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FAULT LINES

HOW HEDGE FUNDS OF ALL SIZES ARE RESPONDING TO CROSS-CONTINENTAL REGULATORY DIVERGENCE

EXECUTIVE SUMMARY

Hedge funds already face a complex web of cross-border regulatory regimes – and this is being further complicated by the divergence of the two most important jurisdictions of the US and EU. A great transatlantic regulatory divide is emerging, with hedge funds being squeezed between US deregulation and EU regulatory tightening. It is creating a compliance nightmare that is fundamentally reshaping the industry.

The size of the US market has allowed domestic hedge funds to focus inward and avoid cross-border complexity. Hedge fund firms tend to remain in the US until they reach a substantial size – then move swiftly to become global players. By contrast, the fragmented nature of the EU market means firms tend to expand beyond their national borders at an earlier stage, but then take a longer period to achieve global coverage.

In addition, increasing cross-border complexity is impacting firms of different sizes unequally. Small firms benefit from their inherent simplicity, as they naturally fall under fewer regulatory regimes. Large firms unavoidably need to manage cross-border regulatory complexity but have the resources and revenue base to spread the associated costs. Mid-sized firms are caught in the middle, managing cross-border exposure with a relatively small revenue base, at the nadir of a compliance capacity curve.

Managing cross-border complexity has become a material issue for firms making strategic decisions. Hedge funds are reporting a range of challenges. They are turning to a variety of technology solutions to overcome them – but mid-sized firms finding gaps in the market.

The combination of these factors means that cross-border regulatory complexity has morphed from being an inconvenient cost centre to become a key point of differentiation and a competitive battleground.

MANAS PRATAP SINGH
HEAD OF HEDGE FUND RESEARCH

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METHODOLOGY

Breakdown of respondents to Hedgeweek® Q3 Hedge Fund Manager Survey by firm location, size, and approach.

A key source of data in this report is our hedge fund survey conducted in Q3 2025. The survey collected responses from over 100 hedge fund managers globally, spanning various AUM ranges, strategy types and geographic regions. Further insights in this report were gathered during interviews with industry experts.

The survey captured a diverse range of fund sizes, from emerging managers with less than £100m AUM to established players managing over £10bn. Strategy types represented include multi-strategy, CTA, equity-focused, macro, event-driven, fixed income/credit, relative value, insurance-linked securities, digital assets, and volatility strategies.

Regional distribution of respondents provided transatlantic perspectives, with 50% of participants from North America, 41% from Europe and the remainder from Asia-Pacific.

Chart 1: Location

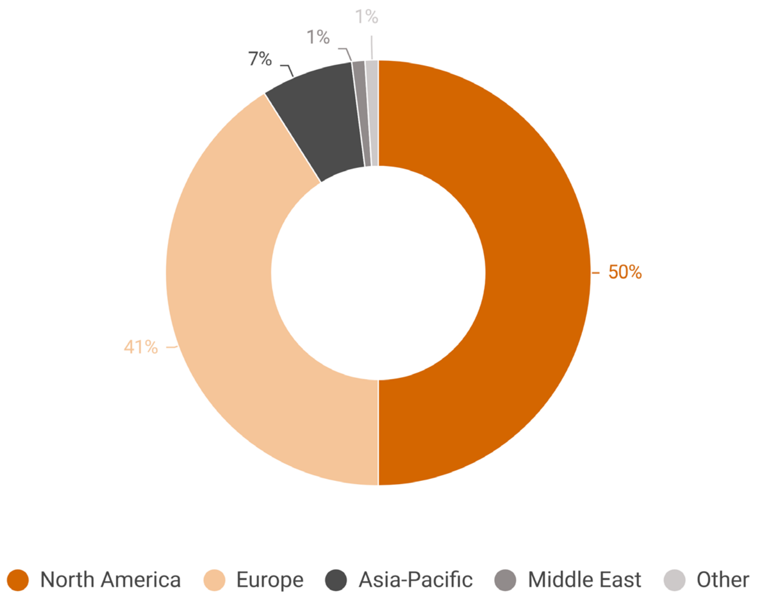


Chart 2: Flagship Strategy

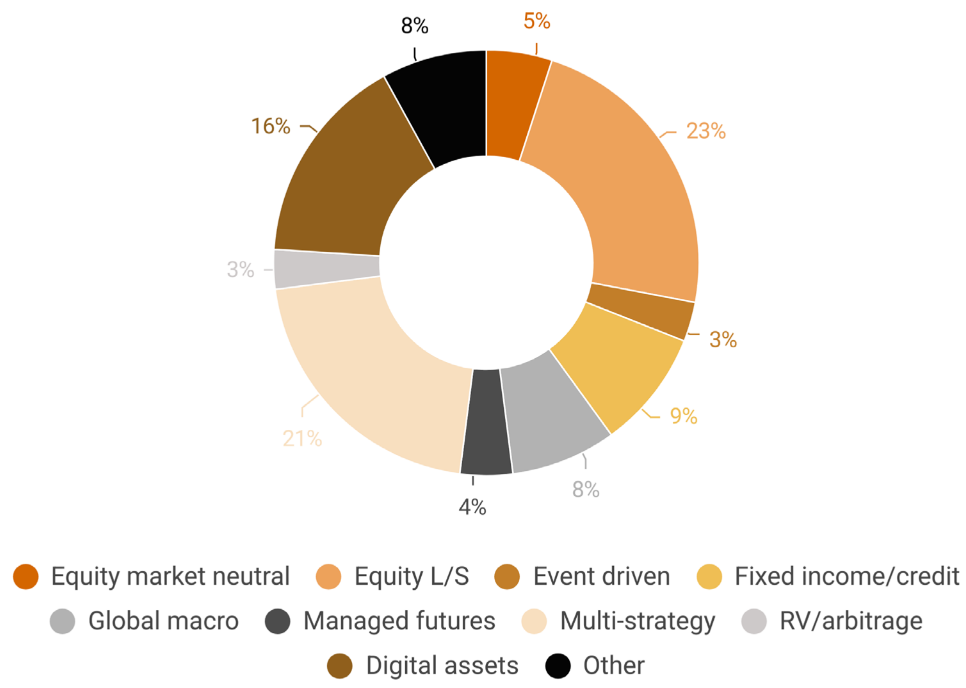
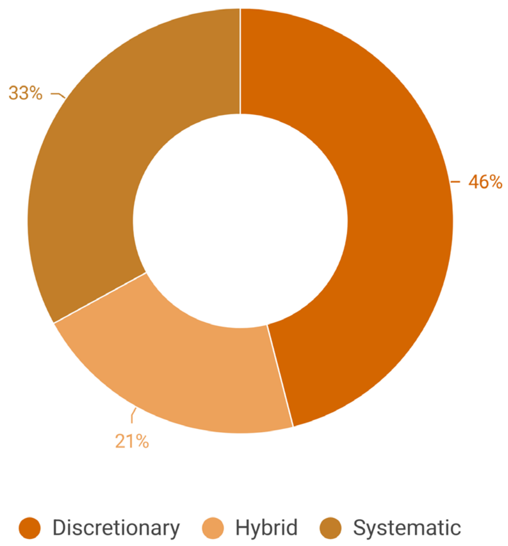


