



# New SEC rulings continue push towards more transparent private markets



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- 1 Private markets have experienced [unprecedented growth](#) since the turn of the century, leading to an increased scrutiny of a sector often regarded as lacking in transparency
- 2 The SEC have announced new rules and regulations which impact private fund advisors but the consequences for the industry could be far-reaching
- 3 Private equity software & technology solutions can help fund managers provide greater transparency and significantly improve communications to investors

Last summer, the Securities and Exchange Commission (SEC) announced new landmark rules and regulations with the stated objective to “protect private fund investors by increasing transparency, competition, and efficiency in the private funds market<sup>1</sup>”.

At Bite, we view this announcement as a pivotal moment for the private markets industry. This year, we are delving deeper into the profound implications, not only offering fund managers insights but also providing recommendations on how they can effectively navigate and respond to these latest development.

## More mainstream attention means more transparency required

As highlighted throughout our recent series of articles, the once-niche private markets have grown exponentially over the last two decades and are now more mainstream than ever before with over \$11 trillion

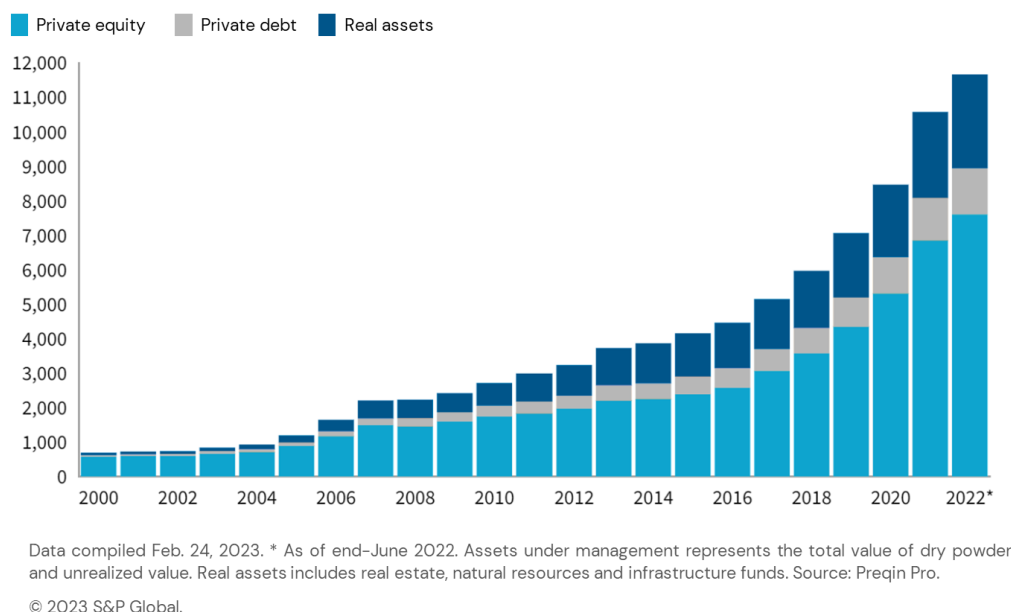
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<sup>1</sup> SEC, [SEC Enhances the Regulation of Private Fund Advisers](#), August 2023

of Assets Under Management (AUM)<sup>2</sup>. If we take a quick look at Figure 1<sup>3</sup> below, we can see the staggering growth of the private markets since 2000 which was only further enhanced over the recent pandemic.

**Figure 1: The Gradual Growth of Private Markets Gained Momentum During the Pandemic**

### Assets under management trend of alternative assets, 2000–2022 (\$B)



And with this unprecedented growth highlighted above comes greater attention on the asset class. Inevitably, this had led to increasing scrutiny of the private markets which have often been perceived as being shrouded in mystery. The criticism over the years has been that the sector lacks the necessary transparency to ease the concerns of first-time investors and make the markets more accessible to non-traditional investors.

However, the growth of the sector and new technology solutions readily available allow non-institutional investors (such as individual high net-worth investors) to break down the traditionally high barrier to entry. There is now a new breed of investors who demand greater transparency.

To facilitate the “retailization” of private markets (the trend that integrates technology to make traditional institution-centric private markets investment opportunities accessible to individual or retail investors), companies have adopted various strategies, as highlighted in a recent Dechert report<sup>4</sup>. These include the development of customized offerings like feeder funds, tokenized blockchain-enabled products, and funds-of-private-funds. These products become accessible through wealth manager channels and digital platforms, such as Bite Stream, to cater to the increasing demand from retail investors. Notably, these offerings often feature lower minimum investment requirements and increased liquidity compared to traditional private equity funds, thus broadening access beyond the historically exclusive institutional and high-net-worth market.

“Whether the new SEC rules apply to you now or not, it’s time for industry to be more open.”

