

CLIENT ALERT

The graphic features a dark blue background with several glowing, intersecting lines in shades of cyan and magenta, creating a sense of dynamic movement and technology.

## SEC Division of Examinations 2025 Priorities

NOVEMBER 14, 2024

On October 21, 2024, the U.S. Securities and Exchange Commission's (the SEC) Division of Examinations (the Division) announced its [annual list of examination priorities for 2025](#) (the Priorities), which are developed in consultation with various internal SEC divisions and offices. The priorities reflect practices, products, and services that the Division believes present heightened risks to investors or the integrity of the U.S. capital markets. The Priorities are not an exhaustive list of issues the Division intends to target in examinations. The Division's examinations are also likely to address emerging risks, products, market events, and other investor concerns as they arise. In this alert, you will find a summary of the priorities for the SEC in examining registered investment advisers, registered investment companies, broker-dealers, and other market participants in 2025.

Below is a summary of the Priorities for the SEC in examining registered investment advisers, registered investment companies, broker-dealers, and other market participants in 2025:

### 1. INVESTMENT ADVISERS

- **Adherence to Fiduciary Standards of Conduct:** Investment advisers, as fiduciaries, owe their clients a duty of care and a duty of loyalty, meaning advisers must provide impartial, well-informed advice and avoid any conflicts or, if unavoidable, disclose them in full so clients can make informed decisions. The SEC will closely examine advisers' adherence to these duties, particularly in recommendations involving high-cost or complex products, illiquid assets, and interest-sensitive investments such as commercial real estate. For dual registrants and advisers with affiliated broker-dealers, the SEC will focus on the suitability of products and services offered, clarity of role disclosures, appropriateness of account recommendations (e.g., brokerage vs. advisory), and whether advisers are mitigating conflicts of interest effectively, especially regarding fees and execution quality.
- **Effectiveness of Advisers' Compliance Programs:** The Compliance Rule (Rule 206(4)-7 under the Investment Advisers Act of 1940, as amended (the Advisers Act)) requires investment advisers registered with the SEC to implement written policies to prevent rule violations, assign a Chief Compliance Officer, and conduct annual reviews of their programs. The Division will assess the effectiveness of these programs, focusing on key areas like marketing, valuation, and fee transparency. The Division will review conflicts of interest, policies around outsourced investment management, alternative revenue sources, and evolving practices, including AI integration and remote work setups, in determining whether client interests are prioritized.

- **Private Fund Advisers:** Despite the vacation of the Private Fund Rules,<sup>[1]</sup> the Division continues to focus on advisers to private funds, which represent a significant portion of the SEC-registered investment adviser population. The Division will scrutinize fee and expense calculations, especially for funds with illiquid assets or complex fee structures. The Division also intends to focus on the disclosure of conflicts of interest and risks, and the adequacy of policies and procedures. The Priorities list the following examples of products or practices for the focus of such conflicts, controls, and risk reviews: (1) use of debt, fund-level lines of credit, investment allocations, adviser-led secondary transactions, transactions between fund(s) and/ or others; (2) investments held by multiple funds; and (3) use of affiliated service providers. The Division will prioritize its examinations on whether disclosures are consistent with actual practices. The Division will also assess compliance with new SEC rules, including Form PF amendments<sup>[2]</sup> and the marketing rule<sup>[3]</sup> in reviewing whether examined advisers' policies and practices align with regulatory standards.
- **Never Examined Advisers, Recently Registered Advisers, and Advisers Not Recently Examined.** As with previous years, the Division indicated that it will prioritize examinations of advisers that have never been examined and those that have not been recently examined with a continued focus on newly registered advisers.

## 2. INVESTMENT COMPANIES

- The Division will continue to prioritize examinations of registered investment companies, including mutual funds and exchange-traded funds, due in part to their importance to retail investors. Examinations of registered investment companies will assess their compliance programs, disclosures, and governance practices. Examination focus areas include fund fees and expenses, including any waivers and reimbursements; the oversight of service providers (both affiliated and third-party); portfolio management practices and disclosures; and issues related to market volatility.

## 3. BROKER-DEALERS

- **Regulation Best Interest:** The Division will continue to prioritize broker-dealer practices related to Regulation Best Interest, including the following areas: (1) recommendations with regards to products, investment strategies, and account types and whether the broker has a reasonable belief that the recommendation is in the customer's best interest; (2) disclosures made to investors regarding conflicts of interest; (3) conflict identification and mitigation and elimination practices; (4) processes for reviewing reasonably available alternatives; and (5) factors considered in light of the investor's investment profile such as investment goals and account characteristics. Particularly, examinations will focus on recommended products that are complex, illiquid, or present higher risk to investors.
- **Form CRS:** The Division will review the content of a broker-dealer's relationship summary, paying specific attention to how the broker-dealer describes the relationships and services it offers to retail customers, its fees and costs, and conflicts of interest.
- **Financial Responsibility Rules:** Examinations will continue to focus on broker-dealer compliance with the net capital and customer protection rules, including their internal processes and controls. Examinations will prioritize operational resiliency programs related to third-party services that support financial reporting, as well as broker-dealer credit, market, and liquidity risk management controls to ensure adequate liquidity for stress events.
- **Trading-Related Practices and Services:** Equity and fixed income trading practices remain a priority of the Division's examinations, in particular the structure, marketing, fees, and potential conflicts. The Division is also concerned with trading in pre-IPO companies and the sale of private company shares in secondary markets, as well as broker-dealers' execution of retail orders. These reviews will include: (1) whether retail orders are marked as "held" or "not held," and the consistency of the marking with retail instructions; and (2) the pricing and valuation of illiquid or retail-focused instruments such as variable rate demand obligations, other municipal securities, and non-traded real estate investment trusts.

