Autumn Budget 2024 Stakeholder Representation from MFA

About MFA

MFA is the trade association for the global alternative asset management industry dedicated to advancing the ability of asset managers to raise capital, invest, and generate returns for their beneficiaries. MFA has over 180-member fund managers, including traditional hedge funds and private credit funds, collectively managing £2.5 trillion across a diverse range of investment strategies.

Around half of MFA's members have a significant presence in the UK, making it crucial to ensure the UK remains a leading international financial centre. This requires a regulatory framework that facilitates fair, efficient, and effective financial markets that support sustainable economic growth.

MFA members play an important role in the UK economy, supporting institutional investors – including public and private pension funds and charitable organisations – to diversify their portfolios, manage risk more effectively, and generate steady returns throughout the economic cycle.

Policy recommendations

To support the Government's central mission of growing the UK economy, MFA recommends five key policies to strengthen the country's position as a global hub for alternative asset management and enhance capital markets for investors, businesses, and savers:

1) Prioritise completion of the existing financial services reform programme

The Government should prioritise the remaining elements of the financial services reform programme outlined in the Edinburgh Reforms. The programme is widely supported across the financial services sector and includes initiatives to boost the UK's economic competitiveness and growth potential. Positive progress has already been made with the introduction of the regulators' secondary objective on competitiveness and growth, accelerated (T+1) settlement, the Long-term Asset Fund (LTAF) regime, the Investment Research Review and the Wholesale Markets Review.

Despite significant advancements, some aspects of the reforms warrant additional prioritisation by the Government and regulatory authorities.

- First, introducing a consolidated tape for various asset classes will make timely market information more widely available, helping asset managers to better serve their investors and bolstering the transparency and liquidity of UK markets.
- Second, eliminating duplicative requirements and aligning with other major jurisdictions can enhance the regulatory framework for securitisation by expanding capital investment in the UK and optimising risk management on behalf of UK investors.

- Finally, completing the reforms of the short-selling public disclosure regime will boost liquidity and help investors and companies manage risk effectively.

Combined, the prioritisation of these initiatives will make UK capital markets more attractive, efficient and competitive.

2) Deliver a Smarter Regulatory Framework for asset management

As part of the drive to achieve a Smarter Regulatory Framework, the Government and regulators should modernise the UK asset management regulatory landscape to promote more competitive capital markets. The asset management framework can be improved by adopting changes that balance the benefits of addressing the specific needs of UK financial market participants with the need to maintain consistency with international standards.

There are areas of commonality across the AIFMD and MiFID regulatory regimes that apply to asset managers – including prudential rules on regulatory capital and remuneration, best execution, conflicts of interest, costs and charges disclosures – where there is scope to remove inconsistencies. Asset managers should be able to apply for the full range of permissions that are relevant to their business models, regardless of their classification as an AIFM or a MiFID firm. With greater consistency, asset managers can more effectively pursue the varying portfolio diversification, risk management, and financial returns desired by investors and beneficiaries.

It is also important to reassess and reduce regulatory requirements imposed on asset managers dealing with professional investors. This will ensure that obligations, like due diligence and disclosure requirements, are proportionate and not excessively burdensome.

3) Unlock the full potential of the UK's pension assets

The UK is known for its large and deep pool of long-term capital, with pension assets exceeding £3 trillion. Unlocking the full potential of these assets will benefit both the UK economy and the households that rely on pension funds for a comfortable retirement.

As the Government undertakes its landmark pensions review to boost investment and saver returns, it is important to consider greater flexibility in asset allocation. This will allow pension funds to invest in a broader array of illiquid assets which help diversify investment portfolios and boost returns.

The potential of these reforms is evident in the US, where pension plans invest over $600 billion in hedge funds to help provide retirement income for more than 26 million American workers. The California State Teachers' Retirement System alone invests over $26 billion in hedge funds.

4) Secure the UK's position as a global financial centre

The implementation of a new secondary objective in the Financial Services & Markets Act, which directs financial regulators to enhance international competitiveness and support economic growth, is a positive development. The Government should ensure that the UK regulators effectively integrate this objective into their policy-making and operational culture.

An early test will be the Financial Conduct Authority's (FCA) approach to publicising enforcement investigations before any wrong-doing is proven – the so-called 'name and shame' policy. Naming a firm prematurely is unjust, particularly given that a majority of FCA investigations end with no action taken. The original proposal poses a fundamental risk to the UK's position as a global financial centre.

Securing this position also requires an appropriate approach to taxation of financial services firms. MFA supports tax policies that encourage long-term capital investment and opposes discriminatory tax proposals that act as a disincentive for investment advisers to choose the UK as the place to build their alternative asset management businesses.

5) Safeguard the contribution of alternative asset managers

The Nonbank Financial Intermediation (NBFI) ecosystem, also referred to as market-based finance, includes a diverse set of financial activities, entities and infrastructure. It includes alternative asset managers (such as private credit and hedge funds), money market funds, other mutual funds, pension funds, insurers, family offices, foundations, private equity, and real estate investment trust funds – each with their own unique business models, regulatory oversight regimes, investors/stakeholders, balance sheets and governance structures.

Given this diversity, it is inappropriate to treat all financial activity outside the banking system as a monolith that deserves the same level of macroprudential regulation. Each type of nonbank is subject to distinct regulatory frameworks that serve distinct purposes. Alternative asset managers overwhelmingly cater to sophisticated investors, including high-net-worth individuals and institutional investors. The absence of daily redemptions for investors means they are not susceptible to mass redemptions in times of market stress. Investors' use of alternative asset managers naturally entails investment risk (and potential reward), but this is not to be confused with systemic risk for the financial system as a whole.

The Government should ensure the UK is at the forefront of this growing source of capital and seize the opportunities it presents for British businesses to invest in their growth.

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