The Challenges of Onboarding for Alternative Assets

A collaborative paper by Chartis Research and FIS.

1. Executive summary

This report provides a comprehensive overview of the current landscape for investor onboarding for alternative assets. It focuses on key asset classes in the sector, including private equity, hedge funds, private credit, real estate investment trusts (REITs) and infrastructure funds.

As alternative assets continue to grow in importance within the global investment landscape, the onboarding process for these investments has become increasingly complex and must be tailored to meet the unique demands of each asset class. This complexity is further amplified by regulatory challenges, operational costs and the need for integration across various systems.

This report examines the global regulatory environment impacting alternative assets, highlighting developments in the EU, US, UK and Japan. As these markets expand, regulators are focusing on balancing accessibility with oversight, to maintain investor protection and market stability while fostering innovation and investment growth. It also provides an analysis of regulatory frameworks governing alternative assets, including the Financial Action Task Force (FATF), Basel and the EU Anti-Money Laundering Authority (AMLA).

A central theme in this report is the importance of integrating onboarding solutions with trading platforms, credit management tools and overarching regulatory frameworks. As alternative assets become more intricate, advanced technologies such as AI and machine learning (ML) are poised to play a key role in:

- Streamlining the onboarding process.
- Automating document generation and verification.
- Providing insights for optimized workflows tailored to the diverse requirements of different asset classes.

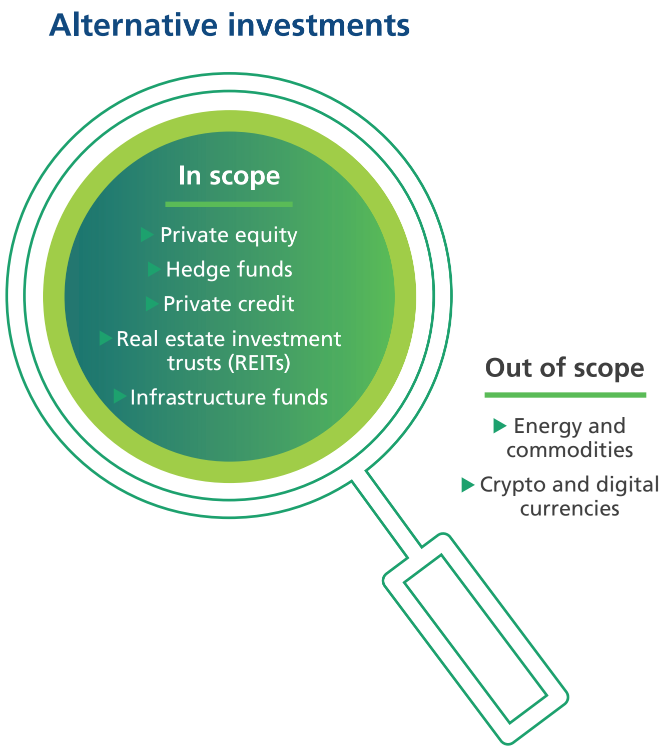
Financial institutions must navigate a dynamic regulatory and operational landscape. With a focus on combining industry-specific knowledge and technology, they can position themselves for success in an increasingly complex market environment.

2. Introduction and scope

This report will focus on the following areas of alternative investments (see Figure 1):

- **Private equity**. Investments in privately held companies or buyouts of public companies that result in the delisting of public equity.
- **Hedge funds**. Pooled investment vehicles that use diverse and/or complex strategies to generate returns for their investors, including long and short positions, leverage, derivatives and arbitrage.
- **Private credit**. Non-bank lending to companies, typically through direct loans, mezzanine financing, or distressed debt opportunities. These investments often provide fixed income returns and are often characterized by bespoke terms and structures.
- **Real estate investment trusts (REITs)**. Companies that own, operate or finance income-generating real estate across residential, commercial and industrial properties.
- **Infrastructure funds**. Investment in essential physical assets that support economic activity, including transportation systems, energy grids, water supply networks, and telecommunications infrastructure. These investments often have long-term horizons and are used to generate stable, inflation-linked cash flows.