Chart 3: Investment Style



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KEY FINDINGS

1

Transatlantic Divergence

The divergence of the EU and US regulatory regimes is the biggest source of complexity for hedge funds. European firms are significantly more affected: 57% report compliance has become more complex over five years versus only 38% of US peers. North American firms favour a 'domestic-first' approach with 47% operating in single jurisdictions, but 30% leap directly to global operations once they expand internationally.

2

The Compliance Capacity Curve

Small hedge funds (under 25 staff) are far more likely to remain in their domestic jurisdiction and avoid the complexity and cost of complying with multiple regulatory regimes. Large ones (over 100 staff) are present in multiple jurisdictions by necessity, but benefit from the resources to manage compliance efficiently. Mid-sized funds (25-100 staff) are often caught in the middle, likely having outgrown their domestic market but not yet of sufficient scale to optimally spread the cost of compliance.

3

Regulation Influences Strategy

A quarter of surveyed hedge funds report restricting business activities by jurisdiction due to regulatory complexity, with 24% facing compliance costs beyond budget expectations. European firms are almost twice as likely than their US peers to report challenges resulting from this complexity.

4

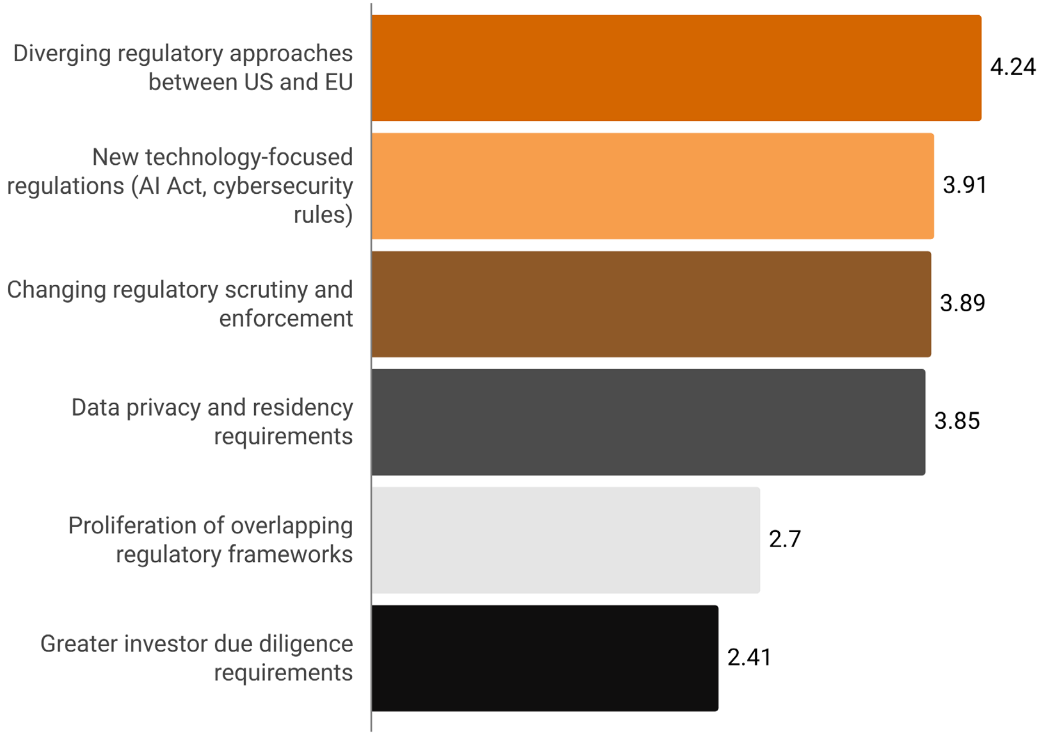
Technology Can Mitigate Impact

Hedge funds are opting to implement a range of technological solutions to overcome regulatory complexity, with 20% having implemented or are planning to implement an automated system. The choice of technology solution is partly dependent on the hedge fund's home jurisdiction and headcount, with mid-sized firms facing the most significant gaps in appropriate offerings.

PART I:

THE REGULATORY DIVIDES

Chart: Main factors contributing to increased cross-border regulatory complexity



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THE REGULATORY DIVIDES

The clear majority of hedge fund firms surveyed operate across multiple jurisdictions, with 60% present in multiple jurisdictions. Regulatory compliance is becoming more complicated as regimes diverge, with 47% finding it has become either somewhat or significantly more complex over the last five years.

Funds with cross-border activities are most likely to manage assets for investors in multiple jurisdictions (56%) and, perhaps more importantly, trade in multiple markets with different regulatory requirements (50%). Almost a quarter (22%) operate offices/entities in different regulatory zones.

