Addressing top of mind capital markets and wealth management issues

January 2025

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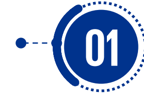

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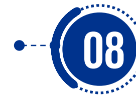

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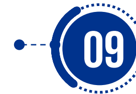

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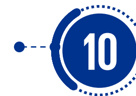

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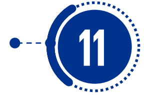

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Improvements to Reportable Segment Disclosures

In November 2023, the FASB issued ASU 2023-07[1] Improvements to Reportable Segment Disclosures. The new requirements that became effective for fiscal years beginning after December 15, 2023 require the disclosures of:

- Significant expenses regularly provided to the chief operating decision maker (CODM); this may not always be the chief executive officer.
- Other segment items for each reportable segment (reconcile each measure of segment profit/loss); operating segment is determined based on how the manages its business and not solely its industry.
- The CODM's title and position.
- How the CODM uses the reported measure(s) of a segment's profit or loss.

The ASU permits reporting multiple measures of a segment's profit or loss and is applicable for public entities including broker-dealers and single reportable segment entities.

Potential actions:

- **Determine who the CODM** is of the firm by considering what the key operating decisions are and who is making those decisions.
- **Evaluate if there are multiple segments;** a firm operating in only one industry cannot assume it has only one operating segment. Discuss the identification and reporting of segments with senior management to ensure alignment with internal management reporting.
- **Identify available data and potential enrichment to said data** that is necessary to determine amounts to be included within the disclosure(s).
- **Engage with external auditors in advance** of the preparation of the financial statements to ensure understanding of the methodology and rational segment reporting and disclosures.

Thought leadership

- FASB issues ASU - Improvements to reportable segment disclosures
- Segment reporting (post-ASU 2023-07)

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[1] FASB, "Segment Reporting (Topic 280)" (November 2023)

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SEC Rule 15c3-3 – Daily Reserve Computation

On December 20, 2024, the Securities and Exchange Commission (SEC) approved rule amendments[2] to SEC Rule 15c3-3, the Customer Protection Rule, whereby broker-dealers with average total credits equal to or greater than $500 million will be required to perform customer and proprietary account of brokers (PAB) reserve computations on a daily basis. The amendments define average total credits as the arithmetic mean of the sum of total credits reported in a carrying broker-dealer's customer and PAB reserve computations in its 12 most recently filed FOCUS Reports.

Additionally, the rule amendments modify SEC Rules 15c3-1, the Net Capital Rule, and 15c3-3 to permit broker-dealers with the ability to apply a reduced percentage, from 3% to 2%, to aggregate debits when calculating its daily customer reserve computation if the broker-dealer meets the following conditions:

- The broker-dealer calculates net capital using the alternative method
- The broker-dealers average total credits are equal to or greater than $500 million.

Carrying broker-dealers that calculate net capital using the alternative method may voluntarily perform the customer and PAB reserve computations on a daily basis and reduce aggregate debits by 2% if they notify its designated examining authority in writing at least 30 calendar days prior to the effective date.

The rule amendments require carrying broker-dealers to comply with the daily customer and PAB reserve computation requirements no later than six months after exceeding the $500 million average total credit threshold (i.e., December 31, 2025 for firms exceeding the threshold as of June 30, 2025).

Potential actions

- **Evaluate if your Firm is required or will elect to perform daily customer and PAB reserve computations. Notify your Firms designated examining authority** within 30 calendar days prior to reducing aggregate debits percentage to 2% within the customer reserve computation, as applicable.
- For Firm's expected to calculate customer and PAB reserve computations on a daily basis:
  - **Identify system enhancements** to perform intraday Stock Record reallocations in lieu of accumulating specific adjustments.
  - **Revisit overall computation methodology** (inclusion, exclusion, "waterfall," etc.) and modifications to existing allocation hierarchies to better suit current business activity.
  - **Assess technology efficacy** and consider implementing updated technology platforms.
  - **Identify opportunities to automate existing manual procedures**.
  - **Evaluate ways** in which the Firm can **more efficiently resolve reconciling differences**, and illogical or unallocated position balances.
  - **Consider moving certain procedures offshore** to leverage the time difference and obtain key reports earlier in the local workday.