Figure 1: The scope of this report



Source: Chartis Research

For the purposes of this report, we have excluded the following categories of alternative investments:

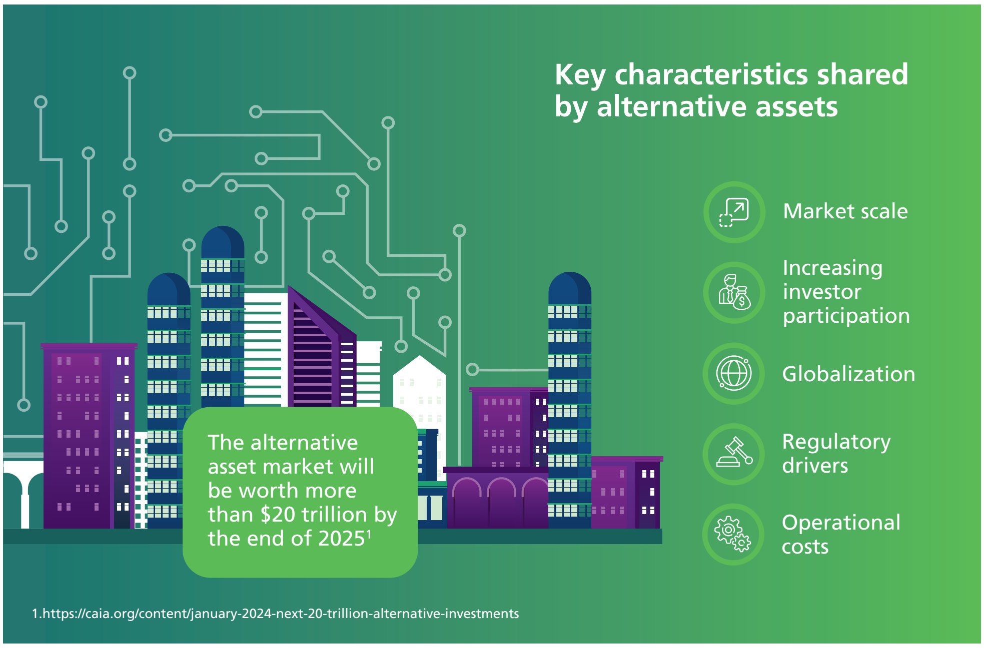
- **Energy and commodities**. The onboarding process for these investments tends to involve specialized infrastructure and expertise, which fall outside the scope of this paper.
- **Crypto and digital currencies**. We have excluded crypto assets and digital currencies due to their nascent stage of development, as well as regulatory uncertainty.

3. Alternative assets: why now?

Globally, alternative assets have experienced significant growth, with projections exceeding **$20 trillion by the end of 2025**. While each alternative asset class presents unique challenges, they share several key characteristics (see Figure 2):

- **Market scale**. Alternative assets have grown into a critical segment of the global investment landscape, representing trillions of dollars in managed assets and attracting capital from a diverse range of investors, including pension funds, sovereign wealth funds and high-net-worth individuals.
- **Increasing investor participation**. Investors' appetite for alternative assets has surged in recent years, driven by the pursuit of higher returns, diversification and a lower correlation with more traditional equities and bonds. This growth is being fueled by institutional investors as well as retail investors gaining access via novel fund structures and platforms. As participation increases, the demand for streamlined onboarding processes and enhanced investor experiences is becoming a priority.
- **Globalization**. Alternative assets have achieved consistent growth across international markets. Globalization has broadened the reach of investments, while simultaneously introducing new complexities such as cross-border compliance, varying tax regimes and the need for multilingual documentation.
- **Regulatory drivers**. As these asset classes grow in scale and complexity, they have come under increasing scrutiny from regulators worldwide. Each class faces unique and evolving compliance requirements, including anti-money laundering (AML) regulations, Know Your Customer (KYC) standards, and sustainability reporting frameworks to comply with environmental, social and governance (ESG) regulations. Regulatory changes are not only shaping the onboarding process but are also driving innovation in compliance technology and investor due diligence.
- **Operational costs**. Investor onboarding for alternative assets often involves highly customized and labor-intensive processes, including identification and verification and processing complex documentation. The extended processing times for these processes can lead to higher operational costs for financial institutions. Streamlining these processes with technology and improved workflows is becoming increasingly important as market participants seek to balance efficiency with compliance.