The main factor contributing to increased cross-border regulatory complexity were diverging regulatory approaches between the US and the EU, which seems to be creating compliance chaos among exposed firms. The next most significant factor was new technology-focused regulations (AI Act and cybersecurity rules).

Cross-border regulatory compliance is also becoming more complex: 65% of funds that have been operating for more than five years report either it has become significantly or somewhat more complex. Combined with other problematic factors, cross-border funds are caught in the middle of multiple conflicting requirements.

The Transatlantic regulatory divide

Managing cross-border regulatory compliance has become more complex over the last five years, but this is being felt to differing extents on each side of the Atlantic. 57% of European hedge fund firms report compliance has become either significantly or somewhat more complex, while the same was true for only 38% of their US peers.

Serge Todorovich, principal, chief legal officer & chief compliance officer, Shenkman Capital Management says: “There has always been a regulatory divide between the US and the EU, and the EU has generally had a more onerous regulatory regime than the US. Today, that divergence is increasing as the US market is experiencing a bit of deregulation due to the new Trump administration whereas the EU seems to be maintaining its regulatory course, and rationalising regulations at the margins.”

There are material differences in the biggest issues: North American firms were relatively more concerned about technology-focused regulations while Europe was relatively more concerned about the proliferation of overlapping regulatory frameworks.

Chart: Complexity of managing cross-border regulatory compliance today compared to five years ago

Complexity of managing cross-border regulatory compliance today compared to five years ago	North America	Europe
Significantly more complex	10%	22%
Somewhat more complex	29%	35%
About the same level of complexity	24%	16%
Somewhat less complex	5%	3%
Significantly less complex	0	0
Not applicable – didn't operate cross-border five years ago	33%	24%

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The COO of a mid-sized, London-based long-short manager, who asked to remain anonymous, says: "There is definitely a regulatory divide. There's three-way divergence with the UK, the EU and the US going in different directions. It feels like we're looking at three different paths. They all feel similar but are materially different. It feels that we're having to do the same thing three times in a slightly different format. To make it even more complex the US regime has step-changed again – some of the proposals were defeated in the courts and some have been scrapped by the incoming administration."

The extent to which cross-border regulatory requirements impact hedge firms' operational efficiency was very wide. European hedge funds were heavily skewed towards significant operational burden (19%) and manageable but costly (42%). By comparison, no North American funds found there to be a significant operational burden and far few reported them to be manageable but costly (23%).

European firms were far more likely (70%) to have experienced challenges due to cross-border regulatory requirements in the past 12 months than North American firms (42%). In particular, almost a third (32%) of European firms experienced increased compliance costs beyond budget expectations.

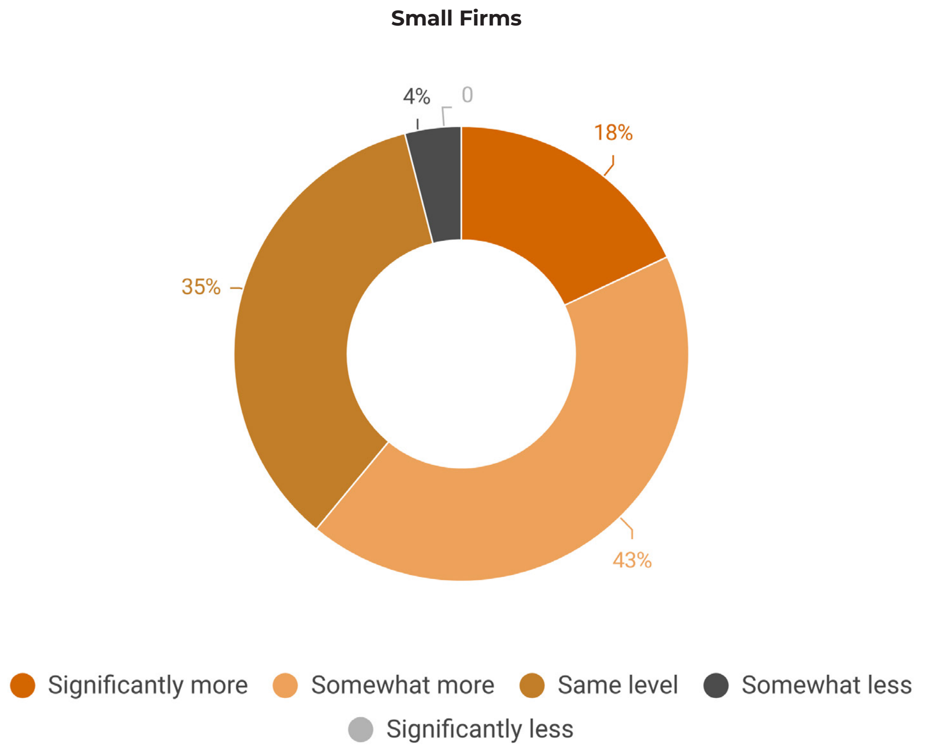
The technology solutions that firms have either implemented or are considering for cross-border compliance diverged geographically. European firms were more likely to opt for governance risk and compliance platform (GRC) and automated regulatory reporting systems while North American ones are most likely to favour real-time risk monitoring across jurisdictions and then cloud-based compliance monitoring platforms.

The biggest gaps in available market solutions for cross-border compliance also differed by geography. Only one-third of US firms report any gaps while 73% of European ones find at least one. However, both regions cite cost-effective solutions for mid-sized firms as the biggest gap in market solutions.

Michael Oliver Weinberg, CFA, adjunct professor of finance and economics, Columbia Business School, says: "The divergence between the US and EU are a primary driver of complexity, but AI and LLMs are also increasingly prevalent as a causal factor.

"AI and LLM technology is inherently new. It's constantly evolving and managers have largely just begun

Chart 1.1: Cross-border compliance complexity compared to five years ago



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deploying it. Regulators are working to address this new source of complexity. This is further compounded by managers that are subject to multiple regulators. Moreover, in the US, there is an evolving dynamic between federal and state regulation of AI."

