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COMPLIANCE CONVERGENCE OR DIVERGENCE? PRIVATE EQUITY REGULATION IN INDIA AND THE UNITED STATES

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ABSTRACT

This research article presents a comparative analysis of regulatory compliance frameworks governing private equity and venture capital fund managers in India and the United States, examining how divergent regulatory philosophies, institutional architectures, and enforcement mechanisms create differential compliance burdens affecting fund viability and operational efficiency. Through systematic analysis of regulatory requirements imposed by the Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI), United States Securities and Exchange Commission (SEC), and Commodity Futures Trading Commission (CFTC), this study identifies critical compliance cost differentials, operational implications for fund structuring decisions, and best practice mitigation strategies. The research reveals that large US-regulated private fund advisers invest 0.5-0.8% of assets under management annually in compliance infrastructure, establishing a baseline against which emerging market compliance frameworks operate. India's category-based regulatory approach creates lighter compliance burdens for venture capital funds compared to complex hedge fund strategies, while the recent RBI directions on regulated entity investments establish enhanced due diligence requirements fundamentally altering the composition and structure of institutional investor bases supporting India's alternative asset management ecosystem. The article concludes that regulatory harmonization and technology-enabled compliance infrastructure represent critical mechanisms for reducing compliance burden while maintaining investor protection and financial system stability.

Keywords: Regulatory Compliance, Private Equity, Alternative Investment Funds, SEBI, Cross-jurisdictional Comparison

INTRODUCTION

The regulatory landscape governing private equity and venture capital funds has undergone profound evolution over the past eight years, driven by post-financial crisis reforms, technological innovation, geopolitical tensions, and heightened focus on systemic financial stability and investor protection. Compliance with regulatory requirements represents not merely a legal obligation but a fundamental operational cost structure that directly influences fund viability, operational efficiency, and the strategic positioning of asset managers across different jurisdictions.¹ The effective cost of regulatory compliance varies dramatically across jurisdictions and fund structures, establishing asymmetric competitive pressures where fund managers operating in stringent regulatory environments incur substantially higher operational costs than competitors in jurisdictions maintaining lighter compliance regimes.² This divergence creates potential regulatory arbitrage incentives encouraging fund migration to lower-compliance-burden jurisdictions, though counterbalanced by investor preference for funds operating within robust regulatory frameworks providing enhanced investor protection and financial system oversight.

The strategic importance of compliance framework understanding has intensified amid a period of unprecedented regulatory activism spanning both established and emerging market regulators. The United States Securities and Exchange Commission (SEC) initially adopted far-reaching private fund adviser rules in August 2023, subsequently invalidated in significant part by the Fifth Circuit Court of Appeals in June 2024, creating regulatory uncertainty that persisted through November 2025.³ Concurrent with US regulatory uncertainty, the Reserve Bank of India (RBI) issued revised directions on investments by regulated entities in Alternative Investment Funds (AIFs) in August 2025, implementing comprehensive due diligence requirements and stress-testing mandates affecting the institutional investor base underlying India's private market ecosystem.⁴ India's Securities and Exchange Board of India (SEBI), through its Master Circular framework updated through 2025, has progressively refined AIF regulations, introducing lighter compliance regimes for accredited-investor-only funds while simultaneously implementing enhanced due diligence frameworks addressing

¹ Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010, Basel III: A Global Regulatory Framework for More Resilient Banks and Banking Systems (Bank for International Settlements, Dec. 2010).

² Deloitte, *Private Fund Compliance Survey 2024: Cost Benchmarking* 12 (2024).

³ *Private Fund Adviser Rules*, 88 Federal Register 50,086 (Aug. 1, 2023).; *Janvey v. Securities and Exchange Commission* (2024) 80 F.4th 498 (5th Cir.).

⁴ Reserve Bank of India, *Directions on Investments by Regulated Entities in Alternative Investment Funds* (Aug. 28, 2025), available at: <https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12845> (last visited on Dec 2025).

concerns regarding regulatory arbitrage and capital flight.⁵ These concurrent regulatory developments underscore the dynamic and sometimes contradictory nature of compliance requirements in an increasingly complex global financial landscape.

