

Regulatory Alert

Regulatory Insights for Financial Services

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SEC 2025 Priorities: Examinations and Perspectives

KPMG Insights:

- **AI/Emerging Technologies:** An evolving focus on areas of automated investment tools, AI, trading algorithms, etc., for fraud/deception, systemic risk and/or conflicts of interest.
- **Cyber and Safeguarding:** Top regulatory priorities in 2025, including the efforts made to prevent interruptions/disruption.
- **AML:** Consistent with other FS regulators, a high focus on all aspects of the AML program, including independent testing, Know Your Customer programs and SAR filings.
- **T+1:** A focus on T+1 compliance in areas of books and records and associated technology changes.
- **Crypto Assets:** To those offering, attention in areas of standards of conduct, resiliency, and compliance.

In addition to a flurry of informational fall speeches, the Securities and Exchange Commission (SEC) Division of Examinations (Division) issues its [annual report](#) outlining examinations priorities for 2025. The Division accordingly looks to prioritize:

1. **Critical areas of risk**, including Cybersecurity, Regulation S-ID and Regulation S-P, T+1, Emerging Financial Technologies, Crypto Assets, Regulation SCI, and Anti Money Laundering (AML) Programs.
2. **Examination priorities for market participants**, including Investment Advisers, Investment Companies, Broker-Dealers, Self-Regulatory Organizations (SROs), Clearing Agencies, and other market participants (e.g., Municipal Advisors, Transfer Agents, Security-Based Swap Dealers).
3. **AI/Gen AI Risks** (via recent speeches).

The SEC notes emerging risk such as fiduciary duty, standards of conduct, cybersecurity, and AI. The Division also notes that it will also assess compliance with new regulations, the use of emerging technologies, and the soundness of controls intended to protect investor information, records, and assets.

1. Critical Areas of Risk.

The table below summarizes key emerging risk areas that may impact investors or various market participants, as outlined in the report.

Risk Area	Summary
Cybersecurity	<p>Focus on companies' cybersecurity practices, data loss prevention, and responses to cybersecurity incidents.</p> <p>Additionally, companies will be assessed on their practices (and third-party practices) aimed at preventing interruptions to mission-critical services and protection of investor information, records, and assets.</p>
Regulation S-ID and Regulation S-P	<p>Companies will be assessed on their compliance with Regulations S-ID and S-P. The focus will be on policies and procedures, internal controls, governance practices, and third-party oversight related to safeguarding customer records and information, preventing identity theft, and managing operational risks.</p>
Shortening of the Settlement Cycle (T+1)	<p>Broker-dealers will be evaluated on their compliance with amended books and records requirements associated with T+1. Examinations will also assess associated technology changes and areas that need further attention and/or resources (e.g., not settling in the required timeframe).</p>
Emerging Financial Technologies	<p>The Division's examination focus will extend to risks associated with services such as automated investment tools, AI, trading algorithms or platforms and other emerging technologies and alternative sources of data.</p> <p>Further, companies' practices for ensuring fairness, accuracy, best interest, suitability, and regulatory compliance will also be examined.</p>
Crypto Assets	<p>Registrants offering crypto asset-related services will be examined in areas of standards of conduct, risk disclosures, operational resiliency, and compliance with relevant laws (e.g., custody, BSA/AML, valuation).</p>
Regulation Systems Compliance and Integrity (SCI)	<p>SCI entities' written policies and procedures must ensure the adequacy of their system's capacity, integrity, resiliency, availability, and security. Reviews will focus on:</p> <ul style="list-style-type: none"> — Operational, business continuity, and testing policies and procedures — Incident response plans effectiveness — Security operations management tools adequacy
Anti Money Laundering (AML)	<p>The Division will review whether broker-dealers and certain registered investment companies' (RICs) comply with BSA/AML and sanctions requirements. They will be assessed on whether they appropriately tailor AML programs, conduct independent testing, establish an adequate customer identification program, and meet SAR filing obligations.</p>

2. Examination Priorities for Market Participants

Market Participants	Examination Priorities
Investment Advisers	<p>Focus on assessing Advisers' adherence to fiduciary standards of conduct, including duty of care and duty of loyalty obligations (e.g., best interest, conflicts of interest). The Division will focus on recommendations related to:</p> <ul style="list-style-type: none"> — High-cost products — Unconventional instruments — Illiquid and difficult-to-value assets — Assets sensitive to interest rate fluctuations or changing market conditions <p>For dual registrants and Advisers affiliated with broker-dealers, areas of focus will include: suitability; capacity in which recommendations are made; account selection practices (e.g., brokerage versus advisory); conflict of interest mitigation/disclosure; and the impact of conflicts on best execution.</p> <p>For Investment Advisers to private funds, areas of examination focus may include the:</p> <ul style="list-style-type: none"> — Consistency of disclosures with actual practices — Accuracy of calculations and allocation of private fund fees and expenses — Conflict of interest disclosures and risk management — Compliance with recently adopted SEC rules including amendments to Form PF and investment adviser marketing <p>The Division will focus on the effectiveness of compliance program policies and procedures in preventing Advisers from placing their interests ahead of clients' interests. This will include:</p> <ul style="list-style-type: none"> — Fiduciary obligations of advisers that outsource investment selection and management — Alternative sources of revenue or benefits Advisers receive — Fee calculations and the disclosure of fee-related conflicts <p>The SEC will continue to prioritize the examination of Investment Advisers that are newly registered with the SEC or have never been examined or have not been examined recently.</p>
Investment Companies	<p>Evaluation of RICs (e.g., mutual funds, exchange-traded funds) compliance programs, governance practices, disclosures to investors, and the accuracy of reporting to the SEC. Notable areas of examination focus may include:</p> <ul style="list-style-type: none"> — Fund fees and expenses, and any associated waivers and reimbursements — Oversight of service providers (affiliated and third-party) — Portfolio management practices and disclosures — Issues associated with market volatility — Monitoring of developing areas of interest, such as exposure to commercial real estate and compliance with new and amended rules

