



U.S. Securities and  
Exchange Commission

Fiscal Year 2025

# Examination Priorities

Division of Examinations

**DISCLAIMER:** This statement represents the views of the staff of the Division of Examinations. It is not a rule, regulation, or statement of the U.S. Securities and Exchange Commission (SEC or Commission). The Commission has neither approved nor disapproved its content. This statement, like all staff statements, has no legal force or effect: it does not alter or amend applicable law, and it creates no new or additional obligations for any person.

# CONTENTS

<b>MESSAGE FROM THE LEADERSHIP TEAM</b>	<b>1</b>
<b>FISCAL YEAR 2025 EXAMINATION PRIORITIES</b>	<b>5</b>
I. INVESTMENT ADVISERS	5
A. Adherence to Fiduciary Standards of Conduct	5
B. Effectiveness of Advisers' Compliance Programs	6
C. Examinations of Advisers to Private Funds	7
D. Never Examined Advisers, Recently Registered Advisers, and Advisers Not Recently Examined	7
II. INVESTMENT COMPANIES	7
III. BROKER-DEALERS	8
A. Regulation Best Interest	8
B. Form CRS	8
C. Broker-Dealer Financial Responsibility Rules	8
D. Broker-Dealer Trading-Related Practices and Services	9
IV. SELF-REGULATORY ORGANIZATIONS	9
A. National Securities Exchanges	9
B. FINRA	9
C. Municipal Securities Rulemaking Board	10
V. CLEARING AGENCIES	10
VI. OTHER MARKET PARTICIPANTS	11
A. Municipal Advisors	11
B. Transfer Agents	11
C. Security-Based Swap Dealers	11
D. Security-Based Swap Execution Facilities	11
E. Funding Portals	11
VII. RISK AREAS IMPACTING VARIOUS MARKET PARTICIPANTS	12
A. Information Security and Operational Resiliency	12
1. Cybersecurity	12
2. Regulation S-ID and Regulation S-P	12
3. Shortening of the Settlement Cycle	13
B. Emerging Financial Technologies	13
C. Crypto Assets	14
D. Regulation Systems Compliance and Integrity	14
E. Anti-Money Laundering	15



# MESSAGE FROM THE LEADERSHIP TEAM

---

## Three Decades Strong: An Adaptive, Transparent, and Risk-Focused Examination Program

---

March 2025 marks 30 years since the creation of the Division of Examinations (Division or EXAMS).<sup>1</sup> Since that time, the securities markets have undergone significant transformations, evolving from brokers using fax machines and open outcry floor trading, to an online, globally interconnected high-speed marketplace. To keep pace, we have embraced adaptable structures and agile processes that evolve alongside industry to help ensure robust investor protection and strong compliance.

Over the last three decades, technology has globally shifted the securities industry and how most people invest. In the early years of the examination program, the internet was just becoming mainstream. Today, some registered firms are developing generative artificial intelligence based applications and employing complex algorithms to inform investment strategies. Securities trades clear faster and many people can invest in our capital markets using just a smartphone.

As technology continues to transform investing, we must work to identify new and emerging risks. The Division must constantly scan the horizon for these risks and stand ready to examine registered firms for compliance with SEC rules tied to these risks, and not merely react to these threats. To ensure investors remain protected, we continue to invest in training and work hard to keep our staff abreast of changes in the industry. We also continue to assess how these changes might impact registered firms' operations and regulatory compliance, and at the same time, remain nimble to retool our approaches in conducting examinations.

### ADAPTING OUR OVERSIGHT RESPONSIBILITIES AS THE INDUSTRY LANDSCAPE CHANGES

We regularly reassess our tools, methods, and approaches to keep pace with the growing breadth and complexity of the Division's examination responsibilities. We remain committed to continually assess ways we can further improve and fulfill our important responsibilities in overseeing a growing portfolio of registered firms.

The number and breadth of our staff and specialized examination programs have increased significantly since 1995. In those early years, we had approximately 500 staff across three programs. Today, we have more than 1,100 staff across five programs with specialized functions and capabilities responsible for the Congressionally mandated increase in examination authority for many new types of registered firms. The SEC has also promulgated various rules creating additional obligations for registered firms. As these rules are adopted, the Division works closely with our partners across the SEC to develop a comprehensive examination agenda and direct the necessary resources to ensure consistent, timely, and effective examinations.

We also strive to continually build and refine the Division's knowledge management capabilities to better position ourselves to tackle new and expanding examination responsibilities. In the past two years, the Division has added specialized capabilities in the cybersecurity, security-based swaps, crypto asset, and intelligence space. We have also dedicated additional resources to focus on other critical areas, including national securities exchanges, private funds, and clearing agencies. In addition, we have enhanced our organizational structure to respond to developments in the markets and demographic changes that resulted from the global pandemic. We have likewise changed our approach to onsite examinations based on lessons we learned operating in a remote and hybrid environment.

## **FOSTERING COMPLIANCE WITH PROACTIVE COMMUNICATION AND TRANSPARENCY**

We play a significant role in promoting compliance by engaging in extensive communication and outreach initiatives with the industry and other regulators throughout the year. Since 2013, we have published our annual examination priorities to inform investors and the industry about key areas where we intend to focus our resources—those areas the Division believes present the highest risk areas to investors and the markets. Last year marked the first time we published the priorities with the start of the SEC's fiscal year. Our goal remains the same. We strive to provide more transparency and as early as reasonably possible to allow registered firms more opportunities to evaluate their compliance efforts.

We also publish risk alerts throughout the year to provide additional transparency about our examination program and to promote compliance. We published our first risk alert in 2011, which identified potential risks that could harm investors and identified opportunities for broker-dealers to strengthen their internal controls and compliance procedures to protect investors. Recently, in response to industry request, we published risk alerts covering a wider range of topics that describe typical broker-dealer and registered investment adviser examinations; even attaching sample document requests. We also published, earlier this year, a risk alert on registered firms' preparedness for the rule shortening the securities transaction settlement cycle as part of the Division's efforts to continue engaging with firms by providing additional information about our examinations and outreach in assessing their preparedness.

