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Regulatory  
Hosting  
Platforms



# Regulatory Hosting Platforms

## What is a regulatory hosting platform?

A regulatory hosting platform provides an opportunity for investment advisers and managers (the client firm) to carry out regulated activities with appropriate FCA permissions without, or prior to, the client firm obtaining direct authorisation in its own right. The platform provider (the host firm) allows its regulatory permissions to be used by the client firm to enable that firm to carry out investment management, investment advisory and/or marketing services whilst allowing the client firm to retain its own identity, ownership and control.

On-going regulatory changes, particularly in relation to the AIFMD, have played a large role in the increasing attraction of regulatory hosting platforms, as they can offer regulatory and compliance solutions, generally for small and start up firms, while reducing the administrative and cost burdens for those firms in the early phases.

## What services are offered?

Typical services provided by regulatory hosting platforms are:

- marketing services
- advisory services
- investment management services
- AIFM hosting services

Services which may be offered to client firms while under the umbrella of the platform provider can include:

- regulatory compliance consulting
- risk management
- business model review
- IT infrastructure and support
- training and threshold competence testing
- capital introductions
- branding and marketing material

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In respect of marketing and advisory services, it is generally sufficient for the client firm to become an appointed representative of the host firm (see the section 'Marketing and advisory services via a platform' below).

In respect of investment management services, the host firm will enable individual investment managers of the client firm to use the host's FCA permission to manage investments via a secondment of those individual managers to the host firm (see the section 'Investment management services via a platform' below).

In each of these situations, the platform enables the client firm to carry out the relevant regulated activities while avoiding the regulatory burden and costs of becoming appropriately authorised and generally within a much quicker timeframe than if the client firm was to seek authorisation from the FCA directly.

With regard to the AIFM hosting services, the host firm will act as the AIFM to the relevant fund and will then delegate either the portfolio management function or risk management function to the client firm, provided that the client firm is appropriately authorised by the FCA. In retaining the portfolio management function or the risk management function, as the case may be, the host will remain the AIFM by definition (see the section 'AIFM hosting services' below).

## Marketing and advisory services via a platform

A firm wishing to provide marketing and advisory services in the UK generally needs to be authorised by the FCA. The application process to become authorised can be costly and time-consuming (an application can take up to 6, or possibly 12, months) and the firm would need to put up regulatory capital, have a detailed business plan, have sufficient investment staff, appoint a compliance officer and a money



laundering officer and set up its own offices. If there is no immediate intention to manage investments, then becoming an appointed representative (AR) may be a cost-effective solution.

An AR is a person or firm who conducts regulated activities under the umbrella of a firm directly authorised by the FCA. The directly authorised firm is known as the AR's 'principal' and this is the role commonly undertaken by the host firm. The host firm takes full responsibility for ensuring that the AR complies with the FCA rules and the AR is therefore able to carry out advising and arranging services by being authorised under the umbrella of the host. The client firm cannot conduct any activity which does not fall within the scope of its host's permission. If the firm wishes to carry on regulated activities wider than the host firm's scope, then it must obtain authorisation in its own right or enter into appropriate alternative arrangements with the host.

#### *Relevant documentation*

The arrangements between the host and the AR are generally covered by their entering into an appointed representative agreement. The appointed representative agreement must be fully FCA-compliant.

For further information on appointed representatives, please see our publication entitled 'Appointed Representatives' on our website at: [www.cummingslaw.com/publications2](http://www.cummingslaw.com/publications2)

#### Investment management services via a platform

Similar to the umbrella provided by appointed representative status, a client firm is able to provide investment management services to a fund or other investment vehicle via a platform provider, prior to the client firm seeking its own permission to manage investments. This enables the client firm to establish and brand a fund structure, market the fund and build up a track record while the FCA application for authorisation is in progress.

In this situation, the client firm seconds the relevant portfolio manager(s) to the host firm, with the host firm acting as investment manager to the relevant fund, and the assets are traded by the secondees on the basis of the client firm's trading strategy. The secondees will need to be FCA-approved persons and, if they are not already approved, this may be facilitated by the host firm upon agreement.