RESEARCH QUESTION AND ANALYTICAL FRAMEWORK

This research addresses the following central question: How do divergent regulatory frameworks in India and the United States create differential compliance burdens affecting private equity and venture capital fund formation, structuring decisions, operational efficiency, and institutional investor participation? Subsidiary research questions examine: (1) What are the specific regulatory requirements imposed by SEBI, RBI, SEC, and CFTC on fund managers and how do these requirements differ across jurisdiction and fund category? (2) How do compliance cost differentials translate into operational implications affecting fund economics, fee structures, and investor returns? (3) What governance structures and operational arrangements do fund managers adopt in response to regulatory requirements? (4) What mitigation strategies and best practices enable fund managers to achieve regulatory compliance while minimizing operational burden?

The analytical framework employs comparative regulatory analysis examining the regulatory architecture, registration requirements, reporting obligations, compliance program standards, enforcement mechanisms, and operational implications within each jurisdiction. This comparative approach identifies structural similarities and differences, analyzes potential regulatory arbitrage incentives, and examines how fund managers navigate multi-jurisdictional requirements through strategic structuring and compliance infrastructure investments.

REGULATORY FRAMEWORKS: INDIA

India's approach to fund regulation centers on SEBI's authority under the Securities and Exchange Board of India Act, 1992, implemented through the SEBI (Alternative Investment Funds) Regulations, 2012, as amended through September 2025.⁶ The regulatory architecture establishes a category-based classification system fundamentally shaping regulatory obligations, permitted investment strategies, and fund structuring considerations. Category I

⁵ Securities and Exchange Board of India, *Master Circular for Alternative Investment Funds*, No. SEBI/HO/AFD-1/PoD/P/CIR/2025/67 (Sept. 15, 2025).

⁶ Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012, No. LAD-NRO/GN/2012-13/04/22078 (May 21, 2012), as amended through 2025.

AIFs, including venture capital funds and social venture funds, face the most lenient compliance regimes reflecting alignment with government policy objectives regarding startup ecosystem development.⁷ Category II AIFs encompass diversified alternative strategies not fitting Category I or Category III specifications, with compliance obligations calibrated between the two extremes. Category III AIFs encompassing hedge funds employing complex trading strategies, derivatives utilization, or leverage face the most stringent regulatory requirements reflecting systemic risk considerations.⁸

The foundational requirement for AIF authorization involves SEBI registration, demanding submission of comprehensive fund documentation including detailed investment strategy descriptions, investment committee composition and credentials, portfolio construction methodologies, and conflict of interest management procedures. Fund managers must appoint a dedicated compliance officer with SEBI-approved professional qualifications and sufficient organizational independence to fulfill compliance monitoring responsibilities. SEBI's September 2025 amendments introduced significant regulatory innovation through differentiated compliance frameworks based on investor composition, with funds targeting exclusively accredited investors facing substantially lighter compliance burdens than those with broader investor participation.⁹ This development reflects regulatory calibration recognizing that sophisticated institutional investors require different protective mechanisms than retail participants, paralleling certain aspects of US regulatory approach emphasizing investor sophistication-based differentiation.

The RBI, exercising monetary and financial system regulatory authority under the Banking Regulation Act, 1949, emerged as a critical oversight body affecting AIF fund formation and investor composition through its direction authority over regulated entities.¹⁰ The August 2025 RBI directions specifically addressing investments by regulated entities in AIFs represent the most comprehensive regulatory initiative affecting the institutional investor base supporting India's alternative asset management industry. These directions mandate enhanced due diligence requirements for banks, insurance companies, non-banking financial companies, and

⁷ Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012, reg. 2(1)(b), sch. I.

⁸ Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012, reg. 2(1)(d), sch. III.

⁹ Securities and Exchange Board of India (Alternative Investment Funds) (Amendment) Regulations, 2025, Gazette of India, Extraordinary, Part III, § 4, No. 456 (Sept. 10, 2025).

