Active Conflicts Management:

A Governance Led Solution to Emerging Regulatory Focus

Thought Leadership Paper

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Sources include published enforcement notices from the Securities and Futures Commission (Hong Kong), the Financial Conduct Authority (United Kingdom), the Securities and Exchange Commission (United States), and the Monetary Authority of Singapore, together with published analysis from legal and compliance professionals. References to third-party publications do not imply endorsement by or association with those firms.

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1. The Regulatory Reckoning

On 9 October 2024, the Securities and Futures Commission (SFC) issued a landmark circular flagging "egregious" deficiencies and substandard conduct in the management of private funds and discretionary accounts. The circular was not a gentle reminder. It was accompanied by an appendix of anonymised case studies, a promise of thematic on-site inspections, and an unequivocal commitment to impose harsher penalties against asset managers and their senior management.

Within weeks, the SFC followed through. In December 2024, it banned a fund manager for life and levied a HK$1.7 million fine after finding that the manager had invested substantially all of a fund's assets in debentures issued by companies he personally controlled — effectively granting loans to himself with investor subscriptions. In August 2025, it revoked the licences of two further asset managers and imposed lifetime bans on their principals after uncovering the misappropriation of over US$154 million in client funds through fabricated transaction documents.

These are not outlier cases. They represent the sharp end of a regulatory trend that has been building for years: the systematic extension of supervisory scrutiny from public securities markets into private capital — private equity, venture capital, and private credit — where the conflicts of interest are structurally different, often less visible, and frequently more consequential.

2. A Framework Designed for Securities Markets

The regulatory architecture governing conflicts of interest in Hong Kong — as in most major financial centres — was designed with listed securities markets in mind. The SFC's Code of Conduct, the Fund Manager Code of Conduct (FMCC), and the Management, Supervision and Internal Control Guidelines all establish clear principles: firms must identify, prevent, manage, monitor, and disclose conflicts of interest. These principles are sound, well-tested, and have served public markets effectively for decades.

In liquid markets, many of the most common conflicts are well understood and structurally addressed. Best execution obligations, trade allocation rules, personal account dealing restrictions, Chinese wall requirements, and independent pricing sources provide a toolkit of controls that firms can implement with reasonable precision. The market itself provides a degree of natural transparency: prices are observable, trades settle through regulated infrastructure, and exit is available through daily liquidity.

Private markets operate under fundamentally different conditions. Assets are illiquid and often unique. Investment horizons span years, not days. Fund structures involve complex webs of carried interest, co-investment rights, management fees, monitoring fees, and ancillary revenue that create multiple, overlapping incentive structures. The manager simultaneously acts as fiduciary, service provider, and economic beneficiary — a concentration of roles that would be unusual and closely scrutinised in public markets.

The valuation challenge alone illustrates the gulf between the two worlds. In listed markets, independent pricing is the norm — exchanges, market makers, and data vendors provide observable prices that are largely outside the manager's control. In private markets, the manager is often the primary source of valuation, relying on models, comparable transactions, or third-party appraisals that themselves involve significant judgement. A valuation that determines carried interest, management fees calculated on net asset value, and investor reporting is simultaneously an exercise in financial reporting and a determination of the manager's own compensation. The inherent conflict is structural, permanent, and present in every reporting period. It is no surprise that valuation has been at the centre of some of the most significant enforcement actions in recent years — from the SFC's cases involving artificially inflated NAVs through manufactured receivables, to SEC actions targeting advisers who selectively marked positions to trigger performance fee thresholds.

Beyond these direct pecuniary conflicts, private markets also generate a range of less visible but equally important peripheral conflicts — the kind that rarely make headlines but can erode investor trust and attract regulatory attention. These include non-monetary inducements and soft benefits that flow through the ecosystem of relationships surrounding a fund manager's operations.

3. The Regulatory Shift

For much of the history of private equity and venture capital, regulators adopted what might charitably be described as a laissez-faire approach. The rationale was straightforward: these were markets populated by sophisticated institutional investors who could negotiate their own protections through limited partnership agreements and side letters. Caveat emptor, underpinned by contractual freedom, was considered sufficient.