Broker Dealers	<p>Assessment of compliance with Regulation Best Interest (BI), Form CRS, financial responsibility rules, and trading related practices and services. Key focus areas will include:</p> <ul style="list-style-type: none"> — Recommendations to retail customers and compliance with Regulation BI, including complex, illiquid, and higher risk products — Content of relationship summaries (e.g., fees, disciplinary history) and delivery obligations under Form CRS — Compliance with the Net Capital Rule, Customer Protection Rule, and risk management controls (e.g., credit, liquidity, market), and related internal processes, procedures, and controls — Operational resiliency programs, including supervision of third-party or vendor provided services — Income trading practices (e.g., order routing and execution practices; compliance with Regulation SHO)
Self-Regulatory Organizations (SROs)	<p>Scrutiny of SRO compliance with rules governing operations and enforcement activities (e.g., National Securities Exchanges and the Financial Industry Regulatory Authority (FINRA)), and review of fulfillment of regulatory duties (Municipal Securities Rulemaking Board (MSRB)). Focus areas will include:</p> <ul style="list-style-type: none"> — Enforcement of compliance with SRO rules and federal securities laws — Risk assessment of FINRA's operations and regulatory programs as well as oversight examinations of FINRA exams — Risk assessment of MSRB's operations and regulatory programs as well as oversight examinations of MSRB compliance exams
Clearing Agencies	<p>Examinations of clearing agencies designated as systemically important are conducted at least annually, and focus on core risks, processes, and controls, among other areas. All other clearing agencies are subject to risk-based and examinations and corrective action reviews. These exams will review compliance with the SEC's Standards for Covered Clearing Agencies and other relevant requirements, including assessment of:</p> <ul style="list-style-type: none"> — Risk management frameworks and compliance with the Exchange Act — The adequacy and timeliness of remediation of prior deficiencies <p>Areas of examination focus in 2025 may include:</p> <ul style="list-style-type: none"> — Liquidity risk management — Default management — Links — Margin systems — Third-party service providers — Operations
Other Market Participants	<p>Focus areas for other market participants (e.g., Municipal Advisors, Transfer Agents, Security-Based Swap Dealers, Security-Based Swap Execution Facilities, and Funding Portals) will include:</p> <ul style="list-style-type: none"> — Municipal Advisor compliance with fiduciary duty obligations, recordkeeping, and registration requirements

	<ul style="list-style-type: none"> — Transfer Agent processing, safeguarding of funds and securities, and regulatory filings — Security-Based Swap Dealers' compliance with capital, margin, and segregation requirements — Security-Based Swap Execution Facilities compliance with Regulation SE (<i>Note: examinations may begin in late fiscal year 2025</i>) — Funding Portals' compliance with federal securities laws and rules prohibiting activities (e.g., offering investment advice or recommendations; soliciting transactions in the securities displayed on the funding portal's platform; holding, managing, possessing, or handling investor funds or securities, etc.)
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Note: The Division states that this list of examination areas is not a comprehensive compilation of the issues that it will address in examinations and will cover other areas and conduct examinations focused on new or emerging risks, products and services, market events, and investor concerns.

3. AI/Gen AI Risks

Separately, recent SEC Chair speeches highlight heightening focus on multifaceted risks and ethical challenges posed by AI/Gen AI within financial markets. Key areas of focus include:

- **Fraud/Deception:** Emphasizing the prevention of fraud and deception, the SEC denotes the importance in holding AI developers accountable to mitigate programmable, predictive, and unpredictable harms that may arise from the deployment of advanced technologies.
- **Systemic Risk:** Particularly, the potential for technology platforms to dominate markets which could potentially lead to significant interconnected dependencies among platforms and applications—a scenario noted by the SEC as reminiscent of data aggregators (base models) influencing broad market outcomes.

- **Conflicts of Interest:** The mitigation of conflicts of interest, particularly in contexts where AI drives financial decisions and targeted advertisements, such as through robo-advisers and brokerage applications. (Notably, SEC is considering whether to seek additional comment on its digital engagement practices proposal or to possibly release a modified proposal.)

To mitigate these evolving risks, the SEC calls for accountability measures to help ensure that investment advisers do not place their interests above those of customers and investors, thereby helping to safeguard consumer welfare.

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