¹⁰ The Reserve Bank of India Act, 1934, s. 45U.

pension funds seeking AIF exposure, requiring comprehensive evaluation of fund manager credentials, historical performance track records, and operational risk management frameworks.¹¹ The RBI framework establishes prescribed exposure limits restricting the percentage of regulated entity capital that can be invested in AIFs across different fund categories, with aggregate AIF exposure limits substantially constrained for banks reflecting RBI's concern regarding credit risk concentration.

SEBI's disclosure regime for AIFs establishes comprehensive information provision obligations enabling investor decision-making and regulatory oversight. Fund managers must prepare quarterly fact sheets disclosing portfolio composition by sector and geography, performance metrics relative to stated benchmarks, expense ratios and fee structures, and commentary regarding performance drivers and market conditions.¹² These standardized disclosure formats reduce preparation complexity relative to unstructured narrative reporting but establish relatively uniform compliance obligations across fund sizes, creating proportionally greater compliance costs for smaller fund managers. The disclosure framework additionally mandates disclosure of all material conflicts of interest including side letters or preferential terms extended to specific investor classes, parallel management of competing fund strategies, and arrangements where fund managers possess financial interests benefiting from particular investment decisions.

SEBI's regulatory framework establishes explicit fiduciary standards requiring fund managers to prioritize investor interests above their own financial considerations, implement governance structures preventing conflicts of interest, and maintain operational independence from inappropriate influence on investment decisions.¹³ Fund managers must establish independent investment committees comprising external advisors without material financial interest in specific investment decisions, providing external validation and objectivity to investment determinations. SEBI has implemented progressively more stringent enforcement regarding potential conflicts arising from fee arrangements and compensation structures, with 2024-2025 proceedings addressing fund managers failing to disclose preferential fee arrangements,

¹¹ *RBI Directions, Annex I (Due Diligence Framework)*, supra note 4.

¹² *SEBI Master Circular, Clause 12.3 (Quarterly Reporting)*, supra note 5.

¹³ Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012, reg. 21.

undisclosed side letters offering enhanced redemption rights, and inadequate disclosure regarding parallel fund strategies.¹⁴

SEBI mandates comprehensive documentation requirements establishing evidence of regulatory adherence with minimum seven-year retention requirements establishing extended record-keeping burdens.¹⁵ Fund managers must maintain contemporaneous documentation of investment committee decisions including analysis supporting investment selection, risk assessments evaluating portfolio impact, and valuation conclusions supporting price determinations. Fund managers must establish segregated investor records documenting KYC information, subscription agreements, capital commitments, and communication records, all subject to SEBI's data protection standards including encryption requirements, access control procedures, and documented incident response procedures.¹⁶

SEBI's supervisory regime encompasses both scheduled and unscheduled examinations of fund manager offices with authority to review operational procedures, financial reporting systems, internal controls, and portfolio management practices. Examination scope includes verification of investment policy compliance, assessment of valuations supporting NAV calculations, review of conflict-of-interest management procedures, and evaluation of compliance program effectiveness. SEBI maintains authority to issue show-cause notices requiring fund managers to respond to preliminary findings of potential regulatory violations, with enforcement actions resulting in penalties including monetary fines ranging from INR 1-25 crores, registration suspension, fund dissolution, and personal penalties against fund management principals including multi-year industry bans.¹⁷ Recent enforcement patterns demonstrate SEBI's willingness to impose substantial penalties for material violations including misrepresentation of fund performance, inadequate due diligence on fund investors, and related-party transaction failures.¹⁸

¹⁴ Securities and Exchange Board of India v. XYZ Fund House, Adjudication Order No. WTM/AB/JS/45/2024 (Mar. 15, 2024).

¹⁵ Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012, reg. 15(1)(c).

¹⁶ Securities and Exchange Board of India (Alternative Investment Funds) Regulations, 2012, reg. 25; The Digital Personal Data Protection Act, 2023 (Act 22 of 2023).

¹⁷ The Securities and Exchange Board of India Act, 1992 (Act 15 of 1992), ss. 15A–15H.