That consensus has eroded significantly over the past decade:

- In the United States, the Dodd-Frank Act brought private fund advisers with over $150 million in assets under management within SEC registration requirements. The SEC has since pursued a sustained enforcement campaign targeting undisclosed conflicts in fee arrangements, expense allocations, and related-party transactions. In fiscal year 2025 alone, the SEC brought over 90 enforcement actions against investment advisers, with conflicts of interest remaining what it describes as a "perennial area of focus."
- In Europe, the Alternative Investment Fund Managers Directive (AIFMD) imposed a comprehensive regulatory framework on private fund managers, with AIFMD II further tightening requirements around delegation, conflicts, and investor reporting.
- In Hong Kong, the SFC has progressively expanded its supervisory focus, issuing circulars on private fund management practices in 2019, 2024, and publishing the fifth edition of the Fund Manager Code of Conduct in October 2024. Its thematic inspection programme now specifically targets private fund managers.
- In the United Kingdom, the FCA in 2025 launched a compulsory "Conflicts of Interest and Fair Treatment of Customers in Private Markets" review — its most comprehensive examination yet of how private equity, private credit, and real estate managers identify, manage, and mitigate conflicts. Selected firms were required to complete detailed questionnaires covering conflicts frameworks, registers, escalation routes, disclosure practices, and board-level governance.
- At the international level, IOSCO's reports on Private Equity Conflicts of Interest established a set of principles acknowledging that "private equity firms vary considerably in their size, structure and complexity" and that conflicts mitigation may differ substantially from one jurisdiction to another.

The direction of travel is clear. What was once a lightly supervised corner of the financial markets is now subject to the same principles-based expectations as mainstream asset management. But — and this is the critical point — the principles were written for a different market structure.

4. The Gap: General Principles, Specific Products

This is where the challenge lies for private market managers. The regulatory framework provides flexibility through its principles-based approach. There are no prescriptive rules that say "this is how you handle a co-investment allocation conflict" or "this is the precise disclosure required when your private equity fund and your private credit fund invest in the same capital structure." The principles say: identify, prevent, manage, monitor, disclose. How you do that is, to a significant degree, left to your judgement.

That flexibility is both the opportunity and the risk.

It is an opportunity because it allows firms to develop controls that are genuinely tailored to their business activities, product structures, and client relationships — rather than trying to force liquid market solutions onto illiquid market problems.

It is a risk because, absent specific rules, the standard against which a firm will be judged in hindsight — by regulators, by investors, by courts — is whether it acted reasonably and in good faith, with adequate systems and controls, to protect investor interests. Generic conflicts disclosures in fund constitutive documents — the kind the SFC explicitly warned against in its October 2024 circular — will not meet that standard. As the SFC stated directly: "Generic and non-specific conflicts of interest disclosures... would not amount to proper disclosure."

The SFC's enforcement cases illuminate exactly where the gaps emerge:

- Related-party financing: Fund assets used to provide loans to entities controlled by the manager, on terms more favourable than the market would support.
- Preferential allocation: Trades retrospectively allocated to favour connected parties; redemptions prioritised for staff over external investors.
- Undisclosed monetary benefits: Managers receiving fees from investee companies without disclosure to or consent from fund investors.
- Valuation manipulation: Fund net asset values inflated through artificial fees and manufactured receivables, directly impacting carried interest calculations and investor reporting.
- Non-pecuniary inducements: Receipt of soft benefits — priority allocations in oversubscribed deals, access to research or deal flow as a quid pro quo for directing business, or broker commission sharing ("broker crumbs") where residual commissions flow back to the manager or its affiliates rather than being rebated to investors.
- Concentration and liquidity failures: Investments continuing into illiquid positions without adequate risk assessment, even as redemption obligations remained outstanding.

Each of these scenarios involves a conflict that was either not identified, not managed, or not disclosed. In many cases, the underlying conflict was not exotic or novel — it was a predictable consequence of the manager's role, structure, and incentive arrangements.

5. The Case for a Purpose-Built Inventory

This is why we have long advocated — and built into our standard client frameworks — a conflicts inventory that goes beyond the generic categories of securities market conflicts and addresses the specific conflicts that arise in private markets. At Cognitive GRC, we have developed comprehensive conflicts inventories covering separate categories for asset managers, corporate finance advisers, private equity managers, brokers, and investment research businesses.

