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## FCA Business Plan and 'Dear CEO' Letter Set Out Updated Priorities for Asset Management and Alternatives Supervision

In March 2024, the Financial Conduct Authority (FCA) released two documents with its updated supervisory approach for the asset management and alternatives sector: the FCA's [2024/25 Business Plan \(the Business Plan\)](#), and a "Dear CEO" letter titled "Our Asset Management & Alternatives Supervisory Strategy – interim update" (the Dear CEO Letter).

The Business Plan details the regulatory agenda and strategic priorities for the upcoming year, and the Dear CEO Letter serves as a parallel resource to inform stakeholders of the FCA's regulatory expectations and focus for the near- to mid-term. A particular focus of both publications is the FCA's emphasis on accountability in assessing the effectiveness of firms' governance, as illustrated by a statement in the Dear CEO Letter that the boards and senior managers of firms should take decisive actions to comply with the FCA's requirements and mitigate any potential risks of harm.

Here we analyse the two documents and highlight areas where asset managers and those in the alternatives sector will want to monitor.

### The Business Plan

In the Business Plan, the FCA reaffirms that it will uphold its operative objectives:

- i. protecting consumers;
- ii. ensuring the integrity of the UK financial system;
- iii. promoting effective competition; and
- iv. enhancing the international competitiveness of the UK economy.

In response to the changing external environment, the FCA has recognised three key challenges that it is currently monitoring: higher interest rates and persistent inflation; global financial risks (including the riskier market-based corporate borrowing and high levels of public debt); and geopolitical risks with the potential to cause severe disruption. The FCA expects to release further updates on how it measures performance against metrics in the summer.

To help address these external challenges in the next year, the FCA makes three specific commitments as part of its updated focus: reducing and preventing financial crime, putting consumers' needs first, and strengthening the UK's position in global wholesale markets.

In addition to its ongoing activities, the FCA also plans to initiate the following new actions to support the new focus:

- increasing investment in the FCA's systems to utilise intelligence and data more effectively in targeting higher risk firms and activities;

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- carrying out multi-firm work and market studies across various sectors to elevate standards for consumer protection, with a particular emphasis on supporting those in vulnerable circumstances; and
- encouraging innovation and supporting industry efforts towards T+1 settlement to enhance operational efficiency.

## The Dear CEO Letter

This Dear CEO Letter serves as an interim update following the series of communications released in [August 2022](#) and

[February 2023](#), which have progressively outlined the FCA's supervisory strategies for asset management firms primarily engaged in managing or advising on alternative investment products. The Dear CEO Letter was issued in response to changes in the external market environment, especially in light of the heightened uncertainty and several market shocks experienced in the past year. It delineates the FCA's supervisory priorities, noting that the FCA anticipates a "high volume of significant business and regulatory changes to be implemented in 2024."

The table below outlines several critical areas that investment managers of private capital businesses should monitor closely.

Areas of the FCA's Supervisory Strategies	Commentary
<b>Sustainability disclosure compliance</b>	
The FCA will oversee the enforcement of the Sustainability Disclosure Requirements (SDR) and investment labelling, specifically to prevent firms from making exaggerated or misleading claims related to sustainability.	For a detailed understanding of how to achieve compliance with the SDR, please refer to our <a href="#">January 2024 client alert</a> , which includes a comprehensive summary of the SDR rules covering anti-greenwashing, product labelling, naming, marketing and disclosures, each set to come into effect from various dates starting on 31 May 2024.
<b>Valuation of private assets</b>	
The FCA will undertake another multi-firm review to scrutinise the valuation practices of private assets, with a focus on personal accountabilities and the governance role of the board and valuation committees.	This initiative follows the FCA's prior multi-firm review of liquidity management in July 2023, which revealed wide disparities in compliance quality. Given the prevailing higher-interest-rate and tighter credit environment, the FCA is expected to intensify scrutiny on the valuation of private assets.
<b>Monitoring risks and "outlier" firms</b>	
The FCA will closely monitor firms that pose unique risks to the financial system or are identified as outliers. This will particularly target money market funds, funds with significant liquidity mismatches, and the transmission of risk from the non-bank financial sector to the broader market. Additional areas of focus will include firms holding large and concentrated market positions, as well as those operating with high levels of leverage.	This strategy is in line with the FCA's updated <a href="#">approach to supervision</a> , published in March 2024 as a supplement to the Business Plan. In this updated approach, the FCA has further clarified that it will focus on pre-empting poor conduct and identifying emerging risks, with the aim of mitigating or preventing them.
<b>Innovation and fund tokenisation</b>	
The FCA will continue to support innovation in the UK asset management industry, including the exploration of fund tokenisation use cases and other potential innovative technologies to foster a safe, sustainable and efficient financial ecosystem.	In our <a href="#">December 2023 client alert</a> , we analysed the preliminary approval for implementing fund tokenisation in the UK. Although the recent Dear CEO Letter does not provide new regulatory updates on this topic, the FCA has reaffirmed its commitment to support fund tokenisation and plans to collaborate with other regulators and international standard-setters to promote the convergence of global standards.

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Areas of the FCA's Supervisory Strategies	Commentary
<b>Regulatory regime reforms</b>	
<p>The FCA will continue to implement the Treasury's Smarter Regulatory Framework, focusing on revising the Markets in Financial Instruments Directive (MiFID), Alternative Investment Fund Managers Directive (AIFMD), and Undertakings for Collective Investment in Transferable Securities (UCITS), following the feedback received in the February 2023 Discussion Paper "<a href="#">Updating and Improving the UK's Regime for Asset Management</a>" (DP 23/2). The three main priorities for this reform are to make the regulatory regime for alternative fund managers more proportionate, update the regime for retail funds and enhance support for technological innovation.</p>	<p>Please refer to our <a href="#">March 2023 client alert</a> for more insights into the proposed structural adjustments to the MiFID, AIFMD and UCITS regimes and potential areas of improvement, as outlined in DP 23/2. While the extent to which the FCA will integrate the proposed changes outlined in DP 23/2 remains uncertain, the FCA has sent a clear message that it expects to "lift and drop" significant parts of existing regulation and expects to make significant progress this year.</p>

## Other Areas of Focus

- The FCA remains committed to rectifying shortcomings in authorised fund managers' "assessment of value" governance, bolstering the application of the Consumer Duty, and mitigating operational disruptions that could adversely affect consumers.
- The FCA will continue collaborating with the Bank of England in the System-Wide Exploratory Scenario initiated in June 2023, an initiative that seeks to promote the regulators' understanding of the behaviours of banks and non-bank financial institutions amidst periods of heightened financial market stress.
- The FCA will implement an upgraded Fund Gateway to facilitate new offshore funds from equivalent jurisdictions to be marketed into the UK, which will replace the Temporary Marketing Permissions Regime established post-Brexit.
- The FCA remains actively involved in providing thought leadership to organizations such as the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board (FSB) and endeavours to sustain the UK's global competitiveness, a goal underscored in its Business Plan.