We also proactively engage with investors and the securities industry through outreach events, including national and regional compliance seminars, and speaking engagements. We launched our formal outreach program in 2005, following the implementation of the “Compliance Rule” for registered investment advisers and registered investment companies. The Division’s goal was to promote open communications with chief compliance officers as they worked to establish new compliance programs or improve existing compliance programs within their organizations. This November, the Division will host its 12th Compliance Outreach Program National Seminar for Investment Adviser and Investment Company Senior Officers.

Today, our outreach efforts reach a wider audience, including investors and different types of registrants, and include a broad range of topics. Moving forward, we will continue our engagement with the industry to discuss compliance issues with the hope that participants may learn about effective compliance practices. In fiscal year 2025, for example, we anticipate conducting targeted outreach to the securities industry, focusing on implementation of the requirements contained in the SEC’s updates to Regulation S-P.

## **DIRECTING RESOURCES TO CRITICAL RISK AREAS**

We have spent considerable time and effort since 1995 enhancing and fine tuning our risk assessment and surveillance capabilities to better ensure that the registered firms we believe pose the greatest risk to investors and markets are identified for examination. Leveraging data and information to identify firms and practices that present elevated risk to investors or the markets has been a key foundation of the Division’s risk-based examination-planning and candidate-selection processes. We utilize, for example, a centralized team within EXAMS that includes skilled quantitative analysts and financial engineers to perform more sophisticated data analytics to identify potential examination candidates and practices, as well as serve as another valuable resource to Division staff in analyzing large amounts of complex trade and financial data.

As part of our drive to conduct more efficient and effective examinations, we continue to make organizational changes and reallocate our limited resources. Last year, for example, the Division made structural enhancements to our broker-dealer and exchange program. We built out a group to focus on national securities exchanges, added a national risk strategist to assess and examine planning considerations, and added a new associate director to strengthen the program’s home office. Finally, EXAMS is deeply engaged in a national effort to reevaluate the methodology we use to calculate annual examination number projections. Going forward, we are committed to further tying our annual targets to our risk-based examination approach and available staff resources.



Since 1995, we have built an adaptive, transparent, and risk-focused examination program. To promote compliance with securities laws and better protect investors, we diligently monitor risks, and as is ever-necessary, adapt our approaches to transparently provide information based on our observations and growing industry experience. With these crucial objectives in mind, we are pleased to present the Division's examination priorities for fiscal year 2025.

## DIVISION OF EXAMINATIONS LEADERSHIP



**Keith E. Cassidy**  
Acting Director



**Allison M. Fakhoury**  
National Clearance and  
Settlement Program  
Director



**Marshall M. Gandy**  
National Investment  
Adviser/Investment  
Company Program Director



**Kevin W. Goodman**  
National FINRA and  
Securities Industry  
Oversight Program Director



**Alexis L. Hall**  
National Technology  
Controls Program  
Acting Director



**Vanessa L. Horton**  
National Investment  
Adviser/Investment  
Company Program Director



**Michael G. Rufino**  
National Broker-Dealer and  
Exchange Program Director



# FISCAL YEAR 2025 EXAMINATION PRIORITIES

**T**he Division's examination priorities are developed in consultation with other divisions and offices throughout the SEC and are informed by prior years' examinations, market events, information gathered through participation in conferences and conversations with investors, registrants, industry groups, and other regulators. They reflect practices, products, and services that the Division believes present potentially heightened risks to investors or the integrity of the U.S. capital markets. They are not a comprehensive compilation of the issues the Division will address in examinations. The Division will cover other areas and conduct examinations focused on and devote resources to new or emerging risks, products and services, market events, and investor concerns.

The Division welcomes comments and suggestions regarding how it can better fulfill its mission to promote compliance, prevent fraud, identify and monitor risk, and inform SEC policy. Contact information is available at <https://www.sec.gov/exams>. If you suspect or observe activity that may violate the federal securities laws or otherwise operates to harm investors, please notify the SEC at <https://www.sec.gov/tcr>.

## I. INVESTMENT ADVISERS

### A. Adherence to Fiduciary Standards of Conduct

As a fiduciary, an investment adviser (adviser) owes a duty of care and a duty of loyalty to its clients. An adviser must, at all times, serve the best interest

of its clients and must not place its own interests ahead of the interests of its clients. In addition, an adviser must eliminate or make full and fair disclosure of all conflicts of interest which may lead the adviser—consciously or unconsciously—to render advice that is not disinterested such that a client can provide informed consent to the conflict. Examining for advisers' adherence to their duty of care and duty of loyalty obligations remains a priority, and the Division will continue to focus on:

- Investment advice provided to clients regarding products, investment strategies, and account types, and whether that advice satisfies the fiduciary obligations owed to their clients. In particular, the Division will focus on recommendations related to: (1) high-cost products; (2) unconventional instruments; (3) illiquid and difficult-to-value assets; and (4) assets sensitive to higher interest rates or changing market conditions, including commercial real estate.
- Dual registrants and advisers with affiliated broker-dealers. Common areas of focus include: (1) assessing investment advice and recommendations regarding certain products to determine whether they are suitable for clients' advisory accounts; (2) reviewing disclosures to clients regarding the capacity in which recommendations are made; (3) reviewing the appropriateness of account selection practices (*e.g.*, brokerage versus advisory), including rollovers from an existing brokerage account to

an advisory account; and (4) assessing whether and how advisers adequately mitigate and fairly disclose conflicts of interest.

- The impact of advisers' financial conflicts of interest on providing impartial advice and best execution, with consideration given for non-standard fee arrangements.

## **B. Effectiveness of Advisers' Compliance Programs**

Rule 206(4)-7 under the Investment Advisers Act of 1940 (Advisers Act), often referred to as the "Compliance Rule," requires SEC-registered investment advisers to: (1) adopt and implement written policies and procedures that are reasonably designed to prevent violations of the Advisers Act and the rules adopted under the Advisers Act by the adviser and its supervised persons; (2) designate an individual as Chief Compliance Officer to be responsible for administering the policies and procedures; and (3) review compliance policies and procedures at least annually for their adequacy and the effectiveness of their implementation.