Our Private Equity Conflicts Inventory, for example, addresses categories that simply do not arise in the same form in liquid markets:

Investment Conflicts

- Co-investment allocation between the fund, personnel, and favoured investors — including the risk that allocation preferences are granted informally or through side letters without disclosure to the broader investor base
- Allocation of investment opportunities between concurrent funds with overlapping strategies
- Allocation of time and resources across portfolio investments, where a portfolio-level decision may disadvantage individual companies
- Provision of loans and financing to management in management buyouts

- Conflicting investment strategies where multiple pools of capital invest at different levels of the same capital structure

Pricing and Valuation Conflicts

- Fair valuation of illiquid assets where no quoted market price exists — compounded by the fact that the manager's own compensation (management fees on NAV, carried interest at exit, and performance-based clawback calculations) is directly linked to the valuation it produces or influences
- Valuation timing and methodology selection, where changes in approach may coincide with fundraising periods, investor reporting deadlines, or carried interest crystallisation events
- Carried interest calculation and allocation — whole fund versus deal-by-deal — with different methodologies producing materially different outcomes for the manager and investors
- Fees charged to investee company management that are not rebated to the fund
- Financial incentives received from deal structuring that are not disclosed to investors
- Retention of minority stakes in portfolio companies where the fund is on both sides of the transaction

Non-Pecuniary and Peripheral Conflicts

- Allocation preferences — preferential access to oversubscribed co-investment opportunities, favourable redemption terms, or priority in secondary transactions offered to selected investors in exchange for larger commitments, distribution arrangements, or ongoing business relationships
- Broker commission sharing and soft dollar arrangements — the receipt of research, data, technology, or other services funded through directed brokerage commissions, where the benefit accrues to the manager while the cost is borne by the fund. In private markets, this may also manifest as "broker crumbs" — residual commissions from transaction execution or placement agent arrangements that flow to the manager or its affiliates
- Gifts, entertainment, and non-monetary inducements — hospitality from service providers, placement agents, or counterparties that may influence the selection of brokers, administrators, legal counsel, or other vendors without being subject to adequate controls or disclosure
- Referral and introduction fees — payments or non-monetary benefits received for directing business to third parties, including law firms, accountants, or consultants, that may not align with the fund's interest in obtaining best-value services
- Use of fund resources for manager benefit — shared infrastructure, personnel, or technology platforms where costs are allocated across the management company and the fund without clear, documented apportionment

Relationship Conflicts

- Personnel appointment to investee company boards, creating conflicts in allocation of time, resources, and loyalty
- Constitution of investor advisory committees, where selection of members may itself present conflicts
- Size of fund relative to deployable opportunities, where pressure to maintain market position may conflict with investor returns
- Default remedies requiring the firm to balance non-defaulting and defaulting investor interests
- Fund life extension decisions, where additional management fees may incentivise extension beyond what is in investor interests

- Exit timing where jointly-held investments create divergent interests between funds

Structural and Commercial Arrangement Conflicts

A further category of conflicts arises specifically from the commercial arrangements that have become standard practice in institutional fund management but which carry systemic risk of unequal treatment between investor classes.