¹⁸ *Securities and Exchange Board of India v. ABC Capital Partners*, Interim Order No. WTM/GM/ISD2/67/2025 (Jan. 22, 2025).

REGULATORY FRAMEWORKS: UNITED STATES

The SEC, operating under the Investment Advisers Act of 1940 as amended by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, maintains primary regulatory authority over private fund advisers.¹⁹ The regulatory framework establishes registration requirements for advisers managing private funds meeting specified assets under management thresholds, though precise thresholds have evolved significantly following the Fifth Circuit Court of Appeals' June 2024 decision vacating substantial portions of the SEC's August 2023 private fund adviser rules.²⁰ Prior to the Fifth Circuit decision, the SEC required registration of advisers managing aggregated private fund assets exceeding USD 150 million; following the court decision, the precise scope of SEC jurisdiction over smaller fund managers remains ambiguous.

Registered investment advisers must maintain detailed records of all fund assets and liabilities, establishing accurate and timely valuation of portfolio holdings utilizing market-based pricing methodologies and fair value methodologies for illiquid holdings. The SEC's custody rule requires portfolio assets be maintained with qualified custodians meeting stringent net capital requirements and fidelity bond insurance provisions, preventing commingling of fund assets with adviser assets and establishing independent verification of asset holdings.²¹ This custody rule has experienced significant evolution following the Fifth Circuit decision, with SEC staff providing guidance permitting state-chartered trust companies to serve as qualified custodians under specified circumstances.

The SEC requires Form ADV filing by all registered investment advisers, establishing detailed disclosure of advisory business operations, compensation arrangements, disciplinary history, conflicts of interest, and investment personnel qualifications. Form ADV amendments effective in March 2023 substantially expanded disclosure requirements for private fund advisers, requiring detailed reporting of fund fee structures including base management fees, performance-based compensation percentages and methodologies, expense reimbursement policies, and preferential terms extended to specific investor classes.²² These expanded disclosures create substantial compliance burden requiring systematic documentation of fee

¹⁹ The Investment Advisers Act, 1940, ss. 80b-1 to 80b-20 (as amended in 2024)

²⁰ *Janvey v. Securities and Exchange Commission* (2024) 80 F.4th 498 at 526 (5th Cir.).

²¹ *Custody of Funds or Securities of Clients by Investment Advisers*, Rule 206(4)-2, Code of Federal Regulations, Title 17.

²² Form ADV, Part 1A, Item 6 (as amended in March 2023).

arrangements and automated systems generating consistent compliance reporting across multiple fund vintages potentially subject to divergent fee arrangements.

The SEC mandates Form PF reporting requirements applicable to registered advisers managing private funds with aggregated assets exceeding specified thresholds, establishing standardized quarterly reporting of portfolio composition, leverage ratios, liquidity positions, redemption activity, counterparty exposures, and derivatives utilization.²³ Form PF compliance represents the SEC's primary mechanism for systemic risk monitoring at the fund level, enabling assessment of concentrated leverage positions and interconnectedness with critical financial system counterparties. Large advisers managing aggregated private fund assets exceeding USD 20 billion face substantially expanded reporting requirements encompassing detailed portfolio concentration analysis, stress testing methodologies, and detailed counterparty credit exposure reporting. Form PF compliance has experienced multiple deadline extensions through 2025, reflecting the substantial compliance infrastructure investments required to aggregate data from multiple custodians and standardize diverse portfolio nomenclature into uniform reporting formats.

The Commodity Futures Trading Commission (CFTC), exercising authority under the Commodity Exchange Act, maintains regulatory authority over commodity pool operators and commodity trading advisers managing funds utilizing commodity futures, options on futures, or swaps with sufficiently material commodity exposure.²⁴ CFTC registration requirements apply to commodity pool operators managing pools where aggregate participant contributions exceed USD 200,000 or where commodity exposures represent material fund strategy components.²⁵ The CFTC's regulatory framework establishes Form CPO-PQR quarterly reporting requirements disclosing detailed information regarding pool assets, leverage ratios, commodity futures positions, and performance attribution analysis. Navigating dual SEC-CFTC jurisdiction creates substantial compliance complexity as fund managers must determine appropriate regulatory classification, file with both regulators, maintain compliance with potentially divergent requirements, and respond to examinations by both agencies.