The compliance capacity curve

The size of a hedge fund firm, measured in terms of its headcount, has an impact on how it deals with increasing regulatory complexity. The responding hedge fund firms can be roughly split into three groups: small, mid-size and large.

Small

Small firms, with below 25 employees, are adopting a defensive strategy; many are simply avoiding the complexity of being present in multiple jurisdictions. These firms are highly likely to operate in a single jurisdiction, with 45% restricting to a domestic presence. They are more than twice as likely to be in a single jurisdiction than mid-sized firms.

Small hedge fund firms are most likely to find that cross-border regulatory requirements significantly impact their firm's operational efficiency (16%), perhaps because they have recently expanded into a new jurisdiction. However, beyond these acute cases, small firms were the most likely to experience no impact or a positive impact.

Small firms were less likely to have experienced any challenges due to cross-border regulatory requirements in the past 12 months than mid-sized firms, mostly due to having a small international footprint.

Small firms' relative lack of cross-boarder complexity means they are the least likely to have invested in any form of compliance technology (57%), which suggests they have lower technology provider costs.

Todorovich says: "There is definitely a compliance capacity curve, since the regulatory regime applicable to most managers is largely the same whether they manage $1bn or $100bn of assets. Meeting compliance obligations whether in a single jurisdiction or in multiple jurisdictions is challenging for emerging and smaller managers, forcing them to rely more on outsourced resources vs large managers who have the capability to maintain and manage these obligations in-house and through technological solutions that tend to be expensive for smaller managers."

Mid-sized

Mid-sized firms, with between 25 and 100 employees, are in the 'squeeze zone'. These firms bear the highest relative compliance burden, as they are sufficiently large to be caught by cross-border complexity, but lack the resources and economies of scale of larger firms.

Mid-sized firms already have an international presence, with only 20% operating primarily in a single jurisdiction. 60% operate in the EU as well as either US or non-US jurisdictions.

The biggest proportion of mid-sized firms consider complexity to be manageable but costly (43%). Almost a third (29%) report minimal impact due to a well-integrated compliance framework. While mid-sized firms are better positioned operationally than small ones, at a cost, they face international complexity without scale benefits of larger firms. They therefore face the worst of both worlds.

Mid-sized firms were most likely to find managing cross-border compliance more onerous than five years ago; 80% of mid-sized firms report either significantly or somewhat more complexity.

The COO of a mid-sized, London-based long-short manager says: “Medium-sized hedge funds need to pick their spot. We’re regulated in the US and UK, but didn’t go for Europe. We analysed all the regulation and reporting requirements and decided it just wasn’t worth it. When you’re our [mid] size, you have to look carefully at what you need to do. If an investor came to us and it made commercial sense, we would do it. But the biggest firms can cover every market from Switzerland to Dubai and the Far East.

“When you’re small or mid-size, it’s tougher because you have look at the cost-benefit analysis. We cannot afford to get regulated somewhere, racking up lots of costs and expenses, and then get nothing out of it.”

Large firms

Large firms, with more than 100 employees, have a competitive advantage over mid-sized ones. This means they can weaponise compliance in the jurisdictions where they compete.

All the surveyed large firms operate across multiple regulatory jurisdictions had been in business for more than five years, providing time to grow. The vast majority (75%) were global, present in not only the US and EU but also other jurisdictions. The remaining 25% were all present in the US and EU.