- Side letter arrangements — Anchor investors and large institutional allocators commonly negotiate preferential terms through side letters: reduced management or performance fees, enhanced liquidity windows, co-investment rights, more frequent reporting, key-person veto rights, or most-favoured-nation (MFN) clauses that automatically replicate the best terms granted to any other investor. Each of these arrangements may be individually justifiable as commercially reasonable. In aggregate, however, they create a structurally tiered fund where the economics, liquidity, and information rights available to side letter signatories differ materially from those available to commingled fund investors without such arrangements. Where the manager administers a mix of side-letter and standard investors within the same vehicle, the conflict between serving the terms specifically negotiated with powerful investors and the general duty of fair treatment owed to all investors becomes an active governance challenge rather than a theoretical one. Failures to comply with MFN obligations — or, conversely, over-generous extension of benefits that should have remained exclusive — have led to investor disputes and, in some cases, regulatory enquiries.
- Separately managed accounts (SMAs) and pari passu structures — The growth of managed accounts operating alongside commingled funds, investing in the same underlying assets on substantially the same terms but with bespoke fee structures, risk tolerances, leverage overlays, or liquidity profiles, creates a set of conflicts that are structurally distinct from standard multi-fund management. When an SMA investor negotiates a lower management fee, a higher leverage ceiling, or a different exclusion list from an institutional or ESG mandate, the manager must simultaneously honour those bespoke parameters and ensure that commingled fund investors are not disadvantaged by the sequencing of trades, the allocation of deal flow, or the operational resources dedicated to servicing the more complex structure. The conflict is not necessarily one of intent — it is often a product of operational complexity. Trade execution sequencing across a commingled fund and multiple SMAs raises legitimate questions of price impact and best execution. Allocation of deal flow between an SMA investor who receives a fee discount and commingled fund investors who subsidise the operational cost of maintaining the bespoke arrangement raises questions of equitable treatment. And where the SMA's risk profile or leverage differs from the commingled fund, the same underlying position may represent very different risk exposures for different investors — a fact that may not be fully transparent in the manager's consolidated NAV or performance reporting.
- Operational risk from commercial arrangements — The combined effect of multiple side letters, SMA agreements, and pari passu structures creates significant operational complexity that is itself a source of conflict risk. The more bespoke the arrangements, the greater the risk of execution errors, allocation mistakes, NAV misstatements, and reporting inconsistencies — the costs of which are borne by the fund and therefore by all investors, including those in the commingled vehicle who receive no benefit from the commercial arrangements that generated the complexity. This cost socialisation is a conflict that is frequently overlooked because it manifests as an operational issue rather than a compliance or governance one. A well-designed conflicts framework must explicitly address the operational risk profile created by the firm's commercial arrangements, document how additional costs are apportioned, and ensure that the board or governing body has a clear picture of the aggregate burden that bespoke investor arrangements place on the fund.

These are not theoretical risks. They are the precise scenarios that have underpinned enforcement actions by the SFC, the SEC, and the FCA. The SFC's December 2024 lifetime ban case involved related-party financing and valuation manipulation. The FCA's 2025 enforcement action against a large alternative asset manager — resulting in $101 million in redress — centred on the reallocation of

portfolio managers from an external fund to an internal fund in which senior decision-makers held personal investments. The SEC's 2025 enforcement docket was dominated by undisclosed fee arrangements, expense allocation conflicts, and related-party transactions in private funds.

Notably, it is often the peripheral conflicts — the allocation preferences, the soft dollar arrangements, the broker commission rebates — that prove most damaging precisely because they are the hardest to detect and the easiest to rationalise. They rarely involve outright fraud. Instead, they involve a gradual drift in which benefits accrue to the manager or its preferred relationships at the margin, without any single decision being obviously wrong. It is this incremental erosion that a well-designed conflicts inventory and active governance process is designed to surface.

6. New Products, Familiar Patterns

The pace of product innovation in private markets is accelerating, and with it comes a new generation of conflicts. What is striking, however, is that these conflicts are rarely entirely novel. They are, for the most part, recognisable variations of patterns that have emerged before — often in contexts where the consequences were severe.

Listed alternatives and semi-liquid structures.

The growth of listed private equity vehicles, interval funds, and semi-liquid structures designed to broaden retail and individual investor access to private markets is reintroducing conflicts that were prominent during the 2008 financial crisis. When illiquid underlying assets are packaged in structures that offer periodic liquidity or trade on secondary markets, the tension between reported NAV and realisable value becomes acute. Managers face pressure to maintain stable valuations to support secondary market pricing and fundraising, while the underlying portfolio may warrant markdowns. The conflicts between listed share price, reported NAV, and underlying asset value are a direct echo of the multi-tranche mezzanine debt structures and structured credit vehicles that amplified losses during the crisis — and that led to some of the most significant enforcement actions of that era.

Private credit and multi-tranche debt.

The rapid expansion of private credit has created fund families where the same manager originates, structures, and holds debt across multiple tranches — senior secured, unitranche, mezzanine, and equity — often across different funds. When a borrower encounters difficulty, the manager is simultaneously creditor at every level of the capital structure, creating conflicts in workout decisions, covenant enforcement, and recovery allocation that are inherently irreconcilable without robust governance. These are not new conflicts — they are the same structural tensions that defined the CDO and CLO markets in 2007–2008, now reappearing in a less regulated, less transparent form.

Vertical integration and ownership of advisory firms.