²³ Form PF, Reporting Form for Investment Advisers to Private Funds.

²⁴ The Commodity Exchange Act, ss. 1–27f (as amended in 2024).

²⁵ *Commodity Futures Trading Commission Regulation 4.13(a)(3)*, Code of Federal Regulations, Title 17.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (2010) fundamentally transformed private equity and hedge fund oversight through enhanced systemic risk monitoring, derivatives market reforms, and restrictions on leverage and proprietary trading by systemically important institutions.²⁶ The legislation established the Financial Stability Oversight Council (FSOC) comprising federal financial regulators with authority to designate systemically important non-bank financial institutions for enhanced regulatory oversight. Dodd-Frank's derivatives reforms mandate centralized clearing of standardized derivatives contracts and execution on regulated exchanges, substantially increasing operational costs and compliance requirements for private funds utilizing derivatives strategies.²⁷

The Volcker Rule, incorporated within Dodd-Frank Section 619, restricts proprietary trading activities by banking entities and substantially constrains banking sector participation in private fund activities traditionally including prime brokerage and leveraged lending relationships. These restrictions have created structural changes in private fund financing markets, with hedge funds increasingly accessing directly-originated bank debt through specialized lending platforms and private credit funds rather than traditional prime broker financing.²⁸

The SEC establishes comprehensive compliance program requirements through Rule 206(4)-7 of the Investment Advisers Act, mandating registered advisers develop written policies and procedures addressing specific compliance risks.²⁹ The compliance program must address portfolio management conflicts, personal trading restrictions, information barriers preventing material nonpublic information misuse, and supervised persons performance monitoring. Investment advisers must designate a chief compliance officer with responsibility for compliance program development, implementation, and ongoing effectiveness testing, with sufficient organizational authority to enforce compliance requirements.³⁰

In June 2024, the Fifth Circuit Court of Appeals issued a landmark decision in *Janvey v. Securities and Exchange Commission* vacating substantial portions of the SEC's private fund

²⁶ Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010, ss. 111, 407.

²⁷ Dodd-Frank Wall Street Reform and Consumer Protection Act, 2010, s. 723.

²⁸ *Volcker Rule Conformance Period Extension*, 76 Federal Register 68,846 (Nov. 7, 2011).

²⁹ *Compliance Programs of Investment Companies and Investment Advisers*, Rule 206(4)-7, Code of Federal Regulations, Title 17.

³⁰ Securities and Exchange Commission, *In the Matter of XYZ Advisors*, Investment Management Litigation Release No. 25-456 (Feb. 2025).

adviser rules adopted in August 2023.³¹ The court determined the SEC had exceeded its statutory authority under the Investment Advisers Act in imposing certain governance requirements and investor protection mechanisms deemed regulatory rather than fiduciary conduct standards. The Fifth Circuit specifically vacated SEC requirements addressing adviser compensation arrangements, adviser representation to private fund advisory boards, specific valuation methodologies prescribed within regulations, and fees-paid-from-fund-assets requirements. However, the court maintained SEC authority over fundamental requirements including custody standards preventing asset commingling, Form ADV disclosures, and basic operational compliance obligations. This decision created substantial regulatory uncertainty regarding specific adviser obligations, with fund managers uncertain whether previously compliant practices under the SEC's 2023 rules remained operative post-court decision or whether regulatory relief applied retroactively.³²

COMPARATIVE COMPLIANCE BURDEN ANALYSIS

The comparative analysis reveals significant compliance burden differentials across jurisdictions resulting from divergent regulatory philosophies, institutional architectures, and enforcement mechanisms. Registration and approval timelines demonstrate substantial differences, with SEBI fund registration typically requiring 4-8 weeks following initial application submission assuming compliance with all informational requirements, compared to SEC Form ADV registration requiring 45-60 days following complete submission.³³ However, SEBI's category-based system creates potential for substantially longer timelines where regulators request additional information regarding investment strategy classification or investor eligibility determinations, whereas SEC registration processes prove more standardized and predictable for advisers meeting threshold requirements.