Chart 1.2: Cross-border compliance complexity compared to five years ago

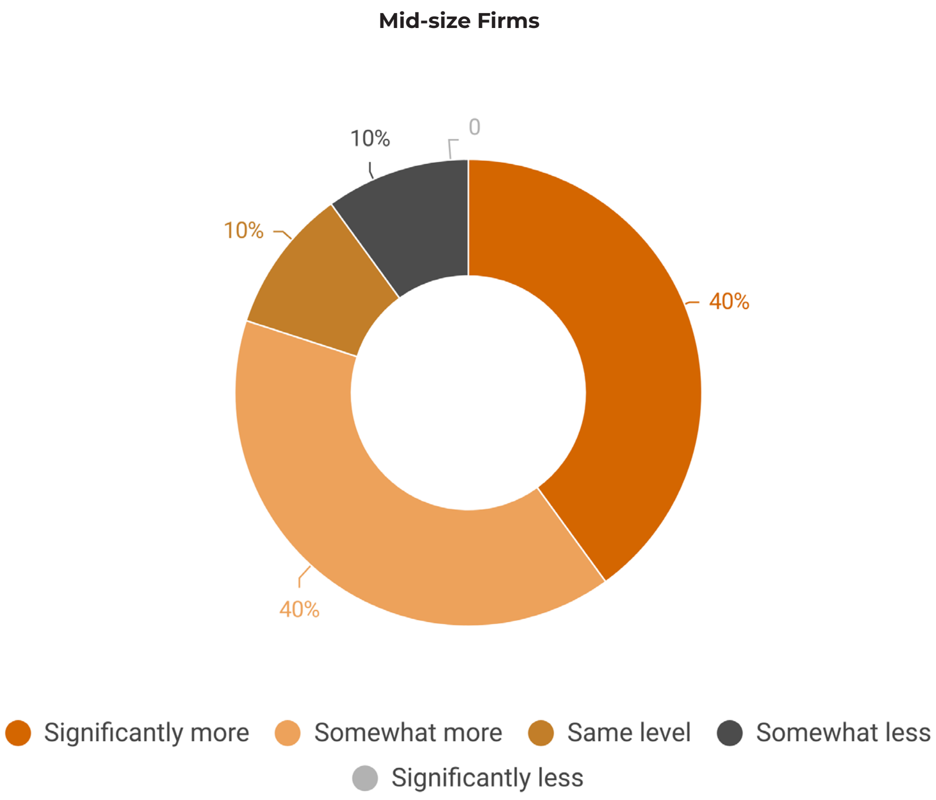

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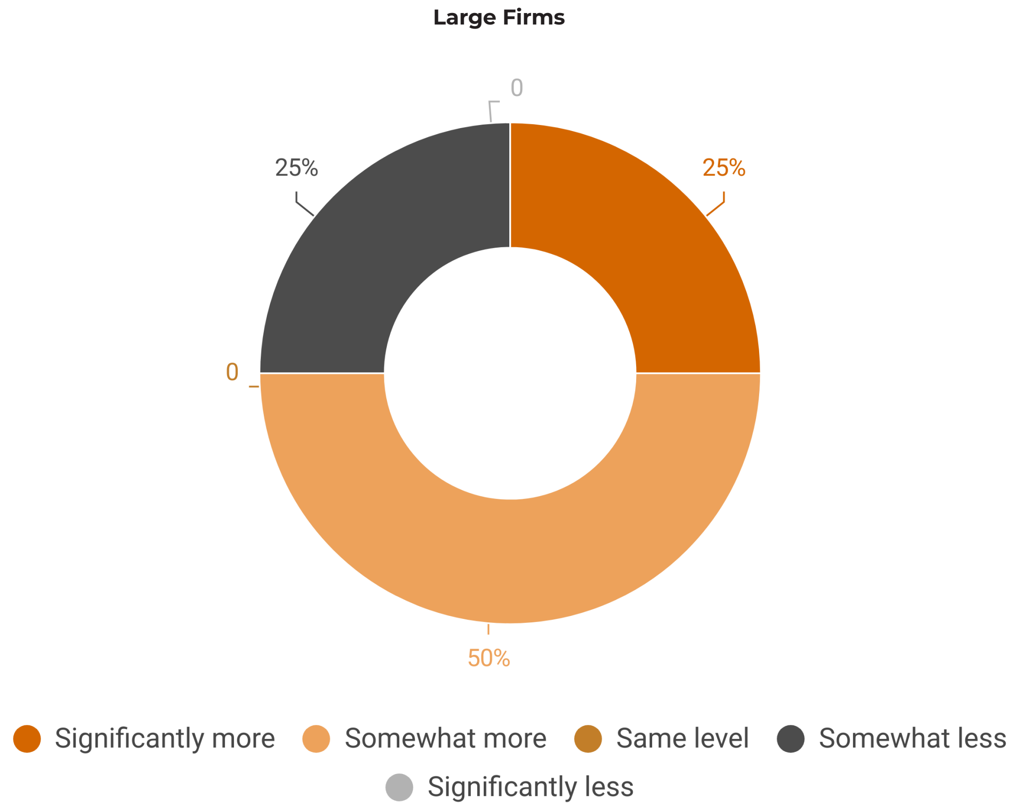
Chart 1.3: Cross-border compliance complexity compared to five years ago



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Large firms were least likely to highlight specific factors that increase complexity – ranking four of the survey's six categories lowest among the three size groups.

Large firms are also least likely to have experienced challenges in the last 12 months. Multiple firms in both the small and mid-size groups had experienced all six challenges, while large firms only faced difficulty recruiting qualified compliance talent.

Hedge funds were asked about the technology solutions they had implemented. The small and mid-sized firms had brought in every one of the seven main types of solutions. The situation was very different for large firms, which only brought in one form of solution: integrated cybersecurity and compliance frameworks.

Weinberg says: "As both geographic regulatory burdens have increased, and AI/LLM driven complexity have increased, this has resulted in greater compliance burden across all hedge funds. "The larger ones do have an advantage based on resourcing, both staffing and capital to invest in solutions. That said, AI and LLMs maybe somewhat democratising as an offset, enabling smaller firms to achieve greater efficiency. These are countervailing forces."

Large firms report there were appropriate provider solutions for all but one of the main solution types. By contrast, small firms said there were gaps in all five areas and mid-sized firms said there were gaps in three.

Not a single large firm reports that cross-border regulatory requirements are a significant burden on operational efficiency. This suggests large firms are proactively planning compliance rather than scrambling to react to unforeseen issues, and tend to view regulation as a tool to create competitive differentiation.

ALEXANDER BYRNE

DIRECTOR OF COMPLIANCE, THRIVE

THRIVE

How is the regulatory divide between the US and EU changing hedge fund operations, and how will this evolve?

US hedge funds face a fragmented regulatory landscape, dealing with state-level regulators and federal agencies like the SEC or CFTC depending on their size and strategy. This creates operational volatility, particularly during political transitions. The SEC exemplifies this – shifting from an administration proposing extensive new rules to the current one consolidating regulations whilst repositioning around key issues like reporting requirements and cryptocurrencies.

The EU maintains a more stable but increasingly complex regulatory environment, with horizontal, prescriptive regulations like DORA, NIS2, AIFMD II, and MiFID II designed for scale implementation rather than regional specificity.

Given this context, on a macro level there is the proliferation of dual or multi-part operating models to address regulatory complexities across multi-geo funds. This strategy is not new for trading and back-office operations; however compliance processes are now being integrated more broadly. Fundamentally, compliance represents strategic risk evaluation—similar to trade execution or capital allocation decisions. Funds will continue optimising operations by adopting bifurcated approaches to regional regulatory requirements whilst layering these frameworks across shared operational processes.

What regulatory changes will further widen this divide?

The divide will likely be EU-led, particularly in the technology domain with DORA and NIS2 implementation and additional controls from legislation like the AI Act. Major US changes affecting hedge funds – reporting requirements, custody and safeguarding, climate reporting – remain tied up in litigation or removed from the SEC's rulemaking agenda. The current administration will likely produce more targeted packages rather than sweeping overhauls.

This environment means funds are more carefully considering cross-border initiatives due to rising compliance costs. Increased regional complexity is boosting demand for specialised talent capable of translating regulation into tactical compliance elements, adding significant overhead which can create challenges for smaller firms.

Many hedge funds in our survey are restricting business activities by jurisdiction. Why do you think that is?