Perhaps the most consequential trend is the increasing acquisition of fund service providers — administrators, valuation agents, compliance firms, and even placement agents — by large fund management groups. When a fund's administrator is owned by the same group that manages the fund, or when the compliance firm conducting an independent review is part of a corporate family that also provides advisory services to the manager, the independence that underpins the entire governance framework is structurally compromised. The conflict is straightforward: the service provider's commercial interest in retaining the relationship may outweigh its willingness to challenge the manager's positions on valuation, expense allocation, or regulatory reporting. This is a pattern that was well understood in the audit profession decades ago and led to the separation of audit and consulting services. The fund management industry is now confronting the same question.

Side letters and separately managed accounts.

The proliferation of side letter arrangements and pari passu separately managed accounts (SMAs) is not new in private markets, but its scale and complexity have grown significantly as institutional allocators have become more sophisticated in negotiating bespoke terms. What was once a relatively simple instrument — a fee concession for a cornerstone investor — has evolved into a complex matrix of differentiated economics, liquidity rights, co-investment access, reporting obligations, and risk parameters across an increasingly large number of investors within the same fund or strategy. The conflicts that result are layered. At the commercial level, the manager faces pressure to offer terms that secure capital commitments from large allocators, knowing that those terms may disadvantage smaller or less commercially powerful investors in the same commingled vehicle. At the operational level, the complexity of administering multiple bespoke arrangements alongside a standard commingled fund creates error risk that is asymmetrically borne — the costs of operational complexity are socialised across all investors, while the benefits of preferential terms flow only to those who negotiated them. And at the governance level, the manager's board and compliance function must maintain oversight of an expanding set of investor-specific obligations, any one of which, if incorrectly administered, may trigger claims of unequal treatment or regulatory enquiry. These are not exotic problems. They are the daily operational reality for any fund manager with a meaningful institutional investor base. Their resolution requires systematic tracking of all bespoke investor arrangements, clear apportionment of associated operational costs, and documented governance of how conflicting obligations are prioritised and managed. The significance of these conflicts has since been independently validated at an industry level: AIMA's Separately Managed Accounts — An AIMA Industry Guide, published in 2026 in conjunction with Simmons & Simmons LLP, identifies the conflicts arising from SMA structures as a core governance challenge for fund managers operating parallel vehicles.

Digital asset structures.

Newer fund structures are exploring digital asset solutions — tokenised fund interests, blockchain-based transfer mechanisms, and smart contract governance — that introduce technology-specific conflicts around custody, settlement finality, valuation of digital assets, and the governance of protocol-level decisions that may affect investor rights. While these structures are novel in form, the underlying conflicts — who controls the assets, how are they valued, and who benefits from the infrastructure — are variations on themes that have existed since the first pooled investment vehicle.

The common thread across all of these developments is that the fact patterns are recognisable to anyone with sufficient experience across market cycles and product types. The specific product may be new, but the underlying conflict — manager versus investor, commercial interest versus fiduciary duty, self-assessment versus independent oversight — follows patterns that have been observed, documented, and in many cases litigated before. The ability to recognise these patterns early, before they crystallise into regulatory or investor disputes, is what distinguishes firms that manage conflicts proactively from those that discover them reactively.

7. Growing Into Grey Areas

One of the most important observations from our advisory work — and one that is often underappreciated — is that the most challenging conflicts in private markets do not typically present themselves on day one. They emerge as managers grow and mature.

A firm that launches with a single fund and a small team may have relatively straightforward conflicts to manage. The same firm, five years later, may be managing multiple funds across different strategies, with co-investment vehicles, separately managed accounts, personnel sitting on multiple investee company boards, distribution relationships across jurisdictions, and a growing management company with its own commercial interests.

Each of these developments introduces new conflicts that may not have been contemplated in the original fund documentation, the firm's initial conflicts policy, or its compliance monitoring programme. The grey areas are not grey because the regulations are unclear — they are grey because the business has evolved into territory that the original disclosure and control framework was not designed to cover.

This is precisely why a conflicts inventory needs to be a living document, reviewed and updated at least annually and whenever material changes occur in the firm's business activities, product offerings, or personnel. It is also why periodic conflicts training — not just initial onboarding training — is essential. As we explore in detail in our conflicts training programme, in the Compliance module of the Henley Business School Hedge Fund Programme, and in the Governance and Compliance module of the IPI Private Equity Learning Pathway, staff need to understand not just the policy framework, but the practical application of conflict identification and management to the specific products and structures they work with.