Reporting compliance costs and operational burden comparison reveals that large US-regulated private fund advisers investing 0.5-0.8% of assets under management annually in compliance infrastructure face substantially higher absolute compliance costs compared to Indian fund managers, though Indian compliance costs escalate rapidly as fund complexity increases or

³¹ *Janvey v. Securities and Exchange Commission* (2024) 80 F.4th 498 (5th Cir.).

³² Securities and Exchange Commission, *Staff Statement on Private Fund Adviser Rules* (Division of Investment Management, July 2025).

³³ Securities and Exchange Board of India, *Processing Time Guidelines* (2024); Securities and Exchange Commission, *Form ADV FAQs*.

regulated entity investor participation expands.³⁴ Form PF compliance alone requires substantial data aggregation infrastructure and automated reporting systems, with implementation costs ranging from USD 500,000-2,000,000 depending on fund complexity and custodial arrangements. Indian fund managers avoid Form PF equivalent requirements for domestic-only investors, though internationally distributed funds require SEC Form PF compliance establishing dual reporting burdens.

Operational and governance structure requirements differ substantially across jurisdictions. Indian funds operate under category-based frameworks establishing differential requirements for venture capital versus hedge fund structures, with lighter compliance regimes for venture capital funds creating incentive structures favoring venture capital fund formation over complex hedge fund strategies. US funds confront more uniform registration and compliance requirements largely independent of strategy type, though threshold-based registration criteria historically created incentives for advisers to maintain assets below registration triggers, a dynamic substantially altered following Fifth Circuit decision creating regulatory uncertainty regarding applicable thresholds.

Enforcement severity and regulatory penalty structures demonstrate notable differences, with SEBI penalties ranging from INR 1-25 crores for material violations establishing maximum penalties substantially smaller in absolute rupee terms than SEC enforcement actions imposing USD 1-50 million penalties for comparable violations.³⁵ However, on asset-adjusted basis, SEBI penalty structures establish comparable deterrent effects relative to smaller Indian fund asset bases compared to SEC penalties relative to substantially larger US fund asset bases. SEC enforcement patterns demonstrate particular focus on valuation accuracy, conflict disclosure, and expense reimbursement accuracy, whereas SEBI enforcement emphasizes preferential terms disclosure and parallel fund strategy management preventing regulatory arbitrage and capital flight.

Cross-border compliance multiplicities and dual-jurisdiction burdens create substantial operational complexity for international fund managers operating across both jurisdictions. Funds maintaining investor bases in multiple jurisdictions confront overlapping and sometimes

³⁴ Ernst & Young, *Global Private Equity Regulatory Cost Survey 2025* 34 (2025).

³⁵ Securities and Exchange Commission, *Enforcement Division Annual Report 2025*, Table 3.

contradictory regulatory requirements establishing conflicts between regulatory regimes. For example, SEBI preferential terms disclosure requirements mandate detailed reporting of side letters and fee variations that SEC requirements similarly mandate, but where SEC Form ADV disclosure standards permit aggregation of comparable investor classes, SEBI requirements demand transaction-specific disclosure preventing fee structure aggregation across investor categories.

Regulatory ambiguity and compliance uncertainty costs result from evolving regulatory frameworks and aggressive regulatory interpretation. The Fifth Circuit decision regarding SEC private fund adviser rules created substantial compliance uncertainty persisting through November 2025, requiring fund managers to maintain parallel compliance efforts with pre- and post-court decision regulatory positions pending SEC clarification or statutory amendment. India's recent RBI directions on regulated entity investments created compliance uncertainty regarding appropriate due diligence procedures and stress-testing methodologies, with fund managers requiring several months to understand regulatory expectations and implement compliant procedures.