The Division's assessment of the effectiveness of advisers' compliance programs is a fundamental part of the examination process. Examinations focusing on this topic typically include an evaluation of the core areas of advisers' compliance programs which include, as applicable and appropriate for each examination, marketing, valuation, trading, portfolio management, disclosure and filings, and custody. In addition, examinations on this topic typically include an analysis of advisers' annual reviews of the effectiveness of their compliance programs, which are a critical element for addressing and monitoring conflicts of interests, including those conflicts stemming from the advisers' business and compensation arrangements, arbitration

clauses, and/or affiliations with certain parties and transactions.

In reviewing advisers' compliance policies and procedures, the Division continues to focus on whether the policies and procedures address compliance with the Advisers Act and the rules thereunder and are reasonably designed to prevent the advisers from placing their interests ahead of clients' interests. Areas on which examinations may focus include: (1) fiduciary obligations of advisers that outsource investment selection and management; (2) alternative sources of revenue or benefits advisers receive, such as selling non-securities based products to clients; and (3) appropriateness and accuracy of fee calculations and the disclosure of fee-related conflicts, such as those associated with select clients negotiating lower fees when similar services are provided to other clients at a higher fee rate.

The Division's review of an adviser's compliance program may focus on or go into greater depth depending on its practices or products. For example, if clients invest in illiquid or difficult-to-value assets, such as commercial real estate, examinations may have a heightened focus on valuation. If advisers integrate artificial intelligence (AI) into advisory operations, including portfolio management, trading, marketing, and compliance, an examination may look in-depth at compliance policies and procedures as well as disclosures to investors related to these areas. If an adviser utilizes a large number of independent contractors working from geographically dispersed locations, examinations may focus on supervision and oversight practices. Examinations may also focus on compliance practices when advisers change their business models or are new to advising particular types of assets, clients, or services.

### **C. Examinations of Advisers to Private Funds**

Advisers to private funds remain a significant portion of the SEC-registered investment adviser population. The Division will continue to focus on advisers to private funds and prioritize specific topics, such as reviewing:

- Whether disclosures are consistent with actual practices and if an adviser met its fiduciary obligations in times of market volatility and whether a private fund is exposed to interest rate fluctuations. Examples of investment strategies that may be sensitive to market volatility and/or interest rate changes include commercial real estate, illiquid assets, and private credit. The Division may particularly focus on examinations of advisers to private funds that are experiencing poor performance and significant withdrawals and/or hold more leverage or difficult-to-value assets.
- The accuracy of calculations and allocations of private fund fees and expenses (both fund-level and investment-level). Examples of areas that may impact the accuracy of fee calculations include valuation of illiquid assets, calculation of post commitment period management fees, offsetting of such fees and expenses, and the adequacy of disclosures.
- Disclosure of conflicts of interests and risks, and adequacy of policies and procedures. Examples of products or practices for the focus of such conflicts, controls, and risks reviews include: (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.

- Compliance with recently adopted SEC rules, including amendments to Form PF,<sup>2</sup> and the updated rules that govern investment adviser marketing,<sup>3</sup> to assess whether advisers have established adequate policies and procedures and whether their actual practices conform to them.

### **D. Never Examined Advisers, Recently Registered Advisers, and Advisers Not Recently Examined**

As with previous years, the Division 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.

## **II. INVESTMENT COMPANIES**

The Division continues to prioritize examinations of registered investment companies (RICs or funds), including mutual funds and exchange-traded funds, due to their importance to retail investors, particularly those saving for retirement.

Examinations of RICs will generally review their compliance programs, disclosures, and governance practices. Particular examination focus areas may include review of specific topics or characteristics involving: (1) fund fees and expenses, and any associated waivers and reimbursements; (2) oversight of service providers (both affiliated and third-party); (3) portfolio management practices and disclosures, for consistency with claims about investment strategies or approaches and with fund filings and marketing materials; and (4) issues associated with market volatility. The Division will also continue to monitor certain developing areas of interest, such as RICs with exposure to commercial real estate and compliance with new and amended rules.

As with adviser examinations, the Division will continue to examine funds that have never before been examined and those that have not been recently examined with particular focus on newly registered funds.

### **III. BROKER-DEALERS**

#### **A. Regulation Best Interest**

The Division will continue to examine broker-dealer practices related to Regulation Best Interest, including the following areas: (1) recommendations with regard to products, investment strategies, and account types and whether the broker has a reasonable basis to believe the recommendation is in the best interest of the customer and does not place the broker's interests ahead of the customer's interests; (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.

In particular, examinations of broker-dealer practices will focus on those recommended products that are complex, illiquid, or present higher risk to investors. Examples of such products may include highly leveraged or inverse products, crypto assets, structured products, alternative investments, products that are not registered with the Commission (and are therefore less transparent), products with complex fee structures or return calculations, products based on exotic benchmarks, or products that represent a growth area for retail investment. Examinations may also focus on recommendations: (1) using automated tools or other digital engagement practices; (2) related to opening different account types, such as option, margin and self-directed IRA accounts; and (3)

made to certain types of investors, such as older investors and those saving for retirement or college.

Examinations may also focus on dual registrants and encompass reviews of firms' process for identifying and mitigating and eliminating conflicts of interest, account allocation practices (*e.g.*, allocation of investments where an investor has more than one type of account) and account selection practices (*e.g.*, brokerage versus advisory, including when rolling over to an IRA or transferring an existing brokerage account to an advisory account, as well as advice to open wrap fee accounts). Examinations may also assess broker-dealer supervision of sales practices at branch office locations.

#### **B. Form CRS**

The Division's examinations will review the content of a broker-dealer's relationship summary, such as how the broker-dealer describes: (1) the relationships and services that it offers to retail customers; (2) its fees and costs; and (3) its conflicts of interest, and whether the broker-dealer discloses any disciplinary history. These examinations will also evaluate whether broker-dealers have met the obligations to file their relationship summary with the Commission and deliver their relationship summary to retail customers.

#### **C. Broker-Dealer Financial Responsibility Rules**

Examinations will continue to focus on broker-dealer compliance with the net capital rule and the customer protection rule and related internal processes, procedures, and controls. Areas of review will include broker-dealer accounting practices impacted by recent regulatory changes, as well as the timeliness of financial notifications and other required filings made by the broker-dealer. Reviews will also focus on broker-dealers'

operational resiliency programs, including supervision of third-party or vendor provided services that contribute to the records firms used to prepare their financial reporting information. In addition, examinations will assess broker-dealer credit, market, and liquidity risk management controls to ensure that firms have sufficient liquidity to manage stress events.