Figure 2: Alternative assets – dynamics and value



Source: Chartis Research

4. The global regulatory landscape for alternative assets

The expansion in the alternative assets sector has prompted regulators worldwide to balance facilitating investment opportunities with maintaining oversight. There have been efforts to make alternative investments more accessible, as evidenced by the rise of exchange-traded funds (ETFs) and model portfolios that incorporate alternative assets.

While attempting to streamline access to alternative assets, regulatory bodies are also looking to mitigate risks: a dual approach that seeks to balance the promotion of market growth with the protection of investors. Some of the key developments are outlined in Table 1.

Table 1: Global regulatory developments

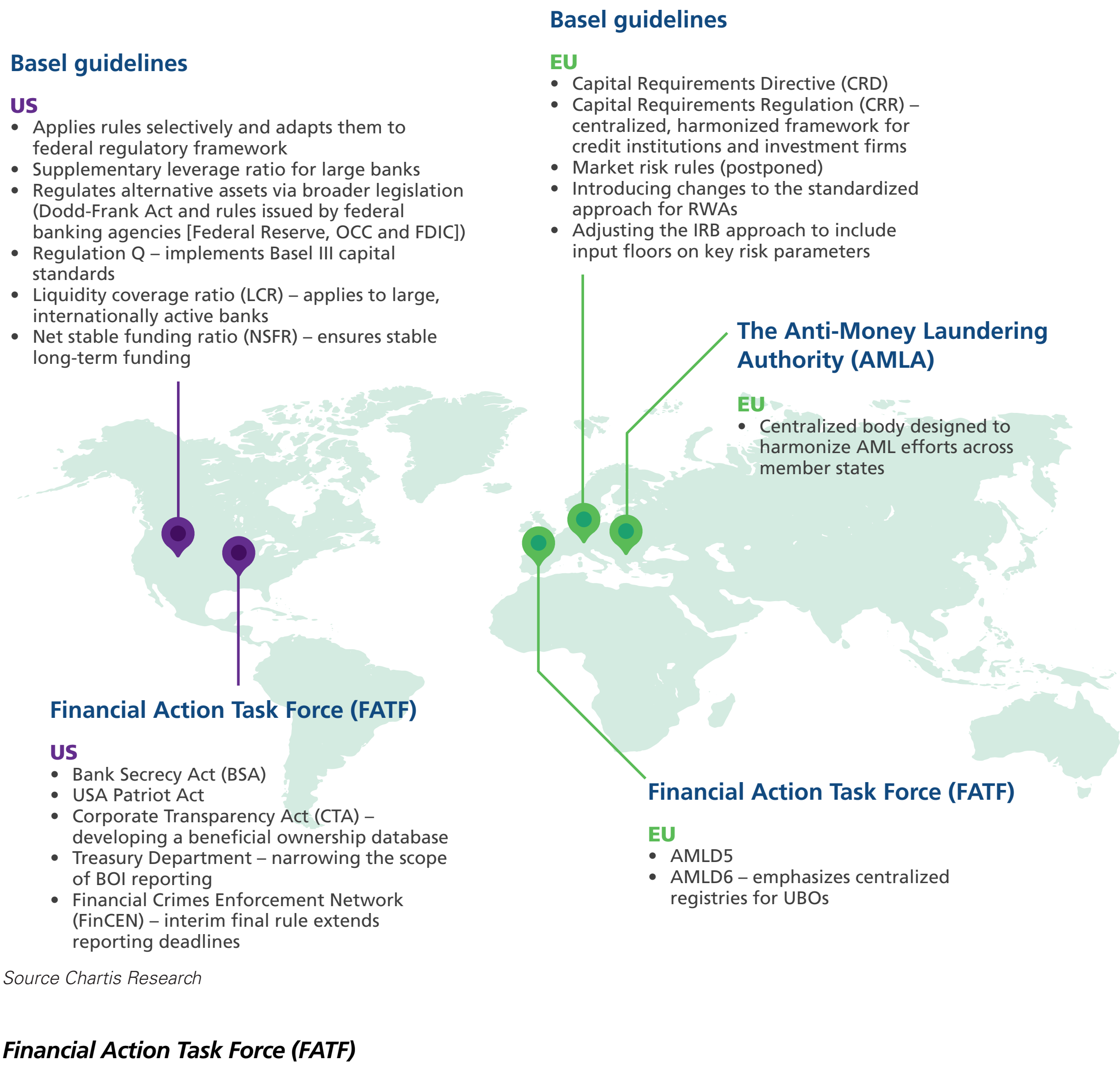
Area	Comments
European Union	In 2024, the EU focused on enhancing its financial services framework, particularly through revisions to the Markets in Financial Instruments Regulation and Directive (MiFIR-D), which aim to improve market transparency and investor protection. Additionally, the EU has implemented updates to the Alternative Investment Fund Managers Directive (AIFMD), which were adopted in 2023 and came into force in 2024. These changes refine the regulatory framework for alternative investment fund managers (AIFMs), ensuring greater oversight and investor safeguards. Furthermore, the EU continues to advance the Listing Act to facilitate better access to public capital markets.
UK	The UK's Financial Conduct Authority (FCA) is actively reviewing aspects of the country's regulatory framework for asset managers, as part of its broader 'Smarter Regulatory Framework' initiative, which seeks to refine onshored EU financial services legislation. The FCA is planning to reform the UK's version of these regulations to ensure a more proportionate approach, particularly for smaller full-scope AIFMs. Proposed changes may include adjusting the thresholds that distinguish full-scope AIFMs from sub-threshold AIFMs, and streamlining the process for AIFMs to obtain regulatory permission for specific activities. In addition to these reforms, the FCA is also focusing on innovation and transparency within the asset management sector, and is exploring the potential of fund tokenization.