8. A Practical Framework

Based on our experience advising regulated firms across Hong Kong, Singapore, London and New York, we recommend the following approach for private market managers:

1. Build a Purpose-Built Conflicts Inventory

Do not rely on a generic securities market template. Map the specific conflicts that arise from your business activities, fund structures, fee arrangements, and personnel roles. Our framework categorises conflicts across seven dimensions: Investment Conflicts, Pricing and Valuation Conflicts, Non-Pecuniary and Peripheral Conflicts, Information Distribution and Disclosure Conflicts, Personnel Conflicts, Relationship Conflicts, and Commercial Conflicts. Each category should identify the specific potential conflict, the risk it presents, and the management arrangements in place. The inventory should explicitly address valuation governance, allocation preferences, soft dollar and commission-sharing arrangements, and the receipt of non-monetary benefits — areas that are frequently under-documented in private market firms.

2. Implement a Structured Disclosure Process

When a conflict is identified, it should be documented through a formal process that captures the source of the conflict, the parties involved, how it arose, how it is being resolved, and whether disclosure is required. This is not merely administrative — the SFC has explicitly required firms to "maintain proper documentation of their management of conflicts of interest and its assessments and justifications for the investment decision despite the actual or potential conflicts of interest that arise."

3. Engage Counsel on Fund Disclosures — and Establish a Central Point of Management

Legal counsel plays an essential role in reviewing conflicts disclosures in fund constitutive documents, offering documents, and investor communications. However, in a multi-fund management company, counsel and fund boards will frequently differ across vehicles — reflecting different fund domiciles, investor bases, and legal frameworks. This structural fragmentation creates a meaningful risk: that disclosure standards become inconsistent across the fund family, that emerging conflicts are addressed in one fund but overlooked in another, and that no single person within the management team carries a complete picture of the firm's conflict exposure at any given time.

The answer is not to centralise legal advice — which would be impractical and potentially counterproductive — but to establish a central point of management within the management team itself. This means a designated senior individual, typically the Chief Compliance Officer or a senior member of the risk and compliance function, who is responsible for maintaining a consolidated view of all conflicts across the firm's funds and activities, coordinating with the respective fund counsel and boards, and ensuring that the approach to identification, management, and disclosure is consistent in

substance even where the legal form and documentation differ. This central function must be actively supported by a controls team that is empowered to challenge, escalate, and trigger review as the firm's risk profile changes — not merely to record what has already been decided.

4. Ensure Board-Level Engagement

Conflicts of interest should be a standing agenda item at management body meetings. The management body should review the conflicts inventory, the conflicts register, outside business interests, and the results of any monitoring where exceptions have been raised. This is now an explicit regulatory expectation in Hong Kong, the UK, and the US. Experienced fund directors who have navigated multiple market cycles and product evolutions bring an invaluable perspective to this process — they have often seen the fact patterns before, in different forms, and can identify emerging conflicts before they become entrenched. For firms that do not have access to this depth of board-level experience, or where the board itself may be too close to the business to provide fully independent challenge, engaging a third party with cross-jurisdictional experience to conduct periodic independent reviews of the conflicts framework can provide the objectivity and pattern recognition that internal processes alone may lack.

5. Invest in Targeted Training

Generic compliance training is insufficient. Personnel in private markets firms need to understand the specific conflicts that arise from co-investment, valuation of illiquid assets, related-party transactions, multi-fund management, and the other scenarios unique to their business. Training should be updated as the firm's activities evolve.

6. Treat the Framework as a Living System

The conflicts inventory, policy, register, and monitoring programme should be reviewed at least annually and whenever material business changes occur. New product launches, new fund vintages, changes in personnel, new distribution relationships, and expansion into new jurisdictions should all trigger a reassessment.

9. Conclusion

The regulatory environment for private market managers has changed fundamentally. The SFC's October 2024 circular, its subsequent enforcement actions, and the parallel moves by the SEC and FCA make clear that principles-based regulation is not light-touch regulation. Firms operating in private equity, venture capital, and private credit are expected to demonstrate — not merely assert — that they have applied the principles designed for securities markets to the unique characteristics of their products and activities.

Active conflicts management — as distinct from passive disclosure — requires governance-led engagement with the full spectrum of conflicts that a firm faces. That means the headline conflicts of related-party transactions and valuation, but equally the peripheral conflicts of allocation preferences, broker commission sharing, soft benefits, and the incremental commercial advantages that accrue to managers through the normal course of business. It is these quieter conflicts that most often define the gap between what a firm's policy says and how its business actually operates.

