden the approach to diversity and inclusion**

12.1 We advocate for a re-focus towards some of the qualitative aspects of culture and inclusion (diversity of thoughts, employee engagement, competency of leaders, client outcomes etc.) which are lost owing to a quantitative approach (although we support that reporting is not required for companies with under 250 employees).

## Our Commitment to Continued Engagement and Constructive Regulation

Beyond the points raised above, we would emphasise our support for constructive dialogue on regulation with you, your department and the FCA. We hope that the points raised in this letter prompt further discussion and ultimately, positive change. We welcome your thoughts on how to progress and would be delighted to go into more detail on these points to enable your onward discussions.

We recognise the importance of appropriate regulation, and do not believe that our size justifies us operating in a regulatory vacuum. **Rather, we are asking for better regulation – not only to the benefit of our clients and the health of the financial ecosystem, but to help build a more inclusive UK economy.**

Yours sincerely,

D. Hristova

Dani Hristova
Chief Executive Officer

The Independent Investment Management Initiative

## Appendix – List of members of the Independent Investment Management Initiative

Aberforth Partners
Alger
Amati Global Investors
Aravis Capital
Bentley Reid
Brown Advisory
Cape Ann Asset Management
Cadarn Capital
CG Asset Management
Chawton Global Investors
Chelverton Asset Management
Comgest
Cusana Capital
Downing LLP
Edgbaston Investment Partners
Evenlode Investment
Findlay Park Partners
Gemini Capital Management
Green Ash Partners
Guinness Asset Management
Highclere International Investors
Hosking Partners
Independent Franchise Partners
Kennox Asset Management
Kernow Asset Management
Kiltearn Partners
Latitude Investment Management
LGT Wealth Management
Longview Partners
Marathon Asset Management
McInroy & Wood
Morant Wright
NS Partners
Oakmount Capital
Oldfield Partners
Orbis Investments
Osmosis Investment Management
Pacific Asset Management
Phoenix Asset Management Partners
Polar Capital
Ranmore Funds
Rebalance Earth
Sceptre Investment Management
Silchester International Investors
Skagen Funds
Skerryvore Asset Management
Spring Capital Partners
Troy Asset Management
Variis Partners
Velox Capital
Waverton Investment Management
White Oak Capital Management
Yealand Fund Services