Japan	In 2024, Japan's Financial Services Agency (FSA) introduced several regulatory amendments, including the relaxation of rules for distributing foreign alternative asset products. The FSA also **revised the Financial Instruments and Exchange Act** to allow mutual funds to invest in unlisted stocks, enhancing the flexibility of investment strategies.
United States	The US regulatory landscape for alternative assets saw significant developments in 2024 and early 2025. Both the Commodity Futures Trading Commission (CFTC) and the National Futures Association (NFA) updated regulations to enhance transparency and investor protection in the derivatives market. On 12 September 2024, the CFTC introduced amendments to Regulation 4.7. These updates refine exemptions for commodity pool operators (CPOs) and commodity trading advisors (CTAs), aiming for greater consistency in disclosure and reporting standards. The NFA also applied revisions to its regulations on 15 January 2025, focusing on streamlining reporting requirements for CPOs and other entities involved in alternative assets. A key change mandates that CPOs file NFA Form PQR within 60 days of each quarter's end. This aligns with the CFTC's Form CPO-PQR and eliminates substituted compliance for dually registered CPO investment advisers. These measures aim to create a more uniform reporting framework, reducing regulatory redundancies while strengthening oversight and investor protections.

Source: Chartis Research

Centralized vs. decentralized regulatory frameworks

To manage alternative assets, particularly for cross-border institutions, firms must understand the broader regulatory regimes that govern the financial and alternative asset sectors, focusing on their alignment, differences and recent developments. Across the two largest markets (the EU and the US), these fundamental differences often resolve themselves into themes of 'centralization' and 'decentralization' (see Figure 3). Some of the key regulatory frameworks are examined in the following sections.

