

EXPLANATORY MEMORANDUM TO
THE UNAUTHORISED CO-OWNERSHIP ALTERNATIVE INVESTMENT FUNDS
(RESERVED INVESTOR FUND) REGULATIONS 2025

2025 No. 216

1. Introduction

- 1.1 This explanatory memorandum has been prepared by His Majesty’s Treasury and is laid before Parliament by Command of His Majesty.

2. Declaration

- 2.1 Emma Reynolds MP, the Economic Secretary to the Treasury at His Majesty’s Treasury can confirm that this Explanatory Memorandum meets the required standard.
- 2.2 Dan Rusbridge, Deputy Director for Personal Finances and Funds at His Majesty’s Treasury can confirm that this Explanatory Memorandum meets the required standard.

3. Contact

- 3.1 Matilda Embling at His Majesty’s Treasury Email: Matilda.embling@hmtreasury.gov.uk can be contacted with any queries regarding the instrument.

Part One: Explanation, and context, of the Instrument

4. Overview of the Instrument

What does the legislation do?

- 4.1 The Unauthorised Co-ownership Alternative Investment Funds (Reserved Investor Fund) Regulations 2025 supports the Government’s introduction of the Reserved Investor Fund. The Reserved Investor Fund will be a new type of UK-based investment fund vehicle legally structured as an unauthorised co-ownership alternative investment fund (AIF). The full definition of the Reserved Investor Fund is set out in section 20(1) of the Finance (No.2) Act 2024 (c. 12).¹
- 4.2 At the Autumn Budget on 30 October 2024, the Government announced its intention to introduce the Reserved Investor Fund. This instrument supports the introduction of the Reserved Investor Fund – which will be introduced by the Co-ownership Contractual Schemes (Tax) Regulations 2025 – by ensuring that the Reserved Investor Fund is commercially viable. It does so by extending provision about contracts and the rights and liabilities of investors in authorised co-ownership contractual schemes to investors in Reserved Investor Funds.

Where does the legislation extend to, and apply?

- 4.3 The extent of this instrument is England and Wales, Scotland and Northern Ireland.

¹ <https://www.legislation.gov.uk/ukpga/2024/12/section/20>

- 4.4 The territorial application of this instrument is England and Wales, Scotland and Northern Ireland.

5. Policy Context

What is being done and why?

- 5.1 These Regulations, alongside the Co-ownership Contractual Schemes (Tax) Regulations 2025, enable the establishment of new investment vehicles known as Reserved Investor Funds by ensuring that prospective investors have the appropriate rights and liabilities, and that there is appropriate provision for the making of contracts.
- 5.2 This instrument will apply, with modifications, sections 261M to 261O and 261P(1) and (2) of the Financial Services and Markets Act 2000 (c. 8) – which currently apply to investors in investment funds that are authorised contractual schemes – to investors in UK-based Reserved Investor Funds (or funds that were Reserved Investor Funds). This is to ensure that the Reserved Investor Fund is commercially viable to investors upon its introduction.
- 5.3 Section 261M allows the operators of such schemes to act in relation to contracts that the operator is authorised to enter on behalf of the investors (along with making other provision about contracts). Section 261N makes provision about the effects of a person becoming or ceasing to be a participant in the scheme, in terms of rights and liabilities. Section 261O limits the liability of participants for debts incurred under, or in connection with, contracts which the operator is authorised to enter into on their behalf. Section 261P(1) and (2) provide for the segregation of the liabilities of participants in sub-schemes (where a co-ownership scheme is constituted as an umbrella co-ownership scheme).
- 5.4 The provisions set out in 5.1 and 5.3 above will apply, with modifications, to any unauthorised co-ownership AIF that is a Reserved Investor Fund, or was a Reserved Investor Fund and is UK-based. In this context, UK-based means firstly that the operator and depository of the scheme are incorporated in, administer their affairs in and have a place of business in the UK, and secondly that the deed setting out the arrangements that constitutes the scheme is made under and governed by UK law and contains a statement to that effect. This will ensure that only investors in Reserved Investor Funds – and not unauthorised contractual schemes more generally – receive the modified rights and liabilities set out in 5.1 and 5.3 above that make the Reserved Investor Fund commercially viable.

