State Street Trustees Limited
20 Churchill Place
London E14 5HJ

statestreet.com

June 9, 2025

Asset Management and Funds Policy Team
Wholesale Buy-side Division
Financial Conduct Authority,
12 Endeavour Square,
London, E20 1JN

Submitted via email: AIFMRegimeCFI@fca.org.uk

Re: Call for Input: Future regulation of alternative fund managers

Dear Sir/Madam:

State Street appreciates the opportunity to contribute to the Call for Input issued by the Financial Conduct Authority ("FCA") on its proposed approach to the future regulatory regime for alternative investment fund managers ("AIFMs") in the UK.

State Street is one of the world's leading providers of financial services to institutional investors including investment servicing, investment management and investment research and trading. With $46.7 trillion in assets under custody and/or administration and $4.7 trillion in assets under management as of March 31, 2025, State Street operates globally in more than 100 geographic markets and employs approximately 53,000 worldwide.

As part of our investment servicing offering in the UK, we provide comprehensive depositary services through our entity State Street Trustees Limited ("SSTL"). SSTL is one of the UK's largest providers of depositary and trustee services, overseeing approximately 445 funds (including 215 AIFs) across 43 clients with total asset values of GBP 365bn (as of 31st March 2025).

The authorised fund population overseen by SSTL is broad (including UCITS, NURS, QISs structured as OEICs, ACSs and Unit Trusts) and incorporates funds investing in inherently illiquid assets. SSTL also has strong capabilities in acting as depositary to unauthorised AIFs investing across alternative illiquid asset classes (private equity, real estate, infrastructure, debt) and holding structures.

State Street supports the UK Government's growth objective and the FCA's ambition, outlined in the Call for Input, to streamline the regulatory regime and make it more proportionate while maintaining consistency with international standards and allowing firms to conduct business across borders. As indicated in our response to FCA's Discussion Paper DP23/2, we believe that the UK's funds industry can continue to thrive if it is able to harness innovation and maintain an attractive ecosystem for the sector while facilitating cross-border business.

It is State Street's view that the depositary provides an essential, although sometimes less visible, contribution to investor protection in ensuring that managers of authorised and unauthorised AIFs operate their funds in line with their disclosures and regulatory requirements. Furthermore, the significant collective shared knowledge and experience of depositary firms as a whole is an important element in supporting regulatory standards across the funds ecosystem, ensuring investor interests are upheld.

SSTL is a member of the UK Depositary Association ("UKDA") and has contributed the UKDA's submission to this Call for Input. State Street, therefore, endorses the UKDA's response and refers the FCA to the detailed comments therein.

While we generally agree with the objective of making the rules more proportionate and tailored, State Street, like the UKDA, is of the view that the UK AIFMD depositary regime is largely fit for purpose and does not require substantial change. In particular, we would make the following comments in respect of the Call for Input.

- We note that the FCA's proposed AIFMD upper threshold of £5bn of net asset value is considerably higher than the current threshold. In our view, a firm's AUM should not necessarily be the primary factor in determining the required level of oversight of a manager/fund from an investor protection perspective. Other such determinants include risk factors such as the profile of the fund structure, investor base, investment strategy, asset classes, liquidity profile, leverage and market exposure.
- Any amendments to depositary oversight requirements as the result of changes to the current AIFMD thresholds should be determined by reference to specific criteria (as noted above) and implement certain minimum, base-line requirements in order to maintain fund and investor protection, while driving efficiencies and removing duplication. We note the FCA's proposal to have differing levels of prescription in the rules and highlight the need for clarity and sufficient detail in the rules at each threshold level to avoid confusion for market participants.

- For mid and large tier AIFMs the existing requirement to appoint an independent depositary remains essential for the confidence and protection of both institutional and retail investors, who expect and depend on the depositary's oversight functions. This option should continue to be available to small AIFMs under any amended regime to reduce any potential "cliff-edge effects".
- For reasons referenced above, we believe that listed closed-ended investment companies (investment trusts) should be subject to the same level of protections applied to other AIF structures and we welcome consultation on the practical application of AIFMD oversight principles to these vehicles.
- In considering changes to the current rules it is crucial that the FCA carefully assesses any material divergence with third countries' frameworks, particularly the EU. Such divergence has potential implications for equivalence, distribution, investor confidence as well as for depositary and fund management firms' operating models. While reducing regulatory complexity in the UK would be welcome, material divergence from the EU is likely to increase costs, uncertainty and operational risk for firms, which could harm UK competitiveness. We agree that aligning the UK AIFMD rules with those of EU jurisdictions where UK funds are most commonly distributed would be most beneficial.
- We see a potential challenge in respect of the FCA's proposals in respect of AIFMs that could attempt to avoid moving into higher tiers by remaining below the relevant threshold, and we suggest that an aggregate figure applicable to group companies could be considered to avoid circumvention of the requirements.

When considering detailed rules at a later date, we see an opportunity for the FCA to provide clarity and make its expectations on depositaries clearer, particularly in areas where the judgement and expertise of the fund manager is necessary in meeting the relevant regulatory requirement. This is essential to avoid any confusion over the level of protection that investors should expect. As noted, above, we support the overall proposal to introduce flexibility and proportionality into the AIFM framework, and believe that the FCA when considering detailed rules changes should take the following aspects of depositary oversight into account:

- Some aspects of cash flow monitoring, which in our experience do not provide meaningful benefits in respect of investor protection.

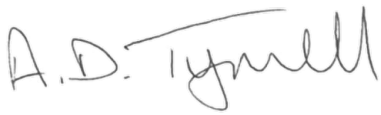
- Certain mechanical processes introduced following the implementation of the AIFMD such as reconciliations.
- The requirement for an independent Depositary book of record, which effectively creates a fourth book of record behind the Custodian, Fund Accountant and Manager. In our view, this incurs significant cost and complexity for depositary firms while providing very limited investor protection benefits.

Finally, we would note that the asset registration requirements for authorised AIFs continue to negatively impact depositaries and UK competitiveness. We acknowledge the FCA's draft proposals to change the Handbook rules to allow an option in which depositaries or depositaries' nominee entities do not need to be the legal owner of real estate and partnerships that authorised AIFs invest in. Under the FCA's proposals, the depositary will remain responsible for safekeeping/custody of these asset types for authorised AIFs.

While we welcome the FCA's focus on this area of the rulebook, we believe that wider amendments to FSMA are required to remove the depositary from the registration process altogether so that there is no requirement for the scheme property to be held to the order of the depositary or as nominee for the trustee. This requirement could be replaced by existing rules on safekeeping of "Other Assets", which require the depositary to verify the fund has ownership and retains good title to the underlying assets. In State Street's view, such an approach would improve the competitiveness of UK authorised AIFs, given other EU jurisdictions do not have the same current registration requirements that exist in the UK, without compromising investor protection.

We look forward to collaborating further with HM Treasury and the FCA to achieve a more proportionate AIFM regime that protects the interests of investors in the broader context of the UK Government competitiveness and growth objective. Please do not hesitate to contact me should you have any questions or if you would like to discuss our comments further.

Yours Sincerely,



Adam Tyrrell
Senior Vice President
CEO State Street Trustees Ltd