For smaller firms requiring strategic resource allocation, this makes practical sense. This represents a steadfast shift over the coming years whilst firms monitor post-implementation enforcement environments (similar to post-GDPR 2018). This approach shouldn't be interpreted as challenging regulatory authority, but rather as practical data gathering to assess compliance failure consequences. Risk is traditionally defined as the product of likelihood multiplied by impact. Unless firms identify clear competitive advantages – where ROI justifies regional compliance costs – most will avoid new jurisdictions until business cases strengthen or associated risks diminish.

What's causing the many firms facing compliance costs "beyond budget expectations"?

These overruns likely result from technology required for compliance implementation and specialised resources needed to build and manage compliance frameworks. Modern regulations increasingly involve technology elements, requiring businesses to translate requirements into measurable, monitorable tactical actions.

This has driven rapid growth in fractional resource service models and outsourcing. Demand for Governance, Risk, and Compliance (GRC) platforms has increased, but SaaS platforms still require expert resources for deployment and program management. Generative AI is also developing rapidly, however (at this point) it can only augment—not replace—the need for technology systems and specialised resources.

Which types of firms will be the winners and losers as this regulatory complexity continues?

This is a tough question! I think the answer is two-fold and again parallels the core hedge fund business model. Larger funds generally will have an easier path since there is a bigger budget for specialised employees and technology platforms to assist with compliance program build, deployment, and ongoing management. For firms in the SMB space, you either need to have a healthy risk tolerance, or you need to be very good at strategic risk-based decision making (or both). The regulatory complexity and compliance cost will likely exclude many small funds from moving into new jurisdictions or strategies in the near future since the risk will be too high.

What's your advice for funds under 100 staff wanting to expand internationally?

Take a risk-based approach to expansion strategy - don't attempt everything simultaneously. Focus on building strong compliance foundations around industry standards or singular regulations, then layer additional requirements as you expand. Tailoring programmes to your specific business model is critical for success.

PART II:

STRATEGIC IMPLICATIONS

Regional battle lines

North American and European hedge fund firms are adopting different strategies to cope with cross-border complexity. North American firms tend to follow a 'domestic-first' strategy while European ones tend to be 'cross-border by necessity'.

Almost half of North American hedge funds (47%) have chosen to operate primarily in a single jurisdiction. The bulk of the remainder (30%), were global. It appears that once North American firms have broken out of their home market, they are on a trajectory to becoming global.

Weinberg says: "For some years it has been easier for North American funds to take a 'domestic first' approach. This is not new, and is due to the prior 'balkanization' of marketing and regulatory regimes in Europe and the UK. For North America-based firms, particularly those without a presence on the continent, it's simply easier to focus domestically."

By contrast, European firms are much less likely to remain primarily in a single jurisdiction, at 35%. The choice to break out of the home jurisdiction is borne of necessity, due to the smaller size of national markets. They are more internationally active by necessity.

Once European firms have grown out of their home jurisdiction, they are slower to make progress into becoming fully global entities, with only 19% having achieved this level of coverage. Their direction of travel is also split, with 22% having a presence in the US and 19% turning to non-US jurisdictions.

Todorovich says: "Certainly, EU-based managers are much more inclined to be comfortable with a cross-border strategy and tend to operate through the EU. Many US managers have given up on operating funds in the EU or marketing in the EU given the increased regulatory obligations. Larger managers with a presence in Europe are certainly operating at a multi-jurisdictional level and rely on outsourced service providers to complement their internal resources when it comes to offshore compliance."

North American firms were far less likely to report facing any challenges due to cross-border regulatory requirements over the past 12 months. The clear majority, 58%, reported they did not face any of the specified challenges. The proportion experiencing increased compliance costs beyond budget expectations was low at 10%.

By contrast, less than a third of European firms, 29% report that they did not face any of the problems. The most common

Chart 2.1: Jurisdictions Funds Operate in North America

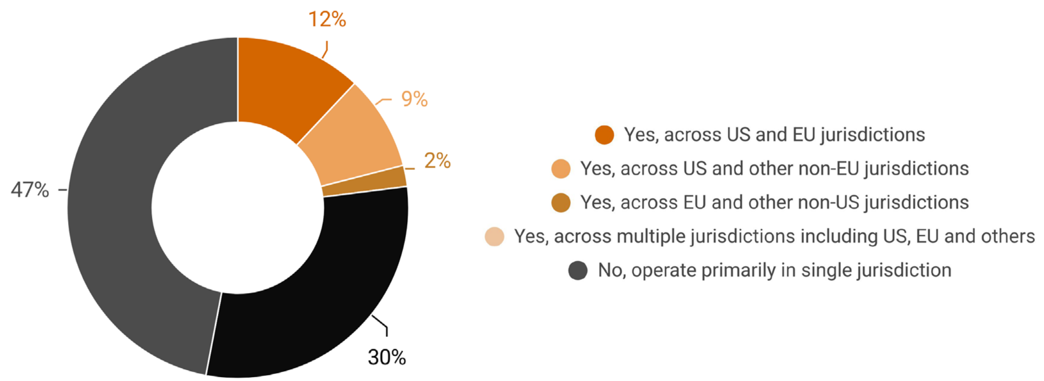
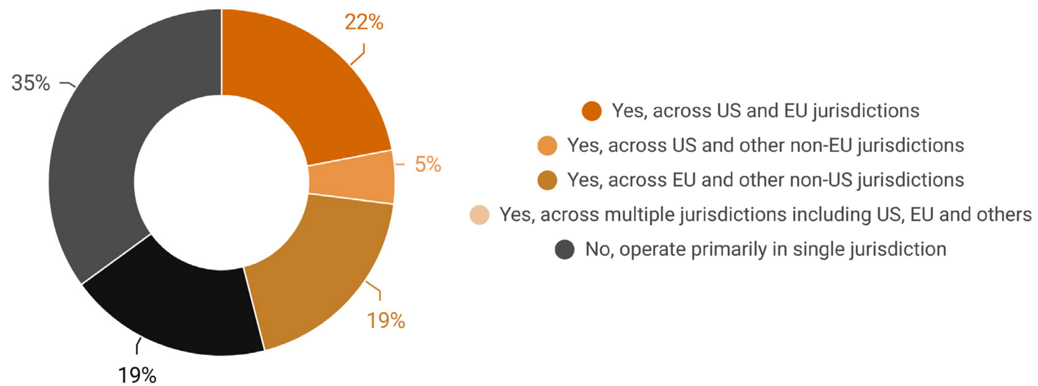


Chart 2.2: Jurisdictions Funds Operate in Europe



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problem was increased compliance costs beyond budget expectations and delayed product launches or strategy implementations.

