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Addressing top of mind capital markets and wealth management issues

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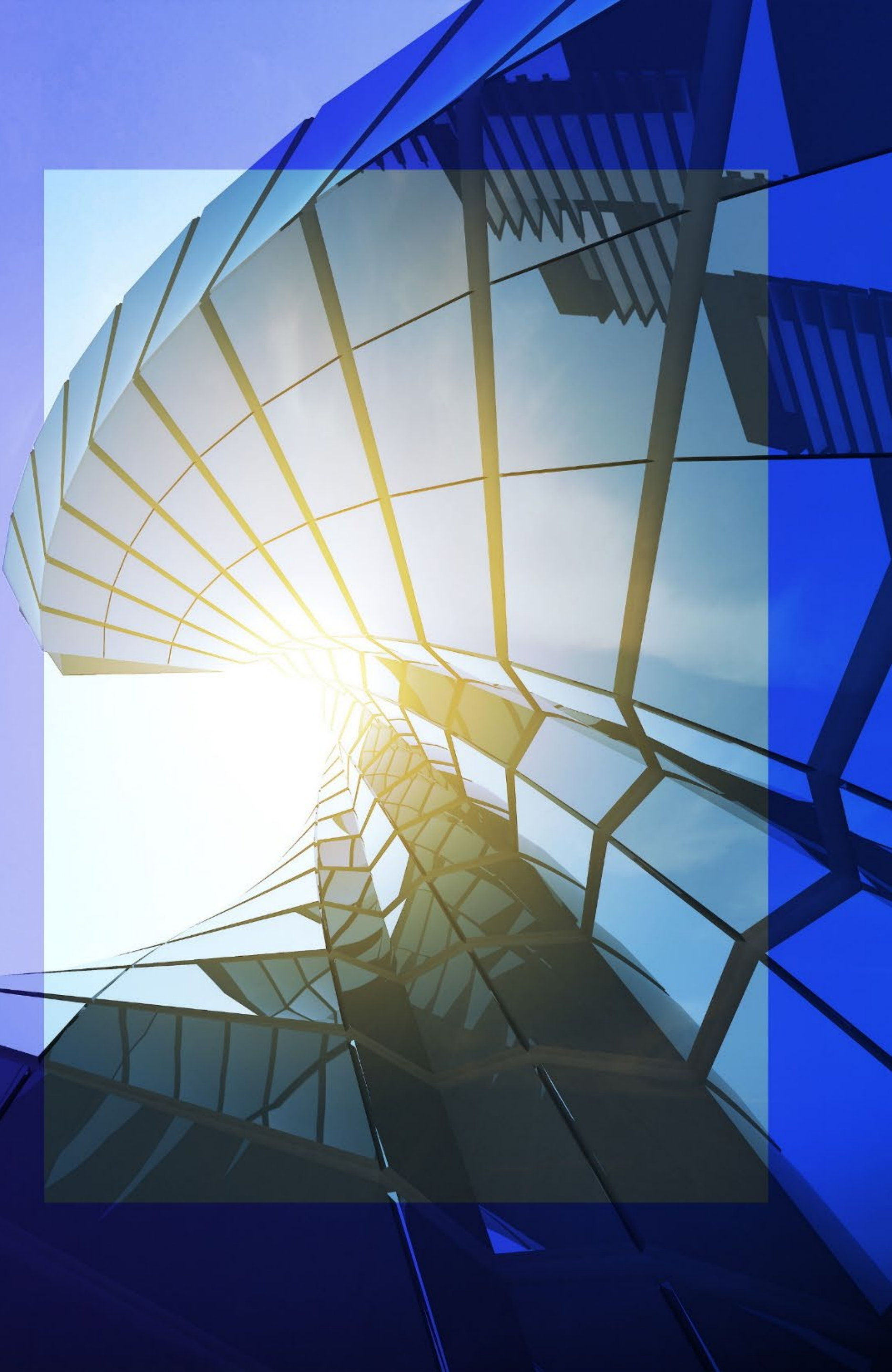

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Cryptocurrency – Under the SEC lens