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

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Pricing increment changes

On September 18, 2024, the SEC amended[3] Rule 612 of Regulation National Market System (NMS) (Rule 612) to alter minimum pricing increments due to demand for more competitive pricing in the equity securities markets. The amendments establish a second minimum pricing increment (also known as tick size) under Rule 612 for quotations and orders in NMS stocks priced at or greater than $1 per share by a national securities exchange, national securities association, alternative trading systems, vendor, or broker-dealer, as outlined below.

Minimum Pricing Increment	If the time weighted average quoted spread of the NMS stock during the evaluation period was:
$0.005	Equal to or less than $0.015
$0.01	Greater than $0.015

The pricing increment change has a compliance date of the first business day of November 2025.

As a result of the amendments to Rule 612, impacted firms should consider the impact that changes in tick sizes could have on the following:

- Trade reporting processes as specifications for trade reporting requirements such as electronic blue sheets (EBS) or the consolidated audit trail (CAT) will likely be updated to require prices to be reported in finer detail.
- Computing and trade storage capacity used to facilitate trade reporting as additional tick sizes may result in increased trade volumes as more price points become available for order placement.
- IT system logic and embedded checks for how prices are captured in trade reporting engine(s) and various sourcebooks and records systems and databases.

Potential actions:

- **Monitor for potential trade reporting changes** required as a result of the amendment to Rule 612, and update processes and controls accordingly.
- **Perform end-to-end data lineage exercises**, from trade capture to trade reporting, to understand changes required to meet amended tick sizes, including system changes and control-related enhancements.
- **Perform tests** to ascertain how system capacity would be consumed with estimated increases to trading volume.

Thought leadership

- Market Rules: NMS SEC Amendments

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[3] SEC, "SEC Adopts Rules to Amend Minimum Pricing Increments and Access Fee Caps and to Enhance the Transparency of Better Priced Orders" (September 18, 2024)

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SEC Rule 10c-1a: Enhancing market transparency in securities lending markets

On October 13, 2023, the SEC adopted Rule 10c-1a to improve transparency and efficiency in the US securities lending market, requiring certain industry participants to report transaction details to FINRA (currently the only registered national association in the US). In response, FINRA announced the proposed Rule 6500 Series (SLATE) on May 1, 2024, aimed at enforcing Rule 10c-1a's reporting mandates along with additional reporting requirements stemming from FINRA.

On November 15th, 2024, the SEC distributed the Partial Amendment No. 1 to Proposed Rule Change to Adopt the FINRA Rule 6500 Series (SLATE)[4] (Partial Amendment No. 1), addressing multiple concerns raised by market participants via comment letters. Below are several key updates.

Snapshot of several key regulatory amendments[5]

Simplification of reporting requirements: FINRA has removed the requirement for reporting intraday loan modifications and changes to loan parties, settlement dates, and effective dates to reduce reporting complexity.

Elimination of modifiers and indicators: Proposed requirement for modifiers and indicators (e.g., unsettled loans) has been withdrawn, addressing the industry's concerns regarding the implementation complexity and potential for information leakage.

Flexibility in reporting financial terms: FINRA will now allow covered persons more flexibility in reporting rebate rates or lending fees based on spreads to benchmark rates. Covered persons can either report the stand-alone rate or include details about the spread and benchmark identity, addressing concerns about the increased reporting cost.

Clarification and adjustment of the de minimis threshold: Amendment clarifies and raises the de minimis threshold for reporting loan transaction activity, ensuring that the aggregate volume for securities with minimal loan activity is omitted, addressing potential information leakage concerns.

Extended reporting deadlines: Reporting deadline has been extended to 11:59:59 p.m. ET to better accommodate end-of-day processing and submission of loan information.

These amendments reflect FINRA's responsiveness to the industry's feedback and simplify compliance while ensuring that the essential reporting requirements are met.