North American firms have a notably easier time recruiting talent. Just 3% of North American firms experienced difficulties while 16% European ones report this issue. Likewise, just 6% of North American firms report compliance causing delays while 26% of European had their plans held back.

North American firms were also more concerned about technology than their European peers, ranking them higher at 4.41 versus European funds 3.74.

The transatlantic divide was evident in how firms also differ in their implementation of solutions. North American firms were most likely to opt for real-time risk monitoring across jurisdictions, accounting for 20%. By contrast, European firms opt for this type of solution in 13% of cases.

The COO of a mid-sized, London-based long-short manager adds: "I see lots of US managers wanting to have conversations – but currently I don't think they'd set up in Europe. I haven't seen many US funds come over, apart from the big ones that are anyway global. It seems to be the other way around, where there's a lot of European firms trying to get exposure to US investors."

The costs of cross-border operations have steadily increased with their complexity and this is has having strategic implications for the management of hedge funds. Just under a third (31%) of funds report that cross-border requirements are manageable but costly and a further 9% say they are imposing a significant operational burden. Just 15% report a minimal or positive impact.

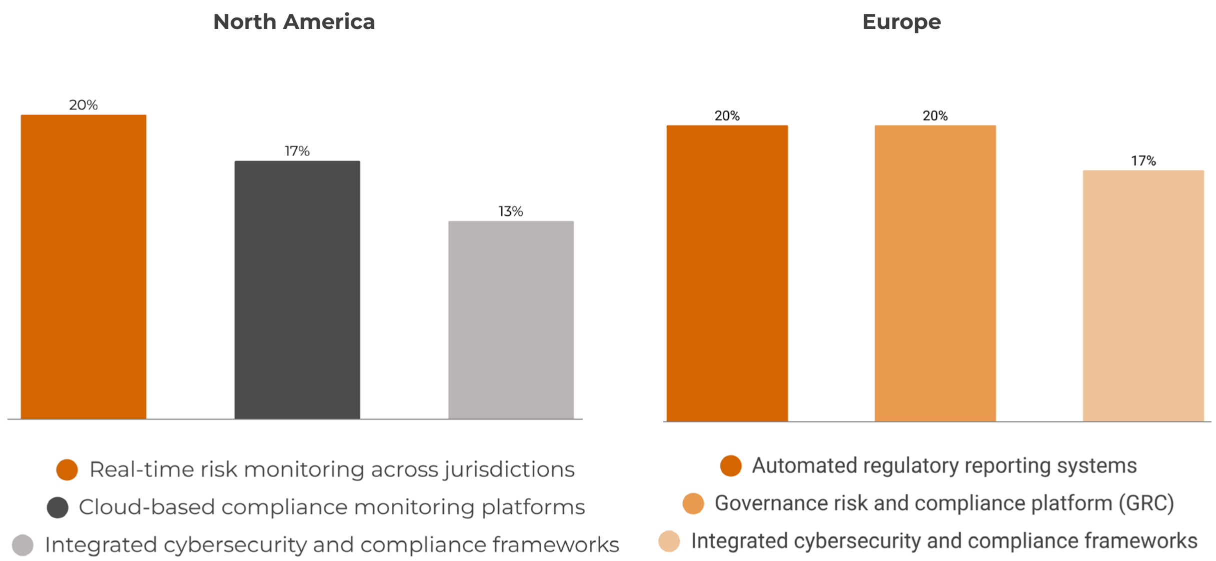
With such widespread effects, there is a clear financial impact on operational efficiency across the industry. Hedge funds are seeking to mitigate these impacts by implementing technological solutions.

Technology as the great leveller

Automation is becoming essential for survival for all sizes of hedge fund. Indeed, the joint-most common solution to have been implemented or to be under consideration is automated regulatory reporting systems, by one in five firms. Real-time risk monitoring across jurisdictions was similarly adopted.

Weinberg says: "Automation is becoming essential for survival.

Chart 2.3: Top challenges experienced in past 12 month



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Because those that do will inherently be more efficient and have a cost advantage versus those that don't. This will enable the early adopters to have higher margins or reinvest in their business."

The scale of large firms naturally provides them with the ability to spread the cost of compliance across their operations and greater capacity to create technological solutions in-house. Small and mid-sized funds are more likely to seek provider solutions to solve a wider range of issues.

Small hedge funds are responding by implementing technological solutions, in many cases multiple solutions. The three most widely adopted solutions are: real-time risk monitoring across jurisdictions; automated regulatory reporting systems; and integrated cyber security and compliance frameworks. However, all seven technology solutions were adopted in similar levels.

Mid-sized firms are also enthusiastically adopting technological solutions. The three most widely adopted solutions are: governance risk and compliance platform (GRC); automated regulatory reporting systems; and cross-border data management and residency solutions.

By contrast, large firms were entirely focused on one type solution: integrated cyber security and compliance frameworks.

Todorovich says: "Unfortunately, technology is expensive so while on the one hand it is a great equaliser, the cost of the technology coupled with the cost of data that most technology relies on may be prohibitively expensive for some managers. Not all managers can pass data and technology costs to investors or may be capped at what costs they can pass along, making technological efficiencies difficult to achieve."

Despite the clearly high levels of demand, mid-sized firms are experiencing gaps in the market for cross-borders solutions. The most significant gap identified by this size group (43%) was cost-effective solutions for mid-sized firms.