On May 15, 2025, the Security and Exchange Commission's (SEC) Division of Trading and Markets issued a detailed set of Frequently Asked Questions (FAQs)[1] regarding the application of broker-dealer financial responsibility rules and transfer agent regulations to crypto assets. The FAQs provide guidance on several key topics related to broker-dealer and transfer agent expectations, including the applicability of Customer Reserve and Net Capital Financial Responsibly rules and Securities Investor Protection Corporation (SIPC) protections. The FAQs represent a continued effort to provide guidance on cryptocurrency developments. Firms should anticipate an increased pace of staff guidance as the framework for cryptocurrency regulation continues to evolve. Key takeaways from the FAQs include:

1. Applicability of certain Customer Reserve Formula Financial Responsibility Rule provisions (SEA Rule 15c3-3)

SEA Rule 15c3-3(b) applies exclusively to securities, thereby exempting nonsecurity crypto assets, such as certain digital tokens, from its scope. This distinction affords greater flexibility in managing these nonsecurity crypto assets outside the traditional securities custody requirements. Moreover, broker-dealers can establish control over crypto asset securities under paragraph (c) of Rule 15c3-3 allowing firms to custody these assets as securities under the current regulatory framework.

2. Applicability of certain Net Capital Computation Financial Responsibility Rule provisions (SEA Rule 15c3-1)

Proprietary crypto assets such as bitcoin and ethereum are classified as readily marketable, allowing firms to perform favorable net capital computations under Appendix B of Rule 15c3-1. This aspect can significantly enhance financial positioning and capital management strategies for these asset types.

3. Risk considerations for nonsecurity crypto assets:

The FAQs emphasize that non-security crypto assets are not covered under the Securities Investor Protection Act (SIPA) and do not benefit from SIPC assurances in the event of insolvency.

Potential actions

- **Seek regulatory guidance:** Actively engage with the SEC's Division of Trading and Markets and Crypto Task Force for guidance on crypto asset custody, net capital calculations, and transfer agent regulations.
- **Evaluate custody rules:** Analyze how broker-dealer custody requirements impact specific crypto assets, identifying security from nonsecurity. Given the gap in SIPC protection for nonsecurity crypto assets, broker-dealers can utilize agreements under Article 8 of the Uniform Commercial Code. Such agreements will help ensure that customers can reclaim their nonsecurity crypto assets in insolvency events.
- **Enhance investor awareness:** Educate clients about the risks of holding nonsecurity crypto assets with broker-dealers, including the lack of SIPC coverage and potential exposure to insolvency cases. Work to foster transparent communication channels to help investors make informed decisions regarding crypto asset custody and trading.
- **Transfer agent regulatory considerations:** Organizations performing transfer agent activities for crypto assets qualifying as securities must determine if SEC registration is necessary based on current regulatory guidance such as SEA Rule 3(a)(25), which defines key functions for transfer agents.

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[1]Source: SEC, "Division of Trading and Markets: Frequently Asked Questions Relating to Crypto Asset Activities and Distributed Ledger Technology" (May 15, 2025)

Cybersecurity – Ever-evolving array of threats

The Financial Industry Regulatory Authority (FINRA) has recently released its **2025 Regulatory Oversight Report**[2], highlighting concerns related to cybersecurity incidents. Across the global markets, there has been an observable increase in the variety and sophistication of cybersecurity threats. These threats include, but are not limited to, ransomware attacks, fraudulent new account creation, insider threats, account takeovers, data breaches, the proliferation of imposter websites, and various phishing schemes. An additional layer of risk is presented by third-party vendors, who could potentially cause data breaches or disrupt the supply chain through their vulnerabilities. Further, emerging threats such as the use of artificial intelligence (AI) to create fraudulent websites, sophisticated malware, and cybercrime present an increased risk for organizations.

These cybersecurity threats pose significant risks, which could result in substantial financial losses, damage to firm reputation, and operational failures. Such outcomes may compromise an organizations' abilities to comply with various existing regulations such as : FINRA Rule 4370, which mandates business continuity plans aimed at ensuring rapid recovery and protection of customer data; FINRA Rule 3110, which requires organizations to establish and maintain a supervisory system to ensure adherence to applicable laws; as well as privacy rules such as Regulations S-P and S-ID that require organizations to safeguard customer information and enforce identity theft prevention programs.