#### **D. Broker-Dealer Trading-Related Practices and Services**

A focus on broker-dealer equity and fixed income trading practices remains a Division priority. Areas of review will consider the structure, marketing, fees, and potential conflicts associated with offerings by broker-dealers to retail customers, including bank sweep programs, fully-paid lending programs, and mobile apps/online trading platforms. In addition, examinations will review broker-dealer trading practices associated with trading in pre-IPO companies and the sale of private company shares in secondary markets. The Division will also review 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 REITs.

Finally, with respect to Regulation SHO, the Division will review whether broker-dealers are appropriately relying on the bona fide market making exception, including whether quoting activity is away from the inside bid/offer.

## **IV. SELF-REGULATORY ORGANIZATIONS**

### **A. National Securities Exchanges**

National securities exchanges provide marketplaces for securities transactions and, under the federal securities laws, serve as self-regulatory organizations responsible for enforcing compliance by their members with applicable rules and laws. As in prior years, the Division will examine these exchanges to assess whether they are meeting their obligations to enforce compliance with the exchanges' own rules, as well as federal securities laws. Examinations may focus on exchange governance, regulatory programs, and participation in National Market System Plans.

### **B. FINRA**

FINRA oversees approximately 3,400 brokerage firms, 150,000 branch offices, and more than 612,000 registered representatives through examinations, enforcement, and surveillance. In addition, FINRA, among other things, promulgates rules that govern its members, provides a forum for securities arbitration and mediation, conducts market regulation and oversight, including by contract, for a majority of national securities exchanges, reviews broker-dealer advertisements, administers the testing and licensing of registered persons, and operates industry utilities, such as trade reporting facilities.

The Division conducts risk-based oversight examinations of FINRA. It selects major regulatory areas within FINRA to examine through a risk-assessment process designed to identify aspects of FINRA's operations important to the protection of investors and market integrity, including FINRA's implementation of investor protection initiatives

such as Regulation Best Interest and Form CRS, and the fair administration of its dispute resolution forum. The Division's risk-assessment process is informed by: (1) collecting and analyzing extensive information and data; (2) holding regular meetings with key functional areas within FINRA; and (3) reaching out to various stakeholders such as broker-dealers and investor groups. The Division also conducts oversight examinations of FINRA's examinations of certain broker-dealers and municipal advisors that are FINRA members. Based on the outcomes of these examinations, the Division provides FINRA with detailed recommendations to improve its programs, risk assessment processes, and future examinations.

### **C. Municipal Securities Rulemaking Board (MSRB)**

MSRB regulates the activities of broker-dealers that buy, sell, and underwrite municipal securities, and municipal advisors. MSRB establishes rules for municipal broker-dealers (including registered municipal securities dealers) and municipal advisors, supports market transparency by making municipal securities trade data and disclosure documents available, and conducts education and outreach regarding the municipal securities market. The Division, along with FINRA and the federal banking regulators, conducts examinations of registrants to assess compliance with MSRB rules, as well as applicable federal securities laws and rules. The Division also applies a risk-assessment process, similar to the one it uses to oversee FINRA, to identify areas to examine at the MSRB.

## **V. CLEARING AGENCIES**

Title VIII of the Dodd-Frank Act requires the Commission to examine, at least once annually, each clearing agency designated as systemically

important and for which the Commission serves as the supervisory agency. Pursuant to Section 807 of the Dodd-Frank Act, these examinations will focus on clearing agencies' core risks, processes, and controls and will cover the specific areas required by statute, including the nature of clearing agencies' operations and assessment of financial and operational risk. Additionally, the Division conducts risk-based examinations of other registered clearing agencies that have not been designated as systemically important. The Division examines the registered clearing agencies for compliance with the Commission's Standards for Covered Clearing Agencies, which are rules that require covered clearing agencies to have policies and procedures that address, among other things, maintaining sufficient financial resources, protecting against credit risks, managing member defaults, and managing operational and other risks.

Examinations of registered clearing agencies include both risk-based examinations and corrective action reviews, and are undertaken to assess: (1) whether the clearing agencies' respective risk management frameworks comply with the Securities Exchange Act of 1934 (Exchange Act), and serve the needs of their members and the markets they serve; (2) the adequacy and timeliness of their remediation of prior deficiencies, including, for example, the role of senior leadership in the remediation process; and (3) other risk areas identified in collaboration with the Commission's Division of Trading and Markets (Trading and Markets) and other regulators. In addition, the Division also examines security-based swap data repositories, as well as entities operating pursuant to a Commission order exempting them from the clearing agency registration requirement under Section 17A(b)(1) of the Exchange Act. Areas of examination focus may include risk management of liquidity, margin systems, default



management, links, third-party relationships, and operations, among other things.

Finally, the Division consults with the Federal Reserve Board each year on the scope and methodology of the Commission's Dodd-Frank examinations, as required by that Act, and routinely consults with Trading and Markets on risks it observes in its supervisory role over clearing agencies. These risks are also incorporated into the risk-based planning of the examinations.

## **VI. OTHER MARKET PARTICIPANTS**

### **A. Municipal Advisors**

The Division will continue to examine whether municipal advisors have met their fiduciary duty to municipal entity clients when engaging in municipal advisory activities, such as providing advice or recommendations regarding the pricing or method of sale with respect to the issuance of municipal securities. The Division will also continue to examine whether municipal advisors have complied with MSRB Rule G-42, which establishes the core standards of conduct and duties applicable to non-solicitor municipal advisors, including requirements to disclose conflicts of interest and to document municipal advisory relationships. Finally, the Division will continue to assess whether municipal advisors have made required filings with the Commission and met their professional qualification, recordkeeping, and supervision requirements.

### **B. Transfer Agents**

The Division will continue to examine transfer agent processing of items and transfers, recordkeeping and record retention, safeguarding of funds and securities, and filings with the Commission. Examinations will also focus on transfer agents that use emerging technology to perform their transfer agent functions.