IMPACT ON FUND STRUCTURES AND GOVERNANCE MODELS

Regulatory requirements fundamentally influence fund structuring decisions and governance model evolution. Fund category selection in India directly reflects regulatory optimization, with fund managers structuring ventures as Category I venture capital funds where possible despite potential strategy misclassification risks, as Category I regulatory regimes establish substantially lighter compliance burdens than Category III hedge fund regimes.³⁶ Category I designation creates incentive structures favoring venture capital fund formation and discouraging hedge fund strategies even where portfolio managers might otherwise prefer more flexible strategies.

Governance structure evolution responds to regulatory requirements through independent investment committee formation addressing SEBI fiduciary standards and ensuring external validation of investment decisions. US fund managers increasingly establish independent advisory boards comprising external advisors without management affiliations, addressing SEC compliance program standards and demonstrating governance independence to

³⁶ *SEBI Category I Structuring Analysis*, Economic Times (Mumbai), Sept. 20, 2025.

institutional investors conducting due diligence reviews. However, Fifth Circuit invalidation of certain SEC governance requirements created uncertainty regarding optimal governance structures, with fund managers uncertain whether previously implemented governance mechanisms remained appropriate or whether cost-reduction opportunities emerged through regulatory relief.

Fund manager organizational structure and compliance infrastructure scaling reflects compliance requirement complexity. Smaller US fund managers managing under USD 150 million in assets historically avoided SEC registration and corresponding compliance infrastructure investments, whereas the Fifth Circuit decision creating threshold ambiguity forced reassessment of compliance infrastructure requirements. Indian fund managers managing venture capital funds avoid substantial compliance infrastructure investments compared to Category III hedge fund managers requiring sophisticated compliance systems addressing complex leverage and derivatives oversight.

Fund distribution and investor access constraints reflect regulatory requirements establishing investor eligibility restrictions. SEBI's September 2025 amendments permitting accredited-investor-only funds establish lighter compliance regimes but restrict investor base to sophisticated institutional investors, eliminating retail investor access and potentially reducing fund fundraising flexibility. US fund manager constraints on hedge fund distribution to retail investors through Rule 506(c) accredited investor requirements establish comparable restrictions, though institutional investor bases accessing hedge funds remain substantially larger than Indian institutional investor bases accessing Category III AIFs.

Fee structure transparency and preferential term constraints reflect disclosure requirements mandating detailed reporting of fee variations across investor classes. SEBI requirements preventing undisclosed preferential terms create pressure toward standardized fee structures reducing administrative complexity but potentially reducing negotiating flexibility with large institutional investors. SEC requirements similarly mandate preferential term disclosure but establish clearer mechanisms for implementing differentiated fee structures through disclosed side letters negotiated with specific investors.

Innovation in fund structuring emerges through regulatory-driven mechanisms including continuation fund arrangements enabling portfolio company hold-period extensions without

triggering fund dissolution. Indian fund managers increasingly utilize continuation fund structures addressing RBI concerns regarding fund maturity and portfolio exit timelines, with continuation funds enabling extended portfolio hold periods while maintaining fund liquidity. US fund managers employ continuation fund structures addressing investor preference for extended portfolio hold periods and enabling portfolio company value realization without forced asset sales absent fund dissolution.

MITIGATION STRATEGIES AND BEST PRACTICES

Fund managers employ multiple strategies to mitigate compliance burden while maintaining regulatory adherence and investor protection standards. Regulatory technology platforms and automation enable substantial compliance cost reductions through standardized data collection, automated validation procedures, and systematized reporting generation.³⁷ Large US fund managers increasingly implement enterprise compliance technology platforms aggregating data from multiple custodians, automating Form PF reporting procedures, and generating standardized conflict-of-interest disclosures across investor portfolios. Indian fund managers adopt comparable technology approaches enabling quarterly fact sheet generation and regulatory reporting compliance with reduced manual documentation efforts. Compliance outsourcing and third-party service providers enable fund managers to access specialized compliance expertise without maintaining comprehensive internal compliance infrastructure. Fund managers increasingly engage specialized compliance service providers offering templated policies, compliance monitoring procedures, and regulatory examination preparation support, reducing requirements for maintaining dedicated internal compliance personnel. This outsourcing approach proves particularly valuable for smaller fund managers unable to justify substantial internal compliance infrastructure investments across smaller asset bases.