These developments highlight the increasing complex and demanding nature of cybersecurity threats in the financial industry, emphasizing the need for organizations to remain vigilant and proactive in their defenses against an ever-evolving array of threats.

Potential actions

- **Email/Domain monitoring:** Organizations should continuously assess their monitoring activities to identify fraudulent domains and implement tools to review and filter email activity to detect and block phishing attempts and/or inadvertent disclosures of sensitive information as cyber attack sophistication and strategies evolve.
- **Cybersecurity education and awareness programs:** Regular training sessions should be conducted to ensure staff are up-to-date with the latest cyberattack strategies and defense mechanisms. Ongoing security awareness programs can foster a security-conscious culture as a first line of defense.
- **Vendor network security management:** Organizations should develop structured assessments and continuous monitoring of third-party service providers. Additionally, regular audits of an organizations security practices are necessary to identify vulnerabilities and ensure compliance with policies and regulatory requirements. Intrusion detection systems should be adopted and maintained to monitor network activity for breaches or unauthorized access.
- **Incident response planning:** Organizations should develop detailed procedures for various types of cyber incidents and include simulated attack scenarios. Engaging staff in these simulations will improve preparedness and response effectiveness. Regular reviews and drills will help ensure that staff are familiar with their roles and responsibilities during an incident, enabling a swift and effective response.

Thought leadership

Cybersecurity considerations 2025

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[2]Source: FINRA, "2025 FINRA Annual Regulatory Oversight Report" (January 28, 2025)

SEC Rule 15c3-3 – Daily reserve computation

On June 25, 2025, the SEC approved an extension[3] of the compliance date for amendments to SEC Rule 15c3-3, the Customer Protection Rule, which was previously adopted on December 20, 2024. The extension for compliance was December 31, 2025, but is now June 30, 2026, for broker-dealers with US $500 million of average total credits as of December 31, 2025.

Previously adopted rule amendments[4] to SEC Rule 15c3-3 require an increase in the frequency of the Reserve Formula computation from weekly to daily for certain broker-dealers and include provisions such as a:

- US $500 million average total credit threshold for firms to calculate daily requirements, defining average total credits as the arithmetic mean of the sum of total credits reported in a carrying broker-dealer's customer and proprietary accounts of broker-dealers (PAB) reserve computations in its 12 most recently filed financial and operational combined uniform single (FOCUS) reports.
- 2 percent reduction in aggregate debits (instead of the traditional three percent) provided the broker-dealer calculates net capital under the alternative method and computes the Reserve Formula daily (a broker-dealer may voluntarily compute Reserve Formula daily if it notifies its designated examining authority 30 days in advance).

Potential actions:

- **Evaluate if the rule amendments are required and if the firm will elect to perform a daily customer and PAB reserve computation**. The SEC released a fact sheet[5] that discusses using the 12 filed month-end FOCUS reports from July 31, 2024 through June 2025 as a measurement for the threshold. However, a proactive approach to determining impact can be beneficial, particularly if the likelihood of exceeding the threshold is high:
  - As outlined in the final rule and the fact sheet, notify your rules designated examining authority within 30 calendar days prior to reducing aggregate debits percentage to 2 percent within the customer reserve computation, as applicable.
- **Identify system and process enhancements** that are needed in order to obtain information on a more timely basis. Successful daily 15c3-3 programs rely on early availability of information, providing opportunities to identify items requiring further attention. Key areas for such system and process enhancements can include:
  - Identifying any areas within the computation process that can be automated
  - Enabling intraday reallocations of Stock Record in lieu of accumulating specific adjustments
  - Evaluating ways in which the rule can more efficiently resolve reconciling differences, and illogical or unallocated position balances
  - Moving certain procedures offshore to leverage the time difference and obtain key reports earlier in the local workday
  - Updating technology platforms from higher-maintenance legacy systems.
- **Revisit overall computation methodology** (inclusion, exclusion, "waterfall," etc.) and modifications to existing allocation hierarchies to better suit current business activity.
- **Consider staffing arrangements** for potential augmentation and rotate line assignments among resources to mitigate the risk of inattention and avoid burnout from tedious repetition.
- **Clearly communicate test plans in sufficient detail to FINRA** in advance of parallel test computations to ensure that your regulator is aware of which computation workstreams are producing compliance formulas versus test-environment copies. This is critical to preclude any confusion relating to prevailing requirements upon examination.