### **C. Security-Based Swap Dealers (SBSDs)**

For SBSBs that have yet to be examined, the Division expects to continue to focus its examinations on whether SBSBs have implemented policies and procedures related to compliance with security-based swap rules generally, including whether they are meeting their obligations under Regulation SBSR to accurately report security-based swap transactions to security-based swap data repositories and, where applicable, whether they are complying with relevant conditions in Commission orders governing substituted compliance. For other SBSBs, the Division may focus on SBSBs' practices with respect to applicable capital, margin, and segregation requirements and risk management. The Division also expects to assess whether SBSBs have taken corrective action to address issues identified in prior examinations.

### **D. Security-Based Swap Execution Facilities (SBSEFs)**

On November 2, 2023, the Commission adopted new Regulation SE under the Exchange Act, which implements a set of rules and forms for the registration and regulation of SBSEFs.<sup>4</sup> The adoption of Regulation SE eliminated the prior temporary registration exemptions for SBSEFs as of August 12, 2024, at which time SBSEFs needed to apply for registration with the Commission. Subject to the timing of these events and the Commission's decisions with respect to any submitted applications, the Division may begin conducting examinations of registered SBSEFs in late fiscal year 2025.

### **E. Funding Portals**

The Division will examine whether funding portals are making and preserving: (1) required records, such as records related to investors who purchase, or attempt to purchase, securities through the funding portal; and (2) records related to issuers who offer and sell, or attempt to offer and sell, securities through the funding portal and the control persons of such issuers, among others. In



addition, the Division will review funding portals' written policies and procedures to assess if they are reasonably designed to achieve compliance with applicable federal securities laws and rules, such as the restrictions that prohibit funding portals from engaging in the following activities: (1) offering investment advice or recommendations; (2) soliciting transactions in the securities displayed on the funding portal's platform; (3) compensating persons for such solicitation or based on the sale of securities displayed on the funding portal's platform; and (4) holding, managing, possessing, or handling investor funds or securities.

## **VII. RISK AREAS IMPACTING VARIOUS MARKET PARTICIPANTS**

### **A. Information Security and Operational Resiliency**

#### **1. CYBERSECURITY**

The Division will continue to review registrant practices to prevent interruptions to mission-critical services and to protect investor information, records, and assets. Operational disruption risks remain elevated due to the proliferation of cybersecurity attacks, firms' dispersed operations, weather-related events, and geopolitical concerns. As part of its examinations in this area, the Division will examine registrants' procedures and practices to assess whether they are reasonably managing information security and operational risks.

A perennial examination priority, the Division's focus on cybersecurity practices by registrants remains vital to ensure the safeguarding of customer records and information, as applicable. Particular attention will be on firms' policies and procedures, governance practices, data loss

prevention, access controls, account management, and responses to cyber-related incidents, including those related to ransomware attacks. The Division will also review alternative trading systems' safeguards to protect confidential trading information.

With respect to third-party products and services in particular, the Division will continue to consider cybersecurity risks and resiliency goals associated with third-party products, sub-contractors, services, and any information technology (IT) resources used by the business without the IT department's approval, knowledge or oversight, or non-supported infrastructure. The focus will include assessments of how registrants identify and address these risks to essential business operations.

#### **2. REGULATION S-ID AND REGULATION S-P**

The Division will assess registrant compliance with Regulations S-ID and S-P, as applicable. Examinations will focus on firms' policies and procedures, internal controls, oversight of third-party vendors, and governance practices. In addition, the Division will focus on firms' policies and procedures as they pertain to safeguarding customer records and information at firms providing electronic investment services, including:

- Identification and detection to prevent and protect against identity theft during customer account takeovers and fraudulent transfers.
- Firms' practices to prevent account intrusions and safeguard customer records and information, including personally identifiable information, especially as it pertains to firms with multiple branch offices.

- Firm training on identity theft prevention program and whether their policies and procedures are reasonably designed to protect customer records and information. Examinations will also assess a firm's efforts to address operational risk, including technology risks, as operational failures may impact a firm's ability to safeguard customer records and information.

In preparation for the compliance date of the Commission's amendments to Regulation S-P,<sup>5</sup> the Division will engage with firms during examinations about their progress in preparing to establish incident response programs reasonably designed to detect, respond to, and recover from unauthorized access to or use of customer information.

### 3. SHORTENING OF THE SETTLEMENT CYCLE<sup>6</sup>

The Division will evaluate broker-dealer compliance with Rule 15c6-1 under the Exchange Act, which reduced the standard settlement cycle for most securities to the day after trade date (T+1), and with Rule 15c6-2 under the Exchange Act, which requires broker-dealers engaging in the allocation, confirmation, or affirmation process to have written agreements or written procedures reasonably designed to ensure completion of the process as soon as practicable and no later than the end of day on trade date (T+0).

The Division will evaluate advisers' compliance with amended books and records requirements associated with T+1. The Division will also consider advisers' operational changes, or impacts related to adviser facilitation of institutional transactions that are involved in the allocation, confirmation, or affirmation processes subject to Rule 15c6-2(a).

In addition, examinations will assess registrant technology changes associated with shortening of the settlement cycle and evaluate any areas that need further attention and resources, such as specific products or counterparties that are routinely not settling within the required time frames.

### B. Emerging Financial Technologies

The Division remains focused on registrants' use of certain services, such as automated investment tools, AI, and trading algorithms or platforms, and the risks associated with the use of emerging technologies and alternative sources of data. As such, the Division will, in particular, examine firms that employ certain digital engagement practices, such as digital investment advisory services, recommendations, and related tools and methods. When conducting these reviews, assessments generally will include whether: (1) representations are fair and accurate; (2) operations and controls in place are consistent with disclosures made to investors; (3) algorithms produce advice or recommendations consistent with investors' investment profiles or stated strategies; and (4) controls to confirm that advice or recommendations resulting from digital engagement practices are consistent with regulatory obligations to investors, including older investors.