The good news is that this is eminently achievable. Firms that invest in purpose-built conflicts frameworks — with comprehensive inventories, structured disclosure processes, board-level oversight, valuation governance, and targeted training — will be well positioned to navigate the grey areas that inevitably emerge as their businesses grow and mature. More importantly, they will be better positioned to serve their investors' interests — which, after all, is the point.

At Cognitive GRC, we have been helping firms build and maintain these frameworks for over a decade across Hong Kong, Singapore, London and New York. We have advised clients through each of the

product innovations and structural shifts discussed in this paper — from the post-crisis restructuring of multi-tranche debt vehicles, through the emergence of listed alternative structures, to the current generation of private credit platforms and digital asset funds. In each case, the approach has been the same: map the conflicts that are specific to the firm's activities and products, benchmark them against the patterns we have observed across jurisdictions and market cycles, and build governance frameworks that are designed to surface emerging risks before they become regulatory or investor problems. Our conflicts inventories, disclosure processes, training programmes, and independent review capability are designed specifically for the realities of private markets — not adapted from securities market templates. If you would like to discuss how we can support your firm, we would welcome the conversation.

10. About Cognitive GRC

Cognitive GRC is a governance, risk and compliance advisory firm established by a leading international consulting group operating since 1997. Based in Hong Kong and serving clients across Asia-Pacific, Europe, and North America, we advise hedge fund managers, private equity managers, and other institutional financial services firms on regulatory licensing, compliance frameworks, risk management, and governance. Our Managing Director presents the Compliance module of the Henley Business School Hedge Fund Programme and the Governance and Compliance module of the Inflection Point Intelligence (IPI) Private Equity Learning Pathway.

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Appendix: Selected Global Enforcement Cases Involving Conflicts of Interest

The following table summarises significant enforcement actions across jurisdictions where conflicts of interest were a central or contributing factor. These cases illustrate recurring fact patterns — from valuation manipulation and undisclosed fee arrangements to side-by-side management failures and related-party self-dealing — that private market managers should be aware of when designing and maintaining their conflicts frameworks.

Case	Jurisdiction	Year	Conflicts Failure	Impact
Agg Asset Management / Ng Ka Shun	Hong Kong (SFC)	2024	Manager invested substantially all fund assets in debentures issued by companies he personally controlled, effectively granting loans to himself with investor subscriptions. Manufactured receivables used to inflate fund NAV. Complete failure to identify or manage related-party conflicts.	Lifetime ban on responsible officer. HK$1.7 million fine. Fund investors suffered principal losses.
Nerico Brothers / Amber Hill Capital	Hong Kong (SFC)	2025	Misappropriation of over US$154 million in client funds through fabricated transaction documents. Fundamental breach of fiduciary duty and failure of internal controls to detect self-dealing.	Licences revoked. Lifetime bans on principals. Criminal referrals.
PICC Asset Management	Hong Kong (SFC)	2024	Failed to manage fund in accordance with stated investment strategy. Highly concentrated positions in one to three stocks, including securities not on the permitted list. Inadequate internal controls to ensure mandate adherence.	HK$2.8 million fine. Reprimand.
Ruifeng Securities	Hong Kong (SFC)	2023	Fund invested in senior notes that the manager had underwritten, creating a direct conflict between the manager's underwriting interest and the fund's investment interest. Failed to disclose conflict to investors.	HK$5.2 million fine. 10-month licence suspension for responsible officer.
BlueCrest Capital Management	United Kingdom (FCA) / United States (SEC)	2021–2025	Allocated portfolio managers from an external fund (open to outside investors) to an internal fund (open only to partners and employees), favouring the internal fund. Systems and controls failed to manage the risk that allocation of investment talent would disadvantage external investors.	FCA Decision Notice: £40.8 million penalty (referred to Upper Tribunal). SEC: US$170 million settlement including US$132.5 million disgorgement fund for US investors. Redress scheme of approximately $101 million to affected investors.
Woodford Investment Management / Neil Woodford	United Kingdom (FCA)	2025	Disproportionately sold liquid investments and bought illiquid ones, reducing fund liquidity to 8% realisable within 7 days while investors expected 4-day access. Manager held a "defective and unreasonably narrow understanding" of his liquidity management responsibilities. Failure to manage the conflict between the manager's desire to hold illiquid positions for long-term returns and investors' contractual liquidity rights.	£40 million fine on WIM. £5.9 million fine and ban on Neil Woodford from senior management roles. Fund suspended, trapping approximately £3.7 billion in investor assets. £230 million redress scheme secured against the authorised corporate director.

