# UK Treasury considers easing regulations on alternative asset managers to boost City of London



The UK Treasury has recently initiated a consultation examining whether regulations governing alternative asset managers—such as private equity and hedge funds—should be relaxed to encourage growth in the City of London following Brexit. This move reflects an ongoing government stance prioritising the expansion of the financial sector, with Chancellor Rachel Reeves indicating that some post-2008 financial crisis regulations may have been excessive.

In particular, the Treasury is considering raising the threshold at which funds must adhere to strict reporting and capital requirements from €100 million to £5 billion. This adjustment would mean that numerous funds currently subject to comprehensive European Union (EU) regulations could be exempted or subject to a lighter regulatory regime, with the Financial Conduct Authority (FCA) tasked with deciding the exact rules to apply.

Speaking to The Guardian, the Treasury appears intent on maintaining the City’s competitiveness at a time when the alternative assets sector has grown significantly. However, concerns have been raised that such deregulation could heighten systemic risks within the financial system. Alternative investment funds, prior to the 2008 crisis, operated with limited transparency and oversight, particularly regarding the leverage they employed. Post-crisis EU directives sought to mitigate these risks by imposing reporting duties and capital requirements on funds managing €100 million or more in assets.

Since then, the landscape has shifted. The private equity and hedge fund market has tripled in size, with many funds increasingly borrowing from shadow banking institutions that do not face standard banking regulations or capital requirements. Furthermore, some funds have been taking on escalating debt levels. The Bank of England has flagged these developments as potential risks, noting that mainstream banks might unknowingly be exposed to vulnerabilities stemming from activities within this sector.

Critics of the Treasury’s proposal highlight these factors as reasons to maintain or even increase regulatory oversight rather than relax it. The FCA’s recent facilitation of reduced “red tape” and encouragement of financial “risk-taking,” under Chancellor Reeves’s directive, have sparked debate about the potential for imprudent financial behaviour.

Historically, fund managers have lobbied vigorously against some EU regulations. The UK notably opposed the EU’s alternative investment fund directive, and fund managers made substantial financial contributions to pro-Brexit campaigns, reportedly donating nearly £7.4 million to the leave campaign compared to £1.25 million to the remain side, according to research by academics Théo Bourgeron and Marlène Benquet.

The Treasury’s current consideration is partially motivated by a desire to prevent financial firms relocating to more permissive jurisdictions such as Luxembourg. However, there is an ongoing discussion about whether expanding the financial sector in this way genuinely supports economic growth. Research from the University of Sheffield, for example, suggests that an oversized financial sector may actually restrict UK growth and productivity, estimating that the country lost roughly three years of average gross domestic product growth between 1995 and 2015 due to the financial sector’s size.

While relaxing regulations may be advantageous for fund managers and the financial industry in the short term, broader economic benefits remain uncertain. The consultation on regulation changes is ongoing, with key decisions expected shortly on the future oversight of alternative investment funds in the UK.

Source: [Noah Wire Services](https://www.noahwire.com)

## References

* <https://www.gov.uk/government/news/consultation-launched-to-cut-red-tape-for-asset-managers-and-boost-growth> - Confirms the UK Treasury’s consultation to simplify and cut red tape for alternative asset managers to boost growth in the financial sector, reflecting the government’s drive to reduce regulations post-Brexit.
* <https://www.gov.uk/government/consultations/alternative-investment-fund-managers-regulations-consultation> - Details the UK government’s consultation specifically on amending legislation relating to Alternative Investment Fund Managers (AIFMs), supporting the claim about regulatory changes under consideration.
* <https://www.regulatoryandcompliance.com/2025/04/changes-on-the-horizon-for-uk-alternative-investment-fund-management-regulation/> - Explains the proposed amendment to the AIFM threshold from €100 million to a much higher level, underpinning the article’s point about potential deregulation and a lighter regime decided by the FCA.
* <https://www.fca.org.uk/publications/calls-input/future-regulation-alternative-fund-managers> - Shows the FCA’s involvement in the consultation process and plans for future regulation of alternative fund managers, supporting the claim about FCA’s role in setting future rules.
* <https://www.ft.com/content/4f0c3a14-8dff-4b15-8d44-8eb7e92ba5b2> - Reports on the growth of private equity and hedge funds in the UK post-Brexit and highlights concerns about increased leverage and borrowing from the shadow banking sector, reflecting financial stability risks identified by the Bank of England.