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[3] Source: SEC, "SEC Extends Compliance Date to Help Broker-Dealers Fully Test and Implement Daily Reserve Computation Requirement," (June 25, 2025)

[4] Source: SEC, "Daily Computation of Customer and Broker-Dealer Reserve Requirements under the Broker-Dealer Customer Protection Rule," (December 20, 2024)

[5] Source: SEC, "Enhancements to the Broker-Dealer Customer Protection Rule" (December 20, 2024)

SIFMA Operations Conference – At a glance...

In May 2025, the Securities Industry and Financial Markets Association (SIFMA) hosted their annual Operations conference that covered a broad range of topics across AI, digital assets, regulation and resiliency. Key highlights include:

Transformation

- **Market transformations**: Recent transitions, such as the shift to T+1 settlement and the diversification into products like exchange-traded funds (ETFs) and digital assets, have reshaped the market. These changes demand improved operational resiliency and real-time data integration.
- **Technological integration:** Firms are increasingly integrating AI to enhance productivity by automating tasks like digitizing loan documents and eliminating settlement fails. AI usage in daily corporate operations has significantly increased, and its role is shifting towards more actionable implementations.
- **Digital assets:** Legislative advancements are creating openings for digital assets, such as embedding know-your-customer and anti-money-laundering processes into blockchain for efficient collateral movement and extended trading efficiency.

Market structure

- **Equity market structure:** Current regulations are under scrutiny for being overly transformational without addressing specific market failures. Extended trading hours, the inefficiencies of the Consolidated Audit Trail and the treatment of subdollar stocks are focal points that need a balanced technical approach.
- **Market sentiment and volatility:** The year began optimistically but was quickly overshadowed by tariff uncertainties, leading to volatility. Despite consumer resilience, tariff impacts have strained economic growth, although productivity and AI innovations offer a lifeline against recession fears.
- **24x5/7 trading:** Demand for extended trading hours is rising. Major exchanges and clearing houses plan to implement longer hours, with trading proposed from Sunday 9:00 p.m. EST to Friday 8:00 p.m. EST. Logistical issues, like supervision, continue to be reviewed

Innovation

- **AI:** Agents will change how organizations use AI as agents are embedded in workflows, moving technology from systems of insights into systems of action.
- **Data:** Data insights can help develop better products for clients, be more proactive with clients, assist in speed of delivery to market, and enable 24/7 accessibility of platforms. Data should be aligned with business units, aligning goals and objectives to make well-informed decisions on how teams leverage data.
- **Productivity boosts:** AI is anticipated to play a significant role in boosting productivity, which could mitigate the adverse effects of tariffs and inflation.

Regulation and resiliency

- **Review of regulations:** Efforts continue to balance deregulation with robust investor protections. The industry is keen on ensuring regulations foster market integrity while supporting innovation.
- **Operational resiliency:** Firms are urged to plan for various scenarios, including cyber threats, and ensure the inclusion of third- and fourth-party vendors in their resiliency plans.
- **US treasury clearing:** The upcoming deadlines for mandatory clearing of cash Treasuries by December 2026 and repos by June 2027 require extensive collaborative preparation. Issues around international entity scope, double margining, and clearing models are being addressed.
- **UK/EU T+1:** Oct 2027 is targeted for transition; however, complexity is far greater than US transition given number of central counterparties, exchanges, and central securities depositories.