With respect to AI, the Division will review registrant representations regarding their AI capabilities or AI use for accuracy. In addition, the Division will assess whether firms have implemented adequate policies and procedures to monitor and/or supervise their use of AI, including for tasks related to fraud prevention and detection, back-office operations, anti-money laundering (AML), and trading functions, as applicable. Reviews will also consider firm integration of regulatory technology to automate

internal processes and optimize efficiencies. In addition, the Division will examine how registrants protect against loss or misuse of client records and information that may occur from the use of third-party AI models and tools.

### C. Crypto Assets

The Division continues to observe the proliferation of investments involving crypto assets and their associated products and services. Given the volatility and activity involving the crypto asset markets, the Division will continue to monitor and, when appropriate, conduct examinations of registrants offering crypto asset-related 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.

In particular, these examinations will review whether the registrants: (1) meet and follow their respective standards of conduct when recommending or advising customers and clients regarding crypto assets with a focus on an initial and ongoing understanding of the products that have a particular focus on scenarios where investors are retail-based (including older investors) and investments involving retirement assets; and (2) routinely review, update, and enhance their compliance practices (including crypto asset wallet reviews, custody practices, Bank Secrecy Act (BSA) compliance reviews, and valuation procedures), risk disclosures, and operational resiliency practices (*i.e.*, data integrity and business continuity plans), if required.

The Division will assess registrant practices to address the technological risks associated with

the use of blockchain and distributed ledger technology, including risks pertaining to the security of crypto assets.

### D. Regulation Systems Compliance and Integrity (SCI)

SCI entities must establish, maintain, and enforce written policies and procedures reasonably designed to ensure that their systems' capacity, integrity, resiliency, availability, and security is adequate to maintain their operational capability and promote the maintenance of fair and orderly markets. As part of the Division's examination of SCI entities, reviews will focus on:

- The policies and procedures regarding the operational, business continuity planning and testing practices of SCI entities.
- The effectiveness of incident response plans. In particular, the Division will evaluate policies and procedures regarding the decision to disconnect or reconnect from another registrant or third-party that is experiencing a cyber event, and the decision-making process to disconnect or reconnect to registrants or third parties when the SCI entity is experiencing a cyber event. This would include all forms of inbound and outbound connectivity, such as trade processing, data feeds, remote processing, post trade reporting, market surveillance, and remote access.
- The policies and procedures pertaining to the security operations management tools employed by SCI entities to ensure that their SCI systems and indirect SCI systems have adequate levels of security and their effectiveness to meet the security goals of the organization.

## E. AML

The BSA requires certain financial institutions, including broker-dealers and certain RICs, to establish AML programs that are tailored to address the risks associated with the firm's location, size, and activities, including the customers they serve, the types of products and services offered, and how those products and services are offered. These programs must, among other things, include policies, procedures, and internal controls reasonably designed to achieve compliance with the BSA and its implementing rules; independent testing; and risk-based procedures to perform certain customer due diligence, which includes identifying and verifying the identity of customers and conducting ongoing monitoring to identify and report suspicious transactions. Where appropriate, certain financial institutions must also file Suspicious Activity Reports (SARs) with the Financial Crimes Enforcement Network. SARs can be used to identify and combat market manipulation, insider trading, Ponzi schemes, corruption, money

laundering, terrorist financing, and a variety of other illicit activities potentially violative of securities and other laws and regulations.

The Division will continue to focus on AML programs and review whether broker-dealers and certain RICs are: (1) appropriately tailoring their AML program to their business model and associated AML risks; (2) conducting independent testing; (3) establishing an adequate customer identification program, including for beneficial owners of legal entity customers; and (4) meeting their SAR filing obligations. Examinations of certain RICs will also review policies and procedures for oversight of applicable financial intermediaries.

Lastly, the Division will review whether broker-dealers and advisers are monitoring the Department of Treasury's Office of Foreign Assets Control sanctions and ensuring compliance with such sanctions.

## Endnotes

- 1 The Commission established in March 1995, the Office of Compliance Inspections and Examinations, which on December 17, 2020, was renamed the Division of Examinations.
- 2 SEC, [Form PF; Reporting Requirements for All Filers and Large Hedge Fund Advisers](#), Advisers Act Rel. No. 6546 (Feb. 8, 2024) (Adopting amendments to Form PF with a compliance date in March 2025 to, among other things, enhance reporting by private fund advisers regarding private funds' operations and strategies, improve data quality and comparability, assist in identifying trends, and improve the ability of the Financial Stability Oversight Council to monitor and assess systemic risk); [Form PF Reporting Requirements for Large Liquidity Fund Advisers](#), Advisers Act Rel. No. 6344 (Jul. 12, 2023) (Adopting amendments to Form PF concerning the information large liquidity fund advisers must report for the liquidity funds they advise); and [Form PF; Event Reporting for Large Hedge Fund Advisers and Private Equity Fund Advisers; Requirements for Large Private Equity Fund Adviser Reporting](#), Advisers Act Rel. No. 6297 (May 3, 2023) (Adopting amendments to Form PF to require event reporting upon the occurrence of key events, to require large private equity fund advisers to provide additional information to the SEC about the private equity funds they advise).
- 3 SEC, [Investment Adviser Marketing](#), Advisers Act Rel. No. 5653 (Dec. 22, 2020) (Adopting amendments to create a single rule that replaces the prior advertising and cash solicitation rules and modernizes rules that govern investment adviser advertisements and payments to solicitors).
- 4 SEC, [Security-Based Swap Execution and Registration of Security-Based Swap Execution Facilities](#), Exchange Act Rel. No. 98845 (Nov. 2, 2023).
- 5 SEC, [Regulation S-P: Privacy of Consumer Financial Information and Safeguarding Customer Information](#), Advisers Act Rel. No. 6604 (May 16, 2024) (Adopting amendments to Regulation S-P that apply to broker-dealers, funding portals, investment companies, SEC-registered investment advisers, and transfer agents registered with the SEC or another appropriate regulatory agency (collectively, "covered institutions") and are designed to modernize and enhance the protection of consumer financial information by: (1) requiring covered institutions to develop, implement, and maintain written policies and procedures for an incident response program that is reasonably designed to detect, respond to, and recover from unauthorized access to or use of customer information; (2) requiring that the response program include procedures for covered institutions to provide timely notification to affected individuals whose sensitive customer information was, or is reasonably likely to have been, accessed or used without authorization; and (3) broadening the scope of information covered by Regulation S-P's requirements).
- 6 Division, [Risk Alert: Shortening the Securities Transaction Settlement Cycle](#) (Mar. 27, 2024) (To assess registrants' adaptiveness to the shortened settlement cycle, EXAMS intends to continue engaging with registrants through examinations and outreach. The Risk Alert provides registrants with additional information about the scope and content of the examinations and outreach).