## 4. RISK AREAS IMPACTING VARIOUS MARKET PARTICIPANTS

- **Cybersecurity:** The Division will continue to review registrant practices to prevent interruptions to critical services and protect investor information amid rising risks from cybersecurity threats, operational disruptions, and

geopolitical issues. Key areas of examination will include cybersecurity practices, governance, data loss prevention, and incident responses, especially concerning ransomware attacks. The Division will also assess safeguards at alternative trading systems and the cybersecurity risks associated with third-party products and services, focusing on how registrants identify and address these risks to essential business operations.

- **Regulation S-ID and Regulation S-P:** The Division will assess compliance with Regulations S-ID and S-P, including the implementation of the requirements contained in the SEC's amendments to Regulation S-P adopted May 16, 2024. Examinations will focus on firms' policies and procedures, internal controls, oversight of third-party vendors, and governance practices.
- **Shortening of the Settlement Cycle:** The Division will examine broker-dealer compliance with Rule 15c6-1, which establishes a standard settlement cycle of T+1<sup>[4]</sup> (one business day after the trade date), and Rule 15c6-2, requiring broker-dealers to have written agreements or procedures to ensure timely completion of allocation, confirmation, or affirmation processes by the end of the trade date (T+0). Additionally, the Division will evaluate advisers' compliance with updated books and records requirements related to T+1, examine operational changes for facilitating institutional transactions, and review technology updates linked to the shortened settlement cycle. Examinations will also identify any persistent issues regarding specific products or counterparties that fail to settle within the designated time frames.
- **Artificial Intelligence:** The Division will focus on registrants' use of automated investment tools, artificial intelligence (AI), and trading algorithms or platforms, along with the associated risks of emerging technologies and alternative data sources. Particularly, the Division noted that it will examine firms utilizing digital engagement practices, assessing whether representations made to investors are accurate, if operational controls align with disclosed practices, and whether algorithms produce advice that matches investors' profiles. Additionally, the Division will review firms' claims about their AI capabilities for accuracy and evaluate their policies for monitoring AI use in various functions, including fraud detection and anti-money laundering. The examinations will also focus on how firms protect client information when using third-party AI models and tools, as well as their integration of regulatory technology to enhance internal processes.
- **Crypto Assets:** The Division continues to observe the proliferation of investments involving crypto assets and their associated products and services. Examinations of registrants will focus on the offer, sale, recommendation, advice, trading, and other activities involving crypto assets that are offered and sold as securities or related products, such as spot bitcoin or ether exchange-traded products. Particularly, examinations will assess whether registrants adhere to standards of conduct when advising clients on crypto assets, particularly for retail investors and retirement accounts. Additionally, examinations will focus on whether firms regularly update their compliance practices, including wallet and custody reviews, Bank Secrecy Act (BSA) compliance, valuation procedures, risk disclosures, and operational resiliency measures, such as data integrity and business continuity plans.
- **Anti-Money Laundering:** The Division notes that the BSA requires that certain financial institutions, including broker-dealers and some registered investment companies, develop tailored Anti-Money Laundering (AML) programs<sup>[5]</sup> to address their specific risks. These programs must include policies and internal controls for BSA compliance, independent testing, and customer due diligence, which involves verifying customer identities and monitoring transactions for suspicious activity. Institutions are required to file Suspicious Activity Reports (SARs) with the Financial Crimes Enforcement Network to help combat illicit activities like money laundering and insider trading. The Division will focus on whether these firms properly customize their AML programs, conduct independent testing, maintain robust customer identification procedures, meet SAR filing obligations, and monitor compliance with sanctions set by the Department of Treasury's Office of Foreign Assets Control.

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[1] Information regarding the vacation of the Private Fund Rules is available [here](#).

[2] Information regarding the amendments to Form PF adopted by the SEC on May 3, 2024, is available [here](#).

[3] Information regarding the investment adviser marketing rule available [here](#) and [here](#).

[4] Information regarding the U.S. transition to T+1 settlements is available [here](#).

[5] Information regarding investment advisers' AML compliance obligations under FinCEN's final rule meant to address illicit finance activities and national security threats in the asset management industry is available [here](#).  
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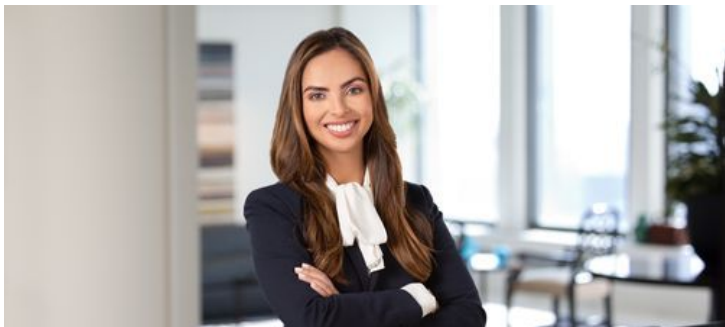
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