Figure 3: Regulatory frameworks in the EU and the US



Source Chartis Research

Financial Action Task Force (FATF)

The FATF remains a cornerstone for shaping AML and countering the financing of terrorism (CFT) regulations worldwide. Both the EU and US have adopted FATF recommendations as a basis for their respective AML regulations, but the implementation can vary significantly. The EU, via directives such as the fifth and sixth AML Directives (AMLD5 and AMLD6), tends to issue prescriptive rules that apply across member states, although it is adopting a more centralized approach with the formation of AMLA, and will introduce regulations aimed at harmonising and standardising rules across the region. The US takes a more centralized approach with the Bank Secrecy Act (BSA) and the USA Patriot Act.

For institutions, understanding how FATF principles are integrated into these frameworks is critical to maintaining compliance across jurisdictions. For example, the EU emphasizes centralized registries for ultimate beneficial owners (UBOs), a key aspect of AMLD6, while the US has been developing its beneficial ownership database under the Corporate Transparency Act (CTA). However, recent developments have altered the enforcement landscape for the CTA. On 2 March 2025, the US Treasury Department announced significant changes, including a temporary suspension of penalties and fines related to beneficial ownership information (BOI) reporting requirements. This move is aimed at providing companies with additional time to adjust to compliance obligations without facing immediate enforcement actions.

Additionally, the Treasury Department is narrowing the scope of BOI reporting: forthcoming rule changes will primarily target foreign reporting companies, while reducing regulatory burdens on US citizens and domestic entities.

To formalize these adjustments, the Financial Crimes Enforcement Network (FinCEN) interim final rule extends reporting deadlines and provides updated guidance. These shifts potentially signal a more institution-friendly approach to BOI enforcement, balancing FATF-aligned transparency initiatives with practical compliance considerations.

Basel guidelines

The EU adopts Basel guidelines via regulations such as the Capital Requirements Directive (CRD) and the Capital Requirements Regulation (CRR), which are directly binding across member states. The EU generally adheres closely to Basel recommendations, often implementing them with minimal deviations. However, while significant progress has been made in incorporating the Basel III framework, certain elements are still being phased in. One key area of delay is in the implementation of market risk rules, which have been postponed by one year to ensure they align with international standards and to maintain a level playing field for European financial institutions.

In addition, the final components of Basel III focus on refining the calculation of banks' risk-weighted assets (RWAs). The EU is gradually introducing changes to the standardized approach for RWAs and adjusting the internal ratings-based (IRB) approach; changes include the introduction of input floors on key risk parameters. These measures aim to enhance consistency and risk sensitivity in capital requirements while balancing the regulatory burden on banks.

The US, while heavily influenced by Basel principles, applies them selectively and adapts them to its federal regulatory framework. The key federal banking regulators responsible for enforcing these standards are:

- **Federal Reserve Board (FRB)**. Oversees the implementation of Basel III capital and liquidity requirements for large banking organizations and systemically important non-bank financial companies, including such stricter leverage ratio requirements as the Supplementary Leverage Ratio (SLR) for large banks.

- **Office of the Comptroller of the Currency (OCC)**. Regulates national banks and federal savings associations, ensuring compliance with Basel III standards.

- **Federal Deposit Insurance Corporation (FDIC)**. Applies Basel III rules to state-chartered banks that are not members of the Federal Reserve System.

These regulators work together to ensure that U.S. banks maintain strong capital positions and adhere to international standards set by the Basel Committee on Banking Supervision (BCBS).

Additionally, Basel III has had a notable impact on alternative fund managers, particularly in terms of financing costs and relationships with prime brokers. Higher capital requirements have increased the cost of borrowing for hedge funds and other alternative asset managers, as banks must hold more capital against their exposures.

These frameworks and regulations have also reshaped prime brokerage relationships, prompting fund managers to adapt how they interact with brokers, including reducing cash balances held on broker balance sheets. Access to financing has become more challenging, requiring alternative asset managers to optimize their capital strategies while managing rising costs. As a result, fund managers have had to adapt to a more constrained financial landscape shaped by Basel III's evolving requirements.

This approach extends to the regulation of alternative assets, where the EU's CRD VI and CRR III establish risk-weighting and capital buffers for investment risks, ensuring a standardized framework across all member states. Changes that took effect on 1 January 2025 include revisions to credit risk assessments, the introduction of the Fundamental Review of the Trading Book (FRTB) for market risk, and a revised standardized approach for operational risk. Additionally, an output floor was introduced to limit variability in RWAs calculated by internal models, while ESG risks are now formally incorporated into risk management frameworks. Stricter requirements also apply to third-country banks operating within the EU to ensure compliance with EU regulatory standards.