## **INFORMATION FOR ENTITIES SUBJECT TO EXAMINATION OR INSPECTION BY THE SECURITIES AND EXCHANGE COMMISSION**

**The examination staff (staff) of the Division of Examinations (EXAMS) of the Securities and Exchange Commission (Commission) has prepared this brochure to provide information about examinations it conducts, including information about the examination process and the methods the staff employs for resolving issues identified during examinations. This information, provided to entities undergoing examination or inspection, should help entities to understand better the staff's objectives in this area.<sup>1</sup>**

### **I. PURPOSE OF EXAMINATIONS**

Commission representatives have statutory authority to conduct, at any time or from time to time, reasonable periodic, special, and other examinations of the records of specified Commission-regulated entities (entity or entities). The staff carries out these responsibilities in 11 regional offices and headquarters in Washington, DC. EXAMS' mission is to protect investors, ensure market integrity, and support responsible capital formation through risk-focused strategies that: improve compliance, prevent fraud, monitor risk, and inform policy.

During examinations, the staff will seek to determine whether the entity being examined is: conducting its activities in accordance with the federal securities laws and the rules adopted under these laws (as well as, where applicable, the rules of self-regulatory organizations subject to the Commission's oversight); adhering to the disclosures it has made to its clients, customers, the general public, and/or the Commission; and implementing supervisory systems and/or compliance policies and procedures that are reasonably designed to ensure that the entity's operations are in compliance with applicable legal requirements.

The staff appreciates each entity's cooperation as it will facilitate the staff's ability to timely complete the examination. Entities should work promptly to provide the staff with complete and accurate information and ensure that knowledgeable employees are made available to help the staff better understand the entity and its operations.

### **II. THE EXAMINATION PROCESS**

The Commission's examination program is risk-based. An entity may be selected for examination for any number of reasons including, but not limited to, a statutory mandate that requires the Commission to examine the entity; the entity's risk profile; a tip, complaint, or referral; or a review of a particular compliance risk area. The reason an entity has been selected

---

<sup>1</sup> This statement represents the views of staff of EXAMS. It is not a rule, regulation, or statement of the Commission. The Commission has neither approved nor disapproved its content. This statement, like all staff statements, has no legal force or effect: it does not alter or amend applicable law, and it creates no new or additional obligations for any person.

for examination is non-public information and typically will not be shared with the entity under examination. As part of the pre-examination planning process, the staff strives to efficiently allocate resources and minimize, if possible, any overlap with the scope of any recent or ongoing examinations or investigations by other regulators or Commission staff in other Commission offices or divisions. If an entity has any concerns with respect to overlapping examinations or investigations, the entity should contact the Commission staff involved.

Throughout the examination process, the staff may consult and/or coordinate with other Commission staff, including supervisory examination staff and staff in other Commission offices and divisions, regarding any issues identified and the interpretation and application of the securities laws and rules adopted under these laws, and, as applicable, self-regulatory organization rules. As a result, the staff may share information and documents received from the entity with other Commission staff to the extent the staff deems necessary or appropriate. The Commission may also share information and documents with other regulators or authorities. Whether the Commission has shared information and documents received from an entity is a confidential matter. These and other possible uses of information and documents provided to the staff are described in the Commission's Form 1661, which is provided to entities at the outset of an examination and may be accessed at [www.sec.gov/files/sec1661.pdf](http://www.sec.gov/files/sec1661.pdf). The staff does not accept limitations on these routine uses. Similarly, when an entity or its service provider requires acceptance of terms and conditions to access websites, applications, or other systems that contain the entity's books and records, any action taken by the staff purportedly agreeing to such terms and conditions, including clicking an "accept" button, will not constitute an acceptance of the terms or conditions and will not bind the staff or the Commission in contract.

Examinations may be conducted on an announced or unannounced basis. When the examination is announced, the staff typically phones the entity's Chief Compliance Officer or regulatory personnel and follows up with a letter notifying the entity of the examination and requesting information, including documents, that the staff will review as part of the examination. These information requests are generally transmitted through secure email. Information regarding data delivery and the use of secure email and file transfer are available at [www.sec.gov/exams](http://www.sec.gov/exams). While the staff cannot comment on the specific safeguards that the Commission takes to protect non-public information, the protection of non-public information, including documents and information provided by entities during examinations, is of the utmost importance to EXAMS. When the examination is unannounced, the staff may provide the entity with a request for information, including documents, upon arrival and may conduct an initial interview. In most instances, the staff will request that information and documents be provided in electronic format via secure transmission by a specified date. For any records that cannot be produced in electronic format, the entity should promptly make such records available for examination in another manner. The Commission expects that in most circumstances records should be available to staff within 24 hours; however, the staff typically provides a longer period of time to produce records. The staff will grant requests for reasonable extensions of time, where appropriate. In all cases, the timely production of the requested information and documents will facilitate the staff's efficient completion of the examination.

The staff will typically request meetings (in person, by telephone, or by videoconference) with entity employees to discuss the entity's operations and the information and documents provided. The entity should make knowledgeable employees or other knowledgeable persons available to participate in the meetings. These meetings help the staff gain a better understanding of the entity's activities and compliance processes. During on-site meetings, the staff may ask for a tour

of the entity's offices to gain an overall understanding of the entity's organization, flow of work, and control environment. For videoconferences, meeting participants are encouraged to use their cameras and to use screen-sharing functions when helpful. In some circumstances, the staff may make unannounced and unscheduled visits to the entity's offices. When scheduling meetings with the staff, the entity's cooperation will facilitate the examination.