The COO of a mid-sized, London-based long-short manager adds: "It goes in cycles. The burden was very high a few years ago when AIFMD came in – so some people bought new systems and others built their own thing. Then it just becomes noise in the background. We've been lucky that the new US regulations did not go through. The danger is that you can buy a compliance system and believe it will do the job – but it does not get you off the hook. I am a big fan of compliance tech, but only when we understand what it's doing and how it's wired in."

Chart 2.5: Technology solutions implemented or plan to implement (all that apply)

	North America	Europe
Governance risk and compliance platform (GRC)	7%	20%
Cloud-based compliance monitoring platforms	17%	7%
Automated regulatory reporting systems	10%	20%
Cross-border data management and residency solutions	7%	10%
AI-powered regulatory change monitoring	10%	13%
Integrated cybersecurity and compliance frameworks	13%	17%
Real-time risk monitoring across jurisdictions	20%	13%

Chart 2.6: Technology solutions has your firm implemented or is considering (any that apply)

	Small	Medium
Governance risk and compliance platform (GRC)	12%	20%
Cloud-based compliance monitoring platforms	14%	10%
Automated regulatory reporting systems	17%	20%
Cross-border data management and residency solutions	9%	20%
AI-powered regulatory change monitoring	14%	10%
Integrated cyber security and compliance frameworks	16%	10%
Real-time risk monitoring across jurisdictions	19%	10%

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Market implications

The increasing complexity of cross-border compliance is having a material impact on the structure of the hedge fund market. Competitive advantages are emerging, and this is feeding through into pressure for mid-sized firms to consolidate.

Weinberg says: "Compliance and other factors that contribute to greater friction and costs for smaller general partners are both forces that are facilitating consolidation."

Among all firms, the compliance burden is forcing business restrictions. A quarter of firms (25%) report they are restricting certain business activities by jurisdiction due to complexity. The same percentage reports increased reliance on external legal/compliance advisors. Almost as prevalent (24%) are firms facing increased compliance costs beyond budget expectations.

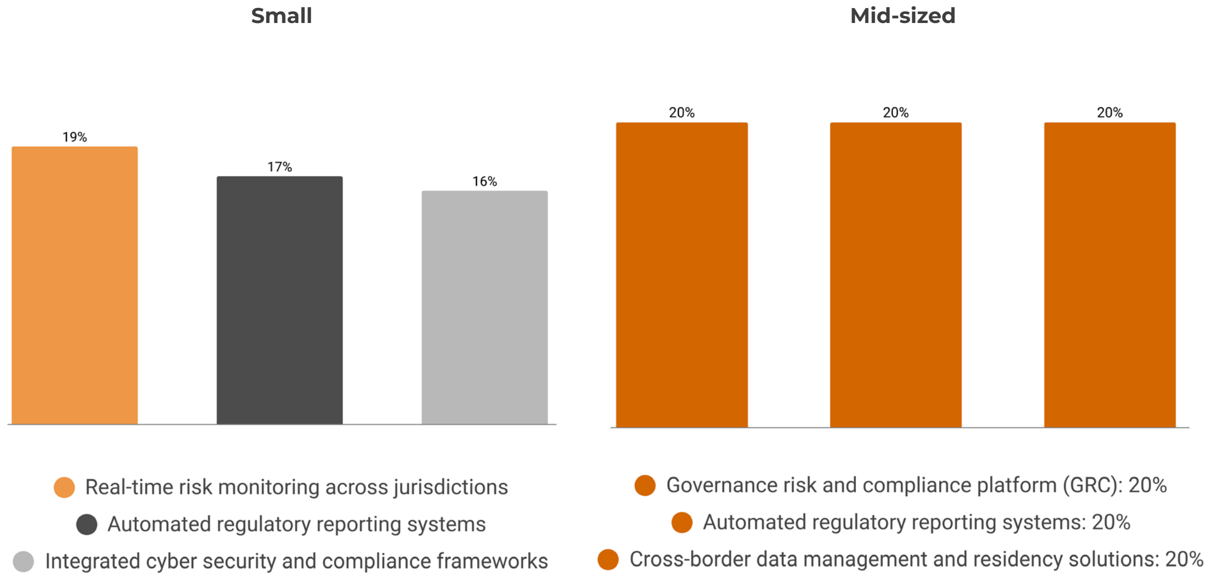
However, the challenges are most acute for mid-sized firms in the 'squeeze zone'. While problems exist for small firms, 45% reported no challenges. By contrast, only 13% of mid-sized firms report no problems.

Todorovich says: "There is widespread consolidation in the investment management space, which is driven by a number of factors including rising costs of technology and compliance. Fee compression coupled with higher regulatory and operational requirements challenges the business model and contributes to this consolidation, forcing managers to seek to achieve economies of scale by joining or partnering up with larger players."

The London-based mid-sized equity long-short manager COO adds: "The pressure to consolidate depends on the manager's strategy. If you are not using much leverage, things are more straightforward. It's more about the level of complexity of products and their investor base. The challenge is that there can be so many different components.

"Something may look straightforward and look quite anodyne. But then you realise it takes you into the realm of needing to be a broker-dealer or be registered with the CFTC – and suddenly you're in a whole new world of pain."

Charts 2.4: Top technology solutions firms are looking to implement



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Conclusion:

The increasing complexity of cross-border compliance is manifesting in several ways and leading to market pressure to consolidate. The compliance capacity curve reveals that mid-sized firms face the highest relative burden. They lack both the scale benefits enjoyed by large firms and the operational simplicity of domestic-only operations. To remain competitive, mid-size firms may increasingly opt to consolidate into entities of sufficient scale to spread international compliance costs over a wider base of operations.

A clear division between firms that view compliance technology as essential – which tend to be larger and/or European firms – and those which treat it as optional – smaller and/or North American firms.

These divisions have strategic Implications for hedge fund firms. European funds are operating in an inherently more complex regulatory environment, which naturally drives demand for innovative solutions. Meanwhile, North American firms are far more likely to remain in their domestic jurisdiction but may face increasing pressure as global investing becomes more necessary for competitive returns.

The result: compliance is transforming from being a cost centre to becoming a competitive moat for the largest players.

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