Potential actions:

- Firms should **review Partial Amendment No. 1 to understand FINRA's response to industry comments and the full scope of proposed rule changes.**

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[4] SEC, "Notice of Partial Amendment No. 1 to Proposed Rule Change to Adopt the FINRA Rule 6500 Series" (November 15, 2024)

[5] Select subset of key changes, not representative of a comprehensive list, and is subject to change based on any additional regulatory guidance

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UK draft T+1 recommendations

In September 2024, the UK Accelerated Settlement Taskforce (AST) published its draft recommendations[6] outlining tasks that are suggested to be completed in 2025, 2026 and 2027.

The recommendations were split into three categories:

- **Recommendation Zero** – The UK either migrates to T+1 ahead of the EU/Switzerland migration or align its migration dates to EU/Switzerland and transfers all securities covered under Central Securities Depositories Regulation (CSDR).
- **Forty-three principal recommendations** focusing on critical posttrade activities across success criteria, settlement, financial market infrastructure (FMIs), corporate actions, securities financing and FX and static data. The key highlight of these recommendations is for market participants to focus on automation in order to drive efficiency.
- **Fourteen additional recommendations** that focus on environment issues to maximize efficiency gains but are not essential for go-live.

Potential actions

- FMIs and regulators are central to the transition, needing to update rules, processes, policies, and technology, impacting participant firms and data providers. Market participants should **monitor publications and/or communications** from FMIs and regulators to stay on top of key updates to be able to understand how these actions impact their organization.
- Market participants must **adapt processes and technology** to meet the compressed cycle requirements, ensure high straight through processing rates, and manage operational resources effectively. **Participants should start automation preparation early.**

[6] KPMG, "Accelerated Settlement Task Force, Technical Group Draft Recommendations Report & Consultation" (September 27, 2024)

Thought leadership

- KPMG UK T+1 Transition

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EU T+1 assessment

In November 2024, European Securities and Markets Authority (ESMA) published its assessment for shortening the settlement cycle recommending an EU-coordinated target transition to T+1 on October 11, 2027.

Key points include:

- **Regulatory coordination:** Stakeholders in the assessment called for harmonized regulations and a coordinated approach to ensure a smooth transition. The European Economic Area (EEA) includes 90 trading venues, 14 central clearing counterparties (CCPs), 34 central securities depositories (CSDs) (of which 24 outsourced settlement to TARGET2-Securities (T2S) to settle in central bank money) and 11 currencies.
- **Operational challenges:** Market participants raised concerns about the reduced time for posttrade processes (up to 90 percent less), impacting areas such as securities borrowing and lending, repo transactions, foreign exchange trading, and cross-border activities. Current automation levels and reliance on complex intermediary chains add to these difficulties.
- **Cost-benefit analysis:** While some respondents acknowledged potential efficiency gains, others emphasized the need for detailed cost and impact assessments before implementation. Other notable areas included review of intraday margin call processing for timing and enhancement standing settlement instructions (SSI) update processing.

ESMA is expected to submit its final report to the European Parliament and Council by January 2025. This report will consider the feedback received, including requests for additional regulatory guidance and coordination.

Potential actions

As a result of the abovementioned recommendations, firms should:

- **Begin their planning activities around performing an impact** assessment across lines of business, products, entities, and functions.
- **Understand automation requirements** as automation will be critical to successfully implement the move from T+2 to T+1 in an efficiency manner.
- **Review intended settlement date** of Article 5(2) of CSDR and Article 2(2) of CDR 2018/1229 for settlement discipline should be considered.

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US Treasury central clearing and settlement transformation

On December 13, 2023, the Securities and Exchange Commission (SEC) authorized an amendment[7] to improve risk management and operational effectiveness in the US Treasury securities clearing and settlement market. The Rule modifications specify updates to membership standards for covered clearing agencies (CCAs) in the US Treasury Market, particularly targeting clearance and settlement procedures for designated secondary market transactions. Based on the current guidelines, which may change based on discussions between the FICC and market participants, the Rule enforces four vital actions, which will be addressed across two phases:

***Phase 1:** Separation of house and customer margin, broker-dealer customer protection, and access to central clearing (Go-live deadline is March 31, 2025.):*

- **Segregation of margin for proprietary transactions:** Market participants must institute policies to calculate, collect, and hold margin separately for proprietary and customer transactions.
- **Amendments to broker-dealer customer protection rule:** Rule 15c3-3 (broker-dealer customer protection rule) has been amended to allow the margin required and deposited at a CCA to be included as a debit item in the customer reserve formula.
- **Facilitation of access to clearance services:** Market participants must ensure proper access to clearance and settlement services, including provisions for indirect participants.