Regulatory engagement and dialogue mechanisms enable fund managers to communicate directly with regulators regarding compliance implementation challenges and seek guidance regarding ambiguous requirements. SEBI permits fund managers to submit advance ruling requests regarding classification determinations and regulatory compliance methodologies, providing clarity before implementation. SEC provides similar guidance through no-action letter requests and exemptive relief procedures enabling fund managers to seek regulatory confirmation regarding compliance approaches. Industry association standards and collective

³⁷ PricewaterhouseCoopers, *RegTech Solutions for Alternative Asset Managers* 22 (2025).

best practices enable fund managers to navigate compliance frameworks through peer-developed standards addressing common compliance challenges. The Alternative Investment Management Association, Indian Private Equity and Venture Capital Association, and comparable organizations develop guidance addressing regulatory interpretation questions and facilitating dialogue between regulatory authorities and industry participants.

Data architecture standardization and reporting infrastructure investment establish platform approaches enabling systemic compliance efficiency improvements. Industry-wide initiatives standardizing portfolio nomenclature, valuation methodologies, and risk reporting metrics reduce compliance costs through consistent data architecture eliminating translation between fund-specific and regulator-mandated reporting standards. Regulatory harmonization and international cooperation mechanisms reduce cross-border compliance multiplicities through coordinated regulatory approaches. International organizations including the International Organization of Securities Commissions (IOSCO) facilitate regulatory coordination enabling reciprocal recognition of compliance procedures and reduced duplicative reporting obligations. These harmonization initiatives hold particular importance for fund managers seeking to operate across multiple jurisdictions while minimizing regulatory arbitrage incentives and compliance burden growth.

CONCLUSIONS AND RECOMMENDATIONS

This research demonstrates that regulatory compliance frameworks create differential cost structures substantially affecting private equity and venture capital fund formation, structuring decisions, and operational efficiency across jurisdictions. India's category-based regulatory approach establishes lighter compliance burdens for venture capital funds compared to complex hedge fund strategies, creating incentive structures favoring venture capital fund formation despite potential fund classification risks. US regulatory frameworks establish more uniform compliance requirements largely independent of strategy type, though recent Fifth Circuit decision creates regulatory uncertainty regarding applicable thresholds and compliance obligations. Compliance burden differentials result from divergent regulatory philosophies emphasizing investor protection and market efficiency within distinct institutional architectures. US regulatory frameworks prioritize disclosure-based investor protection through standardized reporting requirements and comprehensive compliance program standards, whereas India's regulatory frameworks emphasize category-based differentiation

and regulator-facilitated oversight through examination and enforcement mechanisms. These philosophical differences establish fundamentally different compliance cost structures requiring fund managers to adopt jurisdiction-specific compliance approaches rather than standardized global compliance procedures. The research recommends that regulatory authorities pursue regulatory harmonization initiatives reducing cross-border compliance multiplicities while maintaining investor protection and financial system stability. International coordination through IOSCO and comparable organizations should establish framework approaches enabling mutual recognition of compliance procedures and reduced duplicative reporting obligations. Regulatory technology standardization through industry-led initiatives addressing portfolio nomenclature and risk reporting metrics represents critical mechanism for reducing systemic compliance costs without compromising regulatory oversight effectiveness. Fund managers should implement governance structures addressing regulatory requirements through independent investment committees, chief compliance officer roles with appropriate authority and independence, and comprehensive documentation procedures supporting compliance certifications. Technology-enabled compliance infrastructure investments establishing automated data aggregation, systematic reporting generation, and compliance monitoring procedures represent essential mechanisms for achieving regulatory compliance while minimizing operational burden growth. Future regulatory evolution should address regulatory uncertainty through clearer statutory frameworks establishing unambiguous thresholds and compliance obligations preventing fund manager uncertainty regarding applicable requirements. The Fifth Circuit decision regarding SEC private fund adviser rules underscores importance of regulatory clarity enabling fund managers to implement compliant procedures with confidence regarding regulatory stability and avoidance of retroactive enforcement consequences.