Potential actions

- **Digital assets:** Continue to build strategies that incorporate digital assets into your workflows
- **24x5/7 trading:** Review internal infrastructure for potential upgrades to support additional hours of trading
- **UK/EU T+1:** Ensure programs have started to capture process and technology changes

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Private market regulatory reforms – Bringing retail investors into the fold

SIFMA's Asset Management Group (AMG) has recently presented a comprehensive set of recommendations[6] to the SEC to enhance retail access to private investments. These proposals support the SEC's efforts to balance capital growth with investor protection and aim to help more retail investors participate in private markets. **Key recommendations include:**

- **Removal of the 15 percent cap:** Removing investment caps allows for more optimized portfolios with higher private fund allocations, potentially enhancing returns and exposure to private markets.
- **Modernization of coinvestment regulations:** Streamlines processes and reduces operational complexities, promoting smoother and more efficient investment strategies.
- **Revisions to Rule 12d1-4:** Removes investment limits on funds, fostering innovation and enabling more diverse and sophisticated retail fund products.
- **Increased flexibility for interval and fender offer funds:** Eases restrictions, allowing these funds to better tailor their offerings to meet retail investor needs.
- **Expansion of the accredited investor definition:** Ensures that new qualifications are clear and easily assessable, promoting a straightforward and inclusive investment environment.

SIFMA plans to convene an internal working group and encourages the SEC to hold a roundtable to discuss these broader considerations. By addressing these regulatory barriers, SIFMA AMG believes retail investors can gain broader access to private market opportunities, ultimately fostering a more inclusive and vibrant capital market.

Potential actions

- **Review and adapt investment strategies and governance:** Assess and update investment strategies to align with new regulatory reforms, enhancing governance frameworks to emphasize fiduciary judgment and board oversight
- **Enhance operational readiness and investor outreach:** Adjust operational frameworks and develop new fund products to accommodate regulatory changes, implementing educational programs to help investors understand new opportunities and qualifications.
- **Engage in regulatory monitoring and industry dialogue:** Establish protocols for continuous regulatory monitoring and actively participate in industry discussions to interpret implications for operations and stay ahead of regulatory changes.
- **Create education programs:** Develop informative programs to educate retail investors on new private market opportunities, ensuring they understand the associated benefits and risks.

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[6]Source: SIFMA, "SIFMA AMG Recommendations on Private Markets Regulatory Reforms" (April 9, 2025)

First 100 days – Impacts on wealth and asset managers

In the first 100 days of the new administration and beyond, a wave of regulatory changes has been introduced that will significantly impact wealth and asset managers. These changes will affect multiple areas; therefore, requiring wealth and asset managers to respond proactively and strategically to stay compliant. Below, we explore key areas of impact, and the potential actions wealth and asset managers should consider.

- **Fraud and financial crime**: Regulatory actions impacting fraud and financial crime will require wealth and asset managers to enhance their compliance frameworks and invest in advanced technologies to detect and prevent fraudulent activities.
- **Digital assets:** The establishment of digital assets policies and regulatory frameworks will require wealth and asset managers to adapt to new asset classes and integrate digital assets into their portfolios.
- **Cyber and privacy:** Regulatory shifts in cyber and privacy will require wealth and asset managers to prioritize cybersecurity measures and data privacy protocols.
- **Artificial Intelligence (AI):** The evolving regulatory landscape for AI will impact wealth and asset managers by requiring them to incorporate AI technologies responsibly and ethically.
- **Deregulation:** Deregulation can have several significant impacts on wealth and asset managers, presenting both opportunities and challenges.

Potential actions

- **Enhance compliance frameworks and implement AI-Powered fraud detection:** Enhance compliance frameworks by incorporating advanced AI-powered systems to better detect and prevent fraud, ensuring robust adherence to regulatory standards.
- **Develop and implement a digital asset integration strategy:** Develop a strategic approach to incorporate digital assets into portfolios, addressing risk assessments, investment adaptation, and regulatory alignment.
- **Strengthen cybersecurity and privacy protocols:** Prioritize cybersecurity and data privacy protocols, developing comprehensive plans to meet new regulatory requirements and safeguard against breaches. Conduct ongoing monitoring and employee training.
- **Implement AI governance**: Establish governance frameworks to guide the responsible and ethical use of AI technologies, ensuring transparency and regulatory compliance.
- **Capitalize on deregulation:** Identify growth opportunities and adjust strategies to maximize benefits while effectively managing risks in a less regulated environment.