In contrast, the US regulates alternative assets through broader legislation such as the Dodd-Frank Act and rules issued by federal banking agencies such as the Federal Reserve, the OCC and the FDIC. Key regulations and stipulations include Regulation Q, which implements Basel III capital standards, the liquidity coverage ratio (LCR), which requires large financial institutions to hold sufficient liquid assets for stress scenarios, and the net stable funding ratio (NSFR), which ensures stable long-term funding. While these requirements influence capital treatment for alternative assets, the US framework allows for more flexibility in interpreting and applying capital requirements, compared with the EU's more standardized and prescriptive approach.

The EU's CRR provides a centralized, harmonized framework that applies to credit institutions and investment firms across all member states. It establishes detailed rules for capital adequacy, credit risk, market risk and liquidity requirements, including the LCR and the NSFR. This uniform approach ensures regulatory consistency but can be less flexible for institutions that operate in diverse financial markets.

In contrast, the US LCR applies primarily to large, internationally active banks and focuses specifically on short-term liquidity risk management. It mandates that banks maintain sufficient high-quality liquid assets (HQLA) to cover potential outflows over a 30-day stress period. Unlike the broader EU CRR framework, the US LCR is implemented via federal banking agencies, including the Federal Reserve, the OCC and the FDIC, allowing for sector-specific adjustments.

Overall, the CRR in the EU encompasses a wider range of prudential standards beyond liquidity, ensuring uniform capital and risk management rules. The US approach provides more flexibility by focusing separately on liquidity risk via the LCR and broader capital rules under Regulation Q and other frameworks. This decentralized approach allows for tailored regulatory applications but can lead to inconsistencies across different financial sectors.

Anti-Money Laundering Authority (AMLA)

Perhaps the largest change in recent times is represented by the EU's creation of AMLA, a centralized body designed to harmonize AML efforts across member states, increase oversight and reduce regulatory discrepancies. This marks a shift toward a more unified regulatory landscape in Europe, with its authority extending to directly supervising high-risk financial institutions. This development represents a pivotal change in how the EU enforces AML measures, ensuring greater alignment with global standards like FATF while addressing such domestic challenges as cross-border inconsistencies.

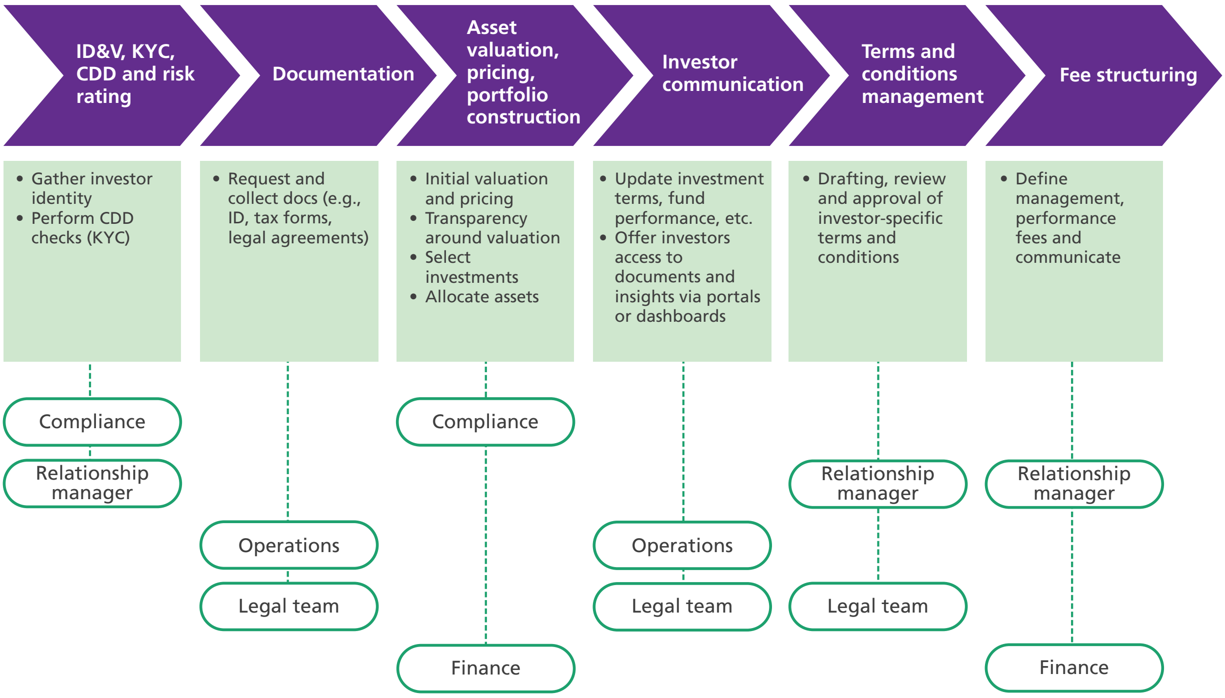
Both the EU and the US aim to uphold stringent AML and financial stability measures, but their approaches reflect regional priorities.