Whether the new SEC rules apply to you now or not, it is time for industry to be more open.

<sup>2</sup> Bite Investments, [Staying private for longer](#), October 2023

<sup>3</sup> S&P Global, [Private Markets: Still Waters Run Deep](#), April 2023

<sup>4</sup> Dechert, [2024 - Global Private Equity Outlook](#), December 2023

## What are the SEC rules?

Full details on each new rule and regulation for private fund advisors can be found [here](#)<sup>5</sup>, with some key takeaways from the new SEC changes below.

- Registered private fund advisors are now required to provide investors with quarterly statements including key information such as fund performance, fees and expenses incurred.
- All private fund advisors (whether they are registered and non-registered) are prohibited from providing investors with preferential treatment regarding redemptions and information which could “have a material, negative effect on other investors.”
- Private fund advisers are required to obtain annual audits of all the private funds they directly or indirectly advise.
- Restrictions on all advisers from engaging in specific activities such as charging or allocating fees and expenses to private funds.
- SEC-registered advisers are required to retain records relating to all new requirements.

Looking at the above, it is noticeable that an increase in transparent reporting was high on the SEC’s list. For years, private equity has been accused of lacking the rigorous reporting requirements of the public markets and it is clear the SEC is aiming to offer investors (and especially new entrants into private markets) the necessary confidence to commit their capital.

A crucial obstacle faced by managers in reaching these new types of investors, as outlined in the recent Dechert report<sup>6</sup>, is the need to expand their back-office capabilities to adapt to the necessary modifications this group of investors needs and to do so at a low cost.

## Standing out from the private market fundraising crowd

For many, these new rules might not apply directly to them today but the trend towards greater transparency is clear. At Bite, we take the view that it is inevitable that further legislation will be implemented across the world to help fund managers become more transparent when reporting to investors.

Coupled with that, the 2023 fundraising market was incredibly challenging. Put simply, there are too many funds currently seeking capital which is simply not available. According to research by Preqin<sup>7</sup>, there are approximately 14,000 active funds in the global fundraising market looking for \$3.3 trillion of capital. However, the data indicates there is only around \$1 trillion of funding available.

This lack of capital in the fundraising market has created a crowded and highly competitive fundraising environment, something few are predicting to abate any time soon. Fund managers must now stay ahead of the competition by any means necessary. Increasing their transparency of activities and improving communications with investors should be good starting points. It is logical to assume that the ones who chose to neglect this trend will, unfortunately, fall by the wayside.

**“Increasing their transparency of activities and improving communications with investors should be good starting points.”**

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<sup>5</sup> SEC, [New private fund adviser rules: overview chart](#), August 2023.

<sup>6</sup> Dechert, [2024 - Global Private Equity Outlook](#), December 2023

<sup>7</sup> Bain & Company, [Stuck in place: private equity midyear report 2023](#), July 2023.



## Transformative technology is the answer!

So, whether they are directly impacted by the SEC developments or not, fund managers should strive to communicate better. They should allow greater access to fund information and, above all, provide detailed reporting metrics to give investors the ability to fully analyze how their capital is being invested.

It is no surprise then that new software solutions, like our very own Bite Stream, have been created to transform cumbersome, historical, legacy systems. [The digital-first platforms](#) can help fund managers become more transparent when communicating in real-time with their investors.

## Conclusion

[Our secure and fully customizable end-to-end SaaS investor solutions platform](#) was designed to digitally connect investors with fund managers, while enabling better and quicker communication. The fundraising platform allows fund managers to compliantly streamline and scale the distribution of alternative investments to all types of investors, from High-Net-Worth Individuals (HNWI) to institutional investors. Crucially, these fund managers will be able to offer their clients the comprehensive reporting they now expect.

**“The new digital tools help managers scale and effectively distribute their funds across multiple jurisdictions and investor types, matching rigorous compliance framework across the globe.”**

The good news is that the new digital tools have opened up an array of new opportunities. They are far from a box ticking compliance exercise. The platforms help managers scale and effectively distribute their funds across multiple jurisdictions and investor types, matching rigorous compliance framework across the globe. This new technology not only enhances communications with investors and gives them the tools to provide detailed reporting but allows fund managers and

investors alike the opportunity to access new networks and investment opportunities in real time. Something that was not possible before the launch of these new platforms.

**It is no coincidence that 81% of private equity and other alternative asset management firms are currently using or planning to use cloud solutions in the next two years<sup>8</sup>, and at Bite, we are thrilled to help bring greater transparency to the sector.**

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<sup>8</sup> Bite Investments, [The Tech's Factor 2023: The digital \(r\)evolution in private markets](#), June 2023



**Get in touch or schedule a demo to learn more about Bite Stream's features and find a solution that suits your needs.**

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