***Phase 2:** Phased requirements to clear specific transactions (Deadline for cash transaction of December 31, 2025 and repo transactions is June 30, 2026.):*

- **Mandatory clearing for eligible secondary market transactions:** Market participants are mandated to submit repurchase agreement and cash transactions collateralized by US Treasury securities for clearing.

Industry considerations:

Operations and tech:

- Designing a clearing model requires a thorough assessment of the firm's existing clearing model structure and key pain points, as well as the development of a clearing model restructuring plan to align with a direct (sponsoring) or indirect (sponsored) or agent.
- In developing a technical optimization roadmap, firms must evaluate the impact of the changes their technical architecture and design an optimization roadmap containing the required technical enhancements, build requirements, associated timelines, and critical dependencies.
- In reviewing and renegotiating contract documentation, market participants must define, review, evaluate the efficacy of legacy contracts' terms and conditions, and conduct renegotiations as needed.

Regulatory reporting:

- The "collect gross/deliver gross" booking model requires individual segregation and direct-market participants would be subject to significant margin requirements for nonsegregated accounts, which could increase capital constraints.
- Customer reserve formula – Further evaluation is still required to understand the impact on includible debits and credits to the extent a broker-dealer posts cash in lieu of pledging customer assets.
- CCAs must ensure that policies and procedures are set to calculate, collect, and hold margin for proprietary transactions of direct participants separately from transactions submitted on behalf of indirect participants, as well as to provide access to clearance and settlement services for all eligible secondary market transactions, including those involving indirect participants.

Accounting:

- Agent clearing members (ACMs) should determine if they are a principal or agent for accounting purposes, as this conclusion will drive whether a gross-up is required on the AMCs' balance sheet.
- Since the determination of a principal versus an agent is also a legal concept, an ACM may also need to consult with legal counsel and consider the necessity of obtaining a legal opinion to support its accounting conclusion.

Potential actions

- **Firms should evaluate and/or monitor industry updates for each of the applicable industry considerations** to understand their potential impact on the firm's business, including processes and controls.

Thought leadership

- US Treasury central clearing and settlement transformation

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[7] SEC, "Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule with Respect to U.S. Treasury Securities" (December 23, 2023)

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2025 SEC priorities

On October 21, 2024, the SEC's Division of Examinations announced fiscal year 2025 examination priorities, focusing on both recurring and emerging risks. Key focus areas for investment advisers include:

- Adherence to fiduciary standards of conduct: Emphasis on recommendations of high-cost, unconventional, and illiquid products; dual registrants; affiliated broker-dealers; financial conflicts of interest; and nonstandard fee arrangements.
- Effectiveness of advisers' compliance programs: Evaluation of core compliance areas and fiduciary obligations related to outsourcing, alternative revenue sources, and fee disclosure. Deeper analysis may occur in valuation of illiquid assets, AI integration, independent contractors, and new business models.
- Examinations of advisers to private funds: Attention on investment strategies sensitive to market volatility, accuracy of fee calculations, conflicts and controls related to use of debt, fund-level lines of credit, and compliance with marketing rules.
- Registered investment companies: Focus on fees and expenses, service provider oversight, portfolio management consistency, and market volatility issues.

The examination priorities also highlight risk areas that affect a wide range of market participants, including advisers. Specifically, examiners will continue a focus on information security, operational resiliency, cybersecurity, digital engagement practices, and the use of AI.