5. A process outline for alternative-asset client onboarding

The onboarding process for alternative asset clients is distinct, involving unique structures and documentation. This necessitates a workflow that not only addresses enhanced due diligence (EDD) and client monitoring but also encompasses wider processes.

These often include multiple stakeholders that may be involved at several points during an onboarding cycle. Figure 4 illustrates how legal, operations and compliance teams can be involved in an onboarding flow. Tasks are assigned, completed and passed to the next department, and then are potentially returned to be reassessed at a later stage. Retaining consistency in data and ownership/organizational structures is crucial.

Figure 4: A simplified onboarding process



Source: Chartis Research

This is a simplification: each of these processes represents a highly complex workflow. In addition, each alternative asset has its own requirements. For example:

- Private equity may require thorough vetting of investor accreditation and analysis of bespoke fund structures.
- Hedge funds might involve rapid onboarding for a diverse investor base with varied risk tolerances.
- Private credit could demand a detailed review of loan terms, collateral agreements and investor preferences.
- REITs often require scrutiny of ownership structures and tax considerations.
- Infrastructure funds involve long-term capital commitments and compliance with region-specific regulations.

These distinct requirements further underscore the need for tailored workflows and systems.

6. Conclusion

The successful onboarding of investors in alternative assets requires a delicate balance between meeting regional, regulatory and technical requirements, while also ensuring an efficient process. As these asset classes continue to grow in scale and complexity, technology will play a key role in addressing the challenges that surround them.

The first and most important requirement is to integrate onboarding solutions with multiple systems, including trading platforms, credit management tools and overarching regulatory frameworks: the Basel framework, for example, provides global standards for risk management, capital adequacy and liquidity. By aligning processes with these standards, firms can have a direct impact on their ability to manage operational, credit and liquidity risks effectively.

Beyond this, wider integration can streamline workflows and enable greater levels of automation. Flexible workflows and robust data integration capabilities are no longer optional – they are essential. Moreover, developments in advanced tools such as AI and ML present opportunities to enhance the onboarding process. These could include automating both document generation and verification, or providing guidance through variable onboarding workflows. AI-driven optical character recognition (OCR), for example, can extract data from complex subscription agreements, side letters and tax forms.

In addition to automating documentation, AI can provide guidance through variable workflows. By analyzing patterns in historical onboarding cases, AI tools can recommend optimized pathways tailored to specific asset classes, investor types or jurisdictions. AI can also recommend adjusted workflows to reflect these distinctions.

Statistical techniques (such as graph and network generation) can be used for entity resolution, and to construct complex corporate structures that can be maintained along the workflow process.

By leveraging innovative tools and adopting flexible solutions, financial institutions can position themselves for long-term success in a highly variable environment – a landscape that requires both technical expertise and deep industry knowledge.