

The UK Regulator Sets Out Its Supervisory Priorities for the Asset Management and Alternatives Sector

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On February 26, the UK's Financial Conduct Authority (FCA) [wrote to Chief Executives in the asset management and alternatives sector](#) to set out their current supervision priorities (the **Portfolio Letter**).

Against a backdrop of both growth (firms in this sector manage and advise assets totalling £14.3 trillion and the UK is the largest centre for asset management in Europe) and volatility, the FCA is focusing on the following in the Portfolio Letter, with an overarching emphasis on governance, senior accountability for managing risks, oversight and appropriate management information that facilitates decision making germane to relevant risks:

1. Private Markets

In contrast to more liquid markets, frequent trading and regular price discovery are necessarily not a feature in private markets, which instead must use judgement-based processes when conducting valuations. This leads to the risk of inappropriate valuations driven, for example, by conflicts of interest or a lack of expertise. The FCA has recently published the results of its review on valuations of private market assets (see [here](#) for our note on this) and the Portfolio Letter emphasises the importance of its findings. In particular, governance, effective oversight, audit trails and the identification and management of conflicts of interest are key. With regard to conflicts of interest, the Portfolio Letter flags a multi-firm review later this year that will look at whether or not firms' management of these, and oversight of that management, remain fit for purpose.

2. Market Integrity and Disruption

This supervisory priority is informed by the System Wide Exploratory Scenario exercise (**SWES**) undertaken by the FCA and the Prudential Regulation Authority. SWES identified a number of areas of structural vulnerability including around risk management, liquidity management and operational resilience as well as margin preparedness. These will inform the FCA's supervisory priorities in this area.

3. Consumer Outcomes

Here, the FCA is concentrating on consumer outcomes in the context of the Consumer Duty, and will be looking at price and value across the value chain for unit-linked funds and how model portfolio services are being delivered in a way that means consumers get good outcomes.

4. Targeted Work

- Sustainable finance: - the FCA will work with firms to engage on how labelling, naming and market rules are being followed.
- Financial crime and market abuse: - the FCA will be looking for appropriate and proportionate systems and controls with effective oversight.

5. Key Takeaways

- firms should conduct a thorough audit of policies and procedures around valuation, conflicts of interest and independent oversight;
- is the valuation function independent and sufficiently expert?;

- governance is a key focus – is it independent and robust, is decision making and rationale documented and are decisions constructively challenged?;
- management information and its flow is also crucial;
- conflicts of interest, their identification, management and documentation is clearly a focus.