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Potential actions

- **Enhance compliance programs:** Develop and enforce robust compliance policies and procedures to ensure fiduciary obligations are met with a focus on outsourcing, revenue disclosures, and fee accuracy, while prioritizing new or infrequently examined advisers.
- **Develop robust risk management strategies** to address market volatility, ensure precise fee calculations and transparent disclosures, and maintain accurate valuation processes for all assets.
- **Strengthen cybersecurity:** Improve security protocols and operational resiliency, and integrate advanced measures against digital and AI-related threats.

Thought leadership

- SEC 2025 Priorities: Examinations and Perspectives

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A second Trump administration: Implications for asset managers

A second Trump administration could bring significant changes to the regulatory landscape for asset managers. One of the most immediate effects is the resignation of SEC Chair Gary Gensler, appointed by President Biden. This has paved the way for President Trump to nominate a new SEC Chair, Paul Atkins, potentially leading to a shift in the regulatory approach at the agency. While the leadership in the SEC's Division of Investment Management may not see immediate changes, the regulatory focus of the division is expected to shift under new leadership. This shift could impact the operations and compliance requirements for asset managers, as the new administration may prioritize different regulatory initiatives.

Reflecting on the regulatory focus during President Trump's first term provides insight into what a second term might entail. Under the leadership of Chair Clayton and Investment Management Division Director Dalia Blass, the SEC finalized over 70 regulatory initiatives affecting investment companies and advisers. These initiatives included significant changes to the regulatory framework, such as the adoption of rules related to the use of derivatives by registered investment companies and the modernization of the advertising and solicitation rules for investment advisers. A second Trump administration could bring similar regulatory changes and focus on:

- **"Critical" security:** The new administration is expected to maintain a strong focus on cybersecurity and information protection, particularly for critical national infrastructure sectors. Additionally, there will be a continued emphasis on financial crime, including supervision and enforcement of safeguards against illicit finance activity such as money laundering and terrorist financing threats, sanctions compliance, and Know Your Customer (KYC) controls.
- **Resiliency:** There will likely be a decrease in interagency and global coordination, with a targeted regulatory focus on markets and competition, as well as supply chain resiliency. This means a likely decrease in overall litigation and enforcement of antitrust and anticompetitive laws and regulatory standards.
- **Reduction of regulatory burden:** The administration is anticipated to reduce net new rulemaking and tailor existing requirements, ultimately lessening overall supervisory and enforcement activity. This reduction is expected to be framed as a move toward government and corporate efficiency.

Thought leadership

- Three Regulatory Takeaways: Post-Election Shifts

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AML/CFT compliance

On September 4, 2024, the Department of the Treasury's Financial Crimes Enforcement Network (FinCEN) issued a final rule[8] mandating Anti–Money Laundering (AML)/Combating the Financing of Terrorism (CFT) programs and Suspicious Activity Reports (SAR) reporting for most investment advisers. This initiative complements FinCEN's previous proposals to expand the AML framework. The new rule aims to enhance financial integrity and combat illicit activities by extending AML/CFT programs to investment adviser.

The final rule will become effective on January 1, 2026.

Some of the important changes in the final rule include:

- **AML/CFT program:** Investment advisers must develop and document a risk-based and reasonably designed AML/CFT program including appointing an AML compliance officer to oversee the program.
- **FinCEN reporting:** Investment advisers must file Currency Transaction Reports (CTRs) for single-day transactions exceeding $10,000 and SARs for transactions that appear suspicious or potentially violate laws or regulations.
- **Recordkeeping:** Comply with recordkeeping and travel rules by creating and retaining records for funds transmittals and passing transaction information to the next financial institution, with some exceptions.
- **Comparison with Government Lists:** Participate in FinCEN's information-sharing program, implement enhanced due diligence, and comply with special measures, all of which require comparing accounts and transactions against government lists to identify and mitigate risks associated with money laundering and terrorist financing.

[8] Federal Register, "Financial Crimes Enforcement Network: Anti-Money Laundering/Countering the Financing of Terrorism Program and Suspicious Activity Report Filing Requirements for Registered Investment Advisers and Exempt Reporting Advisers" (September 4, 2024)

Potential actions:

- **Develop and implement** a board-approved, risk-based AML/CFT program applicable to all advisory activities.
- **Build the infrastructure and process** to file reports with FinCEN, including CTRs and SARs.
- **Comply with recordkeeping and travel rules** which require creating and retaining records for the transmittal of funds and passing certain information (related to the transaction) on to the next financial institution in the payment chain.