#### *Relevant documentation*

The documentation required to put in place the above arrangements would usually consist of the following:

- (i) an investment management agreement between the fund or other investment vehicle and the host as investment manager; and
- (ii) a secondment agreement between the host and the client firm whereby the client firm seconds the relevant individuals to the host firm to carry out the investment management solely in relation to the fund; and
- (iii) (optional) an investment advisory agreement between the host and the client firm whereby the host agrees to receive investment advice from the client firm solely in relation to the fund.

NB. Further to (iii) above, where the client firm is unauthorised, then the client firm will also need to enter into an appointed representative agreement with the host to enable it to carry out the regulated activities of advising and arranging under the host's umbrella.

In this situation, it is important to ensure that the documentation permits the intellectual property of the client firm, such as the track record and trading strategy, to remain within the ownership of the client firm. From the host's point of view, they should ensure that they are fully indemnified against actions by the client secondees during the secondment period.

Further, it is important that the offering documentation of the relevant fund and the



investment management agreement both provide for the fact that the discretionary investment management services will be carried out by the client firm directly upon the client firm obtaining appropriate FCA authorisation, thereby obtaining prior consent from investors in the fund and avoiding the need to obtain shareholder approval at a later date.

For further information on how to become an investment manager or investment advisor, please see our publications entitled 'How to set up an Investment Manager in the UK' and 'How to set up an Investment Advisor in the UK' on our website at: [www.cummingslaw.com/publications2](http://www.cummingslaw.com/publications2)

### AIFM hosting services

With the coming into force of the AIFMD, platform providers are increasingly offering AIFM hosting services. Under the AIFMD, if an FCA-authorized investment manager wishes to act as discretionary investment manager to an alternative investment fund, it is required to be authorised as an AIFM (whether small or full-scope) and it will then become subject to compliance with the relevant aspects of the AIFMD. Not all investment managers have the resources to comply fully with the provisions of the AIFMD, hence the attraction of AIFM hosting services.

In this situation, the host firm will act as AIFM to the fund, thereby being responsible for the portfolio management and risk management functions. The host will then delegate either the portfolio management function or the risk management function to the FCA-authorized client firm, retaining the other function for itself. As to whether the portfolio management function or the risk management function is delegated, this will be determined by the parties and will be dependant upon the relevant circumstances. In this way, compliance with the AIFMD is covered by the host firm of the AIFMD and the client firm is able to carry out, or continue to carry out, the investment management or the risk management of the fund in accordance with its own trading strategy and retain ownership of its track record and other intellectual property.

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### *Relevant documentation*

The documentation required to put in place the above arrangements would usually consist of the following:

- (i) an AIFM agreement between the alternative investment fund and the host as AIFM to the fund; and
- (ii) a sub-investment management or risk management agreement between the fund, the host and the client firm, whereby the host firm delegates the discretionary investment management or risk management of the fund's assets respectively to the client firm.

The documentation should state clearly that the investment management or risk management function, as the case may be, is retained by the host firm so as to ensure that the host firm will not be deemed a letter-box entity for AIFMD purposes.

Please note that the issue of marketing should be considered in the context of the AIFMD, but the rules in this respect can be complex, depending upon the role undertaken by the client firm, and any discussion on this subject is beyond the scope of this note.

However, for more information on the AIFMD, we have a number of publications relating to this and various other AIFMD matters on our website at: [www.cummingslaw.com/publications2](http://www.cummingslaw.com/publications2).

### Next steps

Regulatory hosting platforms are becoming an increasingly sizeable part of the hedge fund arena, offering alternative solutions to small and start up investment managers and advisors in an increasingly costly and time-consuming regulatory environment.

If you would like to discuss any of the issues covered in this note, please contact Claire Cummings at:

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**This document is for general guidance only. It does not constitute advice.  
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