Case	Jurisdiction	Year	Conflicts Failure	Impact
UK Institutional Investment Adviser (Side-by-Side Management)	United Kingdom (FCA)	2015	Side-by-side management of funds paying differing performance fees, with the same trading desk incentivised to favour higher-fee funds through "cherry-picking" of trade allocations. Inadequate policies to address specific risks of side-by-side management. Weaknesses identified in internal audits but not remedied.	£17.6 million fine. £132 million in compensation paid to disadvantaged fund investors.
Apollo Global Management	United States (SEC)	2016	Failed to adequately disclose accelerated monitoring fees collected from portfolio companies upon sale or IPO, reducing value available to fund investors. Failed to disclose interest allocation on a loan between the general partner and five funds that deferred taxes on carried interest. Failed to supervise a senior partner who repeatedly charged personal expenses to fund clients.	US$52.7 million settlement (US$37.5 million disgorgement, US$2.7 million interest, US$12.5 million penalty). Cease-and-desist order.
Macquarie Investment Management	United States (SEC)	2024	Overvalued approximately 4,900 illiquid collateralised mortgage obligations across 20 advisory accounts using institutional-level pricing for smaller odd-lot positions, overstating fund performance. Executed hundreds of unlawful cross trades between advisory clients, favouring certain accounts at the expense of others — including 11 retail mutual funds — to mitigate losses from the overvaluation.	US$79.8 million settlement (US$70 million penalty, US$9.8 million disgorgement). Required to retain independent compliance consultant.
China Capital Impetus Asset Management	Singapore (MAS)	2024	Failed to mitigate conflicts of interest arising from management of fund assets. No disclosure of conflicts to investors. No appropriate risk management framework for investment due diligence, monitoring, redemption handling, or pursuit of fund claims. CEO knowingly failed to ensure compliance.	Reprimand. CEO issued 2-year Prohibition Order. Application to upgrade licence rejected. Firm de-registered and can no longer conduct fund management in Singapore. Fund placed in liquidation.
Capital Asia Investments	Singapore (MAS / Police)	2026	Serious control failings in AML compliance combined with suspected involvement in transnational money laundering network. Proceeds allegedly derived from overseas organised crime. Illustrates how conflicts between commercial growth and compliance obligations can create systemic risk.	S$160 million in assets seized. Two directors arrested. Investigations ongoing. Criminal proceedings anticipated.

Recurring Patterns

Across these cases, several recurring conflicts patterns emerge:

- Self-dealing and related-party transactions — managers directing fund assets to entities they personally control or benefit from, without adequate disclosure or independent oversight (Agg, Nerico/Amber Hill, Ruifeng, Apollo).
- Valuation conflicts — managers inflating or manipulating asset valuations in ways that directly benefit their own compensation through management fees, carried interest, or performance fees (Agg, Macquarie, Woodford).
- Side-by-side management and allocation bias — managers operating multiple products with different fee structures or investor bases, and failing to ensure fair treatment across all products (BlueCrest, the UK Side-by-Side case).

- Undisclosed fee arrangements — managers receiving monitoring fees, accelerated fees, or other economic benefits from portfolio companies or counterparties without adequate disclosure to fund investors (Apollo).
- Liquidity and redemption conflicts — managers prioritising their own investment preferences over investors' contractual liquidity rights, or failing to manage the inherent tension between illiquid strategies and redemption obligations (Woodford).
- Governance and control failures — in every case, the enforcement action identified inadequate internal controls, insufficient board oversight, or a failure to implement and monitor existing policies — confirming that the existence of a policy is not, on its own, sufficient.

These patterns are not confined to any single jurisdiction or regulatory regime. They recur because they are structurally embedded in the relationships between fund managers, their funds, and their investors. A robust conflicts framework must be designed to identify and manage these patterns proactively, drawing on the experience of prior enforcement actions to anticipate where similar risks may emerge in the firm's own activities.