

# Fund Finance Friday



## ILPA Takes Aim at Fund Formation Legal Fees

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By **Chris van Heerden**  
Director of Market Research | Fund Finance

Fund formation legal fees are fundamentally misaligned, requiring LPs to shoulder fund formation costs without input into the selection of counsel, the setting of the legal budget, and cost controls, according to **ILPA guidance** on the topic issued this week. Core to the ILPA guidance is the view that the industry has outgrown a cost allocation model that made sense in its infancy: “What once made economic sense—requiring LPs to cover organizational expenses when the industry was nascent and GPs lacked sufficient capital—has become an outdated practice that now enables systematic cost-shifting by highly profitable asset managers to their investor clients.”

ILPA proposes three steps to address runaway fund formation fees: (1) a fee cap set at the lower of 5 bps of the fund’s targeted AUM or \$10 million, (2) A 50-50 cost sharing arrangement for fees in excess of the cap, and (3) improved disclosure to LPs covering law firm rate schedules, fund formation legal budgets, expense caps, and monitoring of legal spend. The guidance does not explicitly scope in fund borrowing, and the direct impact may depend on how initial subscription borrowing costs are classified.