Thought leadership

- Regulatory Insights: Recap of April 2025
- First 100 Days: Regulatory Signals for Financial Services

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The future of wealth management - Transitioning to an agentic wealth model

The US wealth management industry is undergoing substantial transformation due to the rapid advancement of artificial intelligence (AI) over the past two years. The integration of AI is enabling providers to outsource and automate various functions more efficiently, marking a shift towards an "agentic wealth model." This model leverages intelligent agents to enhance operational efficiency, streamline processes, and improve client experiences, allowing human advisors to focus on more complex and personalized tasks.

Intelligent agents are revolutionizing the business landscape by automating routine tasks, enhancing decision-making processes, and enabling personalized customer interactions. They drive efficiency by streamlining operations across various departments, from customer service to finance, allowing businesses to focus on strategic growth initiatives. The integration of intelligent agents throughout the wealth management value chain not only reduces operational costs but also improves service quality, leading to increased customer satisfaction and loyalty, allowing financial advisors and businesses to operate more effectively. Specifically, wealth managers will be able to deploy solutions around client acquisition and onboarding, financial planning and advice, investment management and portfolio construction, compliance and risk management, and reporting communications.

The transition to an agentic wealth model is set to significantly impact the wealth management industry by enhancing efficiency, customization, and risk management. While these improvements will be widely felt throughout the industry, the specific benefits and areas of focus will vary depending on each organizations business model. For example, private banks might prioritize automated portfolio adjustments and tax planning, whereas registered investment advisors may concentrate on reducing operational burdens and improving client engagement. Independent broker-dealers may leverage automated compliance and analytics tools, while wirehouses might focus on streamlining operations through intelligent agents. Overall, the agentic wealth model promises cost savings, growth opportunities, and risk management enhancement, but each sector will uniquely benefit from the model's capabilities based on the distinct needs and strategic goals of the organization.

Potential actions

- **Evaluate areas for potential adoption of intelligent agents:** Identify aspects of the business that can be supported or driven by intelligent agents. Identify smaller projects to ensure proof of concept, feasibility, and impact.
- **Evaluate risks associated with agentic solutions:** Understand the technology, business, reputational, and regulatory risks associated with the adoption of agentic solutions and develop policies and procedures to mitigate identified risks.
- **Prepare for adoption and deployment and usage of intelligent agents:** Develop operational protocols, training programs, and risk management policies around the development, deployment, and usage of agentic tools within the organization.

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The rapid growth of retail alternative funds

Private asset managers are increasingly adopting retail alternative funds to expand their investor base from institutional and high-net-worth clients to include "mass affluent" customers. These funds offer growth opportunities beyond traditional investor classes, evidenced by notable expansion in the market. Retail alternative funds are experiencing rapid growth, with 91 percent of financial advisors planning to increase allocations to alternative investments. The number of such funds has doubled over the past five years, and the market is forecasted to grow annually by 20 percent over the next 5 to 10 years. Despite their potential, only 1 percent of retirement plans like 401(k) and 403(b) currently include these funds, indicating a significant untapped market. However, entering the retail space requires addressing complex operational demands, such as adapting distribution strategies, optimizing operations, ensuring regulatory compliance, and managing service provider relationships.

As the investment industry embraces the opportunity presented by retail alternative funds, asset managers are strategically investing in operational capabilities and technology to meet the complex requirements of serving retail investors at scale. This positions retail alternative funds as a central focus for future growth and innovation in the sector. However, implementing these funds involves challenges such as increased operational complexity and the need for enhanced regulatory compliance, which can strain existing infrastructures and necessitate substantial investment in new systems and processes.

Potential actions

- **Focus on designing or redesigning operating models:** Adapt existing operating models to integrate advanced technology solutions for data management, investor portals, and automation to enhance operational efficiency and service delivery.
- **Navigate complex regulatory requirements and manage:** Develop a robust compliance framework and consider utilizing managed services for tax processing and regulatory reporting. Develop dashboards for performance, risk, and compliance to stay ahead of emerging or changing regulatory demands and maintain oversight and control over operations
- **Adapt existing distribution model:** Focus on providing transparent fee structures, tailored marketing materials for different distribution channels, and build incremental credibility by starting with “pilot” programs.

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