

# The Evolution of Compliance for Alternative Assets

*A collaborative paper by Chartis Research and FIS.*



## Introduction

Institutional asset management is transforming, a change characterized by rapid growth, increasing institutionalization and expanding global interconnectedness. These developments are reshaping how firms operate and invest across borders, while compliance frameworks are continuing to evolve to respond to the growing complexity of assets and investment strategies. Modern compliance goes beyond traditional Know Your Customer (KYC) and anti-money laundering (AML) checks, extending into broader structural and regulatory requirements. This shift demands that firms adapt their compliance strategies to remain resilient and competitive.

## A shifting compliance landscape

The compliance landscape for alternative assets is shifting from a transactional model, focused primarily on KYC/AML, to a more comprehensive structural framework. This now includes detailed disclosure regimes, governance standards, and an ability to track beneficial ownership across opaque and multi-layered investment structures.

A private equity firm operating across Europe, Asia and North America, for example, may have to simultaneously comply with the EU's Sustainable Finance Disclosure Regulation (SFDR), the US Securities and Exchange Commission's (SEC's) Form PF reporting requirements, and Singapore's Variable Capital Companies (VCC) framework. Although these regimes each have a different focus, they all aim to enhance transparency, risk and governance, improve regulatory compliance, and support the stability and integrity of the financial system.

As regulators globally scrutinize firms more closely, the regulatory perimeter continues to expand. A broader range of asset managers, investment vehicles and geographic jurisdictions now fall under compliance mandates. Hedge funds that use complex derivatives or decentralized finance (DeFi) strategies are now subject to the regulatory reviews that once applied primarily to sell-side institutions, highlighting the increased supervision on the buy-side. This change requires a broader cross-section of firms to invest in new systems, processes and expertise to address increasingly intricate regulatory regimes and requirements. Failure to adapt can expose firms to legal penalties, reputational damage, financial losses, increased regulatory scrutiny and in some cases market exclusion. And this change is happening within wider-reaching shifts in the global market.

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## Global regulatory approaches are diverging

Global regulatory approaches are becoming increasingly divergent, affecting how funds are structured, how relationships with investors are managed, and how compliance costs are calculated. Data sovereignty laws in the EU and parts of Asia, for example, require certain financial data to remain local, complicating global data strategies and necessitating compliance with jurisdictional data protection regulations. Similarly, differing standards for transparency and reporting create additional layers of compliance that firms must navigate.

Until now, there has been a shift toward greater cooperation between jurisdictions in applying substituted compliance through memorandums of understanding (MoUs) and intergovernmental agreements (IGAs), allowing regulatory authorities to recognize and rely on each other's regulatory frameworks. Recent geopolitical tensions, however, are introducing additional complexity. Strained US-China relations have contributed to heightened regulatory fragmentations and geopolitical friction, causing several venture capital investment vehicles to separate to avoid cross-border complications. Several Silicon Valley firms have established parallel China-focused venture capital entities with separate governance and capital structures, to comply with both US regulatory oversight and Chinese cybersecurity mandates. Although this could be seen as a way to avoid potential complications, it could be more accurately described as a shift in complexity, which has moved, at least partially, to firms' compliance departments.

Meanwhile, US regulators have intensified their scrutiny of cross-border capital flows, reshaping how funds engage with global markets. The Committee on Foreign Investment in the United States (CFIUS) **has increased its oversight** of technology-related transactions that involve Chinese investors, which often require preclearance or post-transaction divestment. What was once a matter of operational complexity is now a strategic compliance challenge – firms now have to adapt not only to multiple legal frameworks but also to growing political scrutiny.

## Sanctions, geopolitics and beneficial ownership

The sanctions landscape has evolved significantly, and has moved beyond the last significant change in sanctions imposed on Russia when it invaded Ukraine. New sanctions regimes may be implemented with alarming speed, and carry implications that can be both severe and far-reaching, including asset freezes, travel bans and restrictions on financial transactions that affect a wide range of entities and individuals.

In 2025, for example, **the European Union's seventeenth sanctions package** expanded its scope to include entities from countries such as Serbia, Türkiye and Vietnam, citing concerns related to potential support for hybrid (military and non-military) threats and risks associated with chemical weapons proliferation. Meanwhile, **China has intensified its counter-sanctions strategy**, targeting foreign firms that comply with Western restrictions on Chinese AI companies that have been the subject of international scrutiny related to data-security and surveillance activities. As a result, enhanced sanctions screening requirements have become essential for firms, reshaping the way that asset origins are traced and how limited partner due diligence is conducted.

Increased transparency around beneficial ownership is no longer optional – it is a mandatory regulatory requirement. The **UK's Economic Crime (Transparency and Enforcement) Act**, for example, mandates disclosure of foreign entities that own UK property, while in the EU, the **Fifth Anti-Money Laundering Directive (5AMLD)** mandates member states to maintain central registers of beneficial ownership information. Meanwhile, the **US Corporate Transparency Act** requires firms to disclose beneficial owners to the Financial Crimes Enforcement Network (FinCEN), even for non-publicly traded entities.

Furthermore, heightened geopolitical conflicts have raised the stakes for compliance in nearly every sector and asset class, from private equity to real estate and infrastructure. Infrastructure funds with exposure to critical telecommunications or energy assets face significant scrutiny, particularly where foreign investors are involved, raising compliance risks and due diligence demands considerably.

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## Strategic compliance: future-proofing the firm

In the face of unprecedented volatility, forward-thinking firms are embedding compliance directly into their investment decision-making frameworks. This strategic approach ensures that compliance is not a barrier but a component of value creation and risk management. A more integrated compliance function can help firms more effectively respond to regulatory shifts and reduce potential operational disruptions.

Emerging trends in compliance technology and standards are likely to shape the future of the industry. These include:

- **Real-time compliance analytics.** These tools enable firms to more efficiently monitor regulatory compliance and risk exposure, offering near real-time insights into compliance status. Real-time dashboards,<sup>1</sup> for example, are now used by global fund managers to track AML/KYC obligations, including sanctions lists, environmental, social and governance (ESG) compliance and tax status across jurisdictions.
- **Digital identity standards.** The adoption of secure, interoperable digital ID systems is streamlining KYC and onboarding processes. Platforms like **ID2020** and the **EU's eIDAS regulation** are pushing for standardized digital identification frameworks that can reduce firms' manual verification burdens.
- **Cross-border convergence efforts.** Initiatives such as the **International Organization of Securities Commissions' (IOSCO's) Sustainable Finance Task Force**, which has endorsed the International Sustainability Standards Board (ISSB's) global sustainability disclosure standards, aim to align disclosure expectations. Firms that proactively align with these evolving norms are better positioned for long-term regulatory resilience.

By preparing for these developments now, firms may be better positioned to navigate regulatory changes more effectively and maintain investor confidence.

## Conclusion

To adapt to an increasingly complex and volatile environment, alternative asset managers should adopt a proactive and integrated approach to compliance. This involves aligning compliance strategies with investment objectives by leveraging new and advanced technologies.

The path forward demands a delicate balance: maintaining agility to capitalize on new opportunities while ensuring oversight. Firms that navigate this balance effectively may remain compliant and be well-positioned among peers in the evolving landscape of alternative assets.

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<sup>1</sup> Real-time dashboards collate and analyze data to provide rapid insights and help users make faster decisions.