What was the previous policy, how is this different?

- 5.5 Under the existing legislative framework, sections 261M through 261O and 261P(1) and (2) are only able to apply to investment funds that are authorised contractual schemes.

6. Legislative and Legal Context

How has the law changed?

- 6.1 This instrument applies sections 261M through 261O and 261P(1) and (2), with modifications, to investors in unauthorised co-ownership AIFs that are Reserved Investor Funds or were Reserved Investor Funds, and are UK-based (as defined by section 20(1) of the Finance (No.2) Act 2024).

- 6.2 This means that – when the Reserved Investor Fund is introduced – there will be clear rights and liabilities set out in statute that govern their participation in the Reserved Investor Fund. Without extending these provisions, the making of contracts by the operator and the rights and liabilities of investors would be determined by their contractual relationship with the Reserved Investor Fund.

Why was this approach taken to change the law?

- 6.3 This was the only possible approach to apply the relevant legislation and is consistent with the purpose of the power taken through the Financial Services and Markets Act 2023.

7. Consultation

Summary of consultation outcome and methodology

- 7.1 A full public consultation was undertaken in advance of this legislation.²

8. Applicable Guidance

- 8.1 No guidance is required.

Part Two: Impact and the Better Regulation Framework

9. Impact

- 9.1 There is no, or no significant, impact on business, charities or voluntary bodies.
- 9.2 There is no, or no significant, impact on the public sector.
- 9.3 An Impact Assessment has not been prepared for this instrument because the SI does not directly affect businesses. The Reserved Investor Fund will be implemented by the introduction of the Co-ownership Contractual Schemes (Tax) Regulations 2025. HMRC have already prepared an Impact Assessment to explain the impact of introducing the Reserved Investor Fund.³
- 9.4 This instrument facilitates the introduction of the Co-ownership Contractual Schemes (Tax) Regulations 2025 – and therefore the Reserved Investor Fund – by extending provision about contracts and the rights and liabilities of participants in authorised co-ownership contractual schemes to Reserved Investor Funds. As no Reserved Investor Funds currently exist – and the decision to launch a Reserved Investor Fund is entirely optional – it has no direct cost to business.

10. Monitoring & review

- 10.1 The approach to monitoring of this legislation is to continue to engage with the asset management sector, the FCA and relevant other government departments to understand any impact.
- 10.2 The instrument does not include a statutory review clause and, in line with the requirements of the Small Business, Enterprise and Employment Act 2015 the Economic Secretary to the Treasury has made the following statement: “It is not

² <https://www.gov.uk/government/consultations/reserved-investor-fund-consultation>.

³ <https://www.gov.uk/government/publications/reserved-investor-fund/introduction-of-tax-rules-for-the-reserved-investor-fund>.

appropriate in the circumstances to make provision for review in this legislation as it would be disproportionate, taking into account the economic impact of the regulatory provisions in this legislation, on activity carried on by businesses for the purposes of such businesses or voluntary or community bodies for the purposes of such bodies.”

Part Three: Statements and Matters of Particular Interest to Parliament

11. Matters of special interest to Parliament

11.1 None.

12. European Convention on Human Rights

12.1 The Economic Secretary to the Treasury has made the following statement regarding Human Rights: “In my view the provisions of The Unauthorised Co-ownership Alternative Investment Funds (Reserved Investor Fund) Regulations 2025 are compatible with the Convention rights.”

13. The Relevant European Union Acts

13.1 This instrument is not made under the European Union (Withdrawal) Act 2018, the European Union (Future Relationship) Act 2020 or the Retained EU Law (Revocation and Reform) Act 2023 (“relevant European Union Acts”).