ETF OVERSIGHT

Product innovation to lead compliance concerns

Oversight of ETF share classes, private markets, AI are top board concerns.

Marc Hogan Dec 12, 2025, 3:00 pm

2025 was a banner year for product innovation both at the firm and regulatory level, spurring a host of new compliance concerns to be addressed by fund boards.

"The sheer complexity and the breadth of products has exploded," said Ravi Venkataraman, managing partner at consulting firm Chestnut Advisory Group.

Recently-greenlit exchange-traded fund share classes are likely to be at the top on the list at affected fund groups, said Paulita Pike, partner in the asset management group at law firm Ropes & Gray.

With more than 80 firms applying for relief, directors are trying to figure out how best to make board determinations, what board materials will look like and what compliance policies and procedures are needed.

"That is a critical one," Pike said.

Figuring this out will require boards to boost their expertise and expand dialogue with firms' management, according to Venkataraman.

"The vehicle, which was fairly straightforward for a lot of years, has dramatically changed," he said.

Public/private crossover, novel strats

Marked as a top priority for the Trump administration, funds that combine private and public holdings bring another set of compliance questions for boards.

"This is nothing short of a revolution," Venkataraman said. "Fund directors are going to have to get up to speed on a whole bunch of things that come into play with private companies."

While some funds have pushed forward, it's still a formative time.

"It can take a fair amount of time, especially when the funds are starting out and there is a lot of need for board review," Pike said.

Based on the SEC's recently announced examination priorities, funds that use complex or novel strategies were also among top compliance concerns according to Bryan Gort, an investment regulation attorney at the law firm Parker MacIntyre.

The SEC has signaled that funds which use strategies that are less liquid or have a less clear valuation are a focus, as well as funds with strategies related to leverage, are up for inquiry.

However, that emphasis comes as the regulator has indicated a potentially lighter touch in general.

"The SEC recently categorized their priorities as 'back to basics,'" Gort said. "They're trying to signal that they're not going to go out in the weeds on crazy different compliance violations. They're really looking for basic stuff."

In fact, the biggest change for fund boards relating to compliance may be the relative respite, suggested Pike.

"The pace of regulations that have been adopted has slowed down, so it's giving everybody time to breathe," she said. "I actually think that is the trend, and CCOs can have the luxury of having more time to be proactive rather than being reactive. That's good for everybody."

AI concerns

That breather comes at a welcome time, as time and space are needed to deal with the adoption of artificial intelligence.

"AI is far and away the top priority we're hearing," said Aaron Pinnick, senior manager of thought leadership at ACA Group.

ACA Group's 2025 investment management compliance testing survey showed AI as the top compliance concern industry-wide.

This year many fund boards began to put policies and procedures in place for acceptable AI use, as well as acceptable AI technologies.

"AI is a topic of conversation at almost all meetings," Pike said. "But we're still in early days for most asset management firms."

Beyond that, boards should find out about how firms are handling external risks of AI, such as deepfake phishing attacks, as well as how they are training staff and what practices they are putting in place to address internal risks, such as erroneous information going out to a client, according to Pinnick.

"The board should be asking those questions and pushing on the answer," he said.

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