As the staff reviews information and documents the entity has provided, the staff may make supplemental requests for information and documents. Throughout the examination, the entity should communicate promptly to the staff any questions or concerns regarding the documents and information that have been requested. Entities are encouraged to keep the staff informed of any relevant changes that occur during the examination, including any actions the entity has taken or plans to take to address any issues discussed with the staff. Although some examinations may initially be conducted by telephone or videoconference, the staff may decide at any point during the examination to conduct an on-site visit.

The staff may also request relevant information and documents held by third-party service providers or agents (including custodians) that, for example, perform work for, or in conjunction with, the entity, or whose activities may have a material effect on the entity's operations. The staff may send such requests to the entity or directly to the third-party service provider or agent. In addition, the staff often contacts the entity's clients, customers, or other knowledgeable persons, as necessary, to gather and/or verify relevant information.

Once interviews with entity personnel have been completed, or at any time it is deemed reasonable to do so, the staff may conduct a preliminary exit conference with the entity to discuss the examination status, including any outstanding requests for information, and, if appropriate, to raise any issues identified up to that point during the examination. The entity may be given an opportunity to discuss the issues that the staff has raised and provide additional relevant information. Communications from the staff do not, and are not intended to, constitute legal advice.

### **III. COMPLETING AN EXAMINATION**

After the staff has completed its interviews and analyses, the staff typically conducts an exit conference with the entity to discuss any issues identified during the examination. The entity will typically be given an opportunity to discuss any of the issues that the staff has raised during the examination and provide additional relevant information, including any actions that the entity has taken or plans to take to address the issues raised. In connection with any form of exit conference, the staff may speak with the entity's senior management and/or its board of directors.

Section 4E(b)(1) of the Securities Exchange Act of 1934 requires the staff to provide the entity being examined or inspected with written notification indicating either that the examination or inspection has concluded, has concluded without findings, or that the staff requests the entity undertake corrective action, within 180 days from the later of the completion of the on-site portion (if applicable) of the examination or inspection or the receipt of all records requested from the entity being examined or inspected. For certain complex examinations, the examination deadline may be extended for an additional 180-day period without notification to the entity.

None of these outcomes forecloses the Commission from taking any action, including but not limited to an enforcement action, against the entity. Even if the staff's written notification does

not address a particular activity, that does not mean that all of an entity's activities comply with the federal securities laws.

Generally, the staff will provide an entity with written notification of an examination's completion by sending a deficiency letter. In addition to sending the entity a deficiency letter, the staff may refer the issues to the Commission's Division of Enforcement, a self-regulatory organization, state regulatory agency, or others, including criminal authorities, for possible action. The staff may sometimes make a referral to the Division of Enforcement without conducting an exit conference or sending a deficiency letter, usually in exigent circumstances.

The entity will be asked to respond in writing to any issues identified in a deficiency letter, including any steps that it has taken or intends to take to address the issues and to prevent their recurrence. The entity's response will generally be due within 30 days of the date of the deficiency letter and should address all of the issues identified in the deficiency letter. An entity's submission of a timely and complete response to a deficiency letter will expedite the staff's completion of the examination.

If the staff has comments on an entity's response, the staff generally will either provide them to the entity within 60 days of receipt of the entity's response, or contact the entity within the 60-day period to discuss when the staff will be able to provide comments. If the staff has no further comments after receiving an entity's response to a deficiency letter, the examination will be closed. This does not mean, however, that the staff concurs with the entity's response. The staff generally does not return records produced during an examination. The staff conducts a limited number of follow-up reviews to determine whether entities have taken the corrective actions discussed in their responses.

#### **IV. QUESTIONS, CONCERNS, AND VERIFICATION OF STAFF IDENTITY**

Questions, comments, complaints, or concerns arising during or after an examination, can be raised with the staff or with their supervisors in the respective regional office or headquarters. Most questions and issues can be resolved by discussing them with the staff. Comments, complaints, or concerns can also be communicated through the *Examination Hotline* (202.551.EXAM or examhotline@sec.gov). The *Examination Hotline* provides the option to speak with either an attorney in the Division of Examinations in Washington, DC, or staff in the Commission's Office of Inspector General. The Office of Inspector General is an independent office within the Commission that audits Commission programs and investigates allegations of employee misconduct. Persons speaking with staff on the *Examination Hotline* may identify themselves or request anonymity.

For all examinations, staff will identify themselves and will present their Commission credentials upon request. The identity of staff can be confirmed through the *Examination Hotline*.

#### **V. INFORMATION REGARDING THE COMMISSION'S OFFICE OF THE WHISTLEBLOWER**

Congress authorized the Commission to provide monetary awards to eligible whistleblowers who voluntarily come forward with high-quality, original information that leads to a successful Commission enforcement action in which the Commission obtains monetary sanctions totaling more than \$1,000,000. The range for awards is between 10% and 30% of the monetary sanctions collected in the Commission action or in a related action upon which the award is based. A

“whistleblower” is an individual who voluntarily provides original information in writing to the Commission about a possible violation of the federal securities laws that has occurred, is ongoing, or is about to occur. To be eligible for an award based on any information provided by the whistleblower that relates to a possible violation of the federal securities laws, the whistleblower must comply with the procedures and the conditions described in Rule 21F of the Securities Exchange Act of 1934. One of those procedures, among others, specifies that a whistleblower must provide the information to the Commission on Form TCR or through the Commission’s online TCR portal and sign the required declaration. One of the conditions, among others, is that the whistleblower’s submission must be voluntary. Information is provided “voluntarily” if it is provided before a request, inquiry, or demand that relates to the subject matter of the submission is directed to the whistleblower or a representative (i) by the Commission; (ii) in connection with an investigation, inspection, or examination by the Public Company Accounting Oversight Board, or any self-regulatory organization; or (iii) in connection with an investigation by the Congress, any other authority of the federal government, or a state Attorney General or securities regulatory authority. A whistleblower must be an individual, providing information alone or jointly with others. A company or other entity cannot be a whistleblower. A person is not required to be an employee of an entity to submit information about that entity.

The Commission’s Office of the Whistleblower administers the whistleblower program. Additional information about the program, including how to submit a tip under the program, is available at [www.sec.gov/whistleblower](http://www.sec.gov/whistleblower). The Office of the Whistleblower may be reached at 202.551.4790.