Thought leadership

- Financial Crime & AML: FinCEN Final Rule for Investment Advisers (kpmg.com)

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Regulatory updates (N-PORT, N-CEN, and Form PF)

The SEC is implementing significant changes to improve oversight and enhance transparency within the asset management industry through amendments to Form N-PORT and Form N-CEN[9] reporting requirements. These amendments, aimed at providing more detailed insights into investment company operations, will enforce monthly portfolio updates, refine entity identifier reporting, and require disclosure of service providers crucial for liquidity risk management. Specifically, Form N-PORT will necessitate monthly filing of reports within 30 days after each month's end, with these reports becoming publicly available 60 days post-month-end. Form N-CEN will demand detailed information about liquidity service providers, including their names, identifying details, affiliations, and the asset classes they classify. ***All funds will need to comply with Form N-CEN amendments by November 17, 2025, whereas compliance for Form N-PORT amendments is staggered—larger entities by November 17, 2025, and smaller entities by May 18, 2026.***

Additionally, on February 8, 2024, the SEC in conjunction with the Commodity Futures Trading Commission (CFTC) adopted a final rule impacting investment advisers to private funds registered with both commissions. This rule concentrates on enhancing reporting for large hedge fund advisers by refining adviser and fund information, detailing hedge funds' investment strategies and exposures, updating reporting requirements for complex fund structures, and eliminating aggregate reporting obligations for large hedge fund advisers. These changes are designed to provide deeper insights into the operations, strategies, and regulatory oversight of private funds. ***The effective date for these amendments is March 12, 2025.***

In summary, the regulatory amendments introduced by the SEC and CFTC aim to strengthen oversight, improve transparency, and enhance the regulatory framework within the asset management industry.

[9] SEC, "Form N-PORT and Form N-CEN Reporting; Guidance on Open-End Fund Liquidity Risk" (August 28, 2024)

Potential actions:

- **Form N-PORT:** Firms should **revise their monthly reporting processes** to ensure reports are filed within 30 days after the month's end and made publicly available 60 days post-month-end.
- **Form N-CEN:** Firms need to **enhance compliance efforts** by thoroughly **reviewing and verifying information related to all liquidity service providers** involved.
- **Form PF:** Firms must **adapt reporting processes and systems** to meet enhanced requirements, focusing on transparency, rigorous recordkeeping, and detailed reporting on investment strategies and counterparty exposures.

Thought leadership:

- Investment Company Reporting on Forms N-PORT and N-CEN: SEC Final Rule
- Form PF Reporting: SEC, CFTC Joint Final Rule
- SEC.gov | Amended Form PF Frequently Asked

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GenAI – The imperative of strong governance in the implementation of GenAI in wealth management

As the wealth management industry increasingly integrates generative AI (GenAI) into its operations, there is an increased focus on governance. The transformative potential of GenAI is immense; however, this potential must be harnessed within a framework that ensures compliance, ethical integrity, and risk management.

Businesses must align with evolving regulatory principles. Regulatory bodies worldwide are actively scrutinizing the deployment of AI technologies, and the wealth management sector is no exception. Firms should proactively engage with these regulatory developments, ensuring that their AI strategies are compliant with emerging standards. This alignment is crucial to maintaining client trust and avoiding potential legal pitfalls.

The expansion of AI regulatory frameworks is inevitable. As AI technologies become more sophisticated, regulators will likely introduce more comprehensive and stringent guidelines. Wealth management firms should not only stay abreast of these changes but also contribute to the dialogue, helping shape regulations that are both practical and protective. By doing so, they can ensure that their AI implementations are sustainable and aligned with industry best practices.

In addition, the industry should brace for more regulatory actions in the future. As regulators gain a deeper understanding of AI's implications, enforcement actions will likely increase. Wealth management firms must be prepared for this heightened scrutiny by establishing transparent, accountable, and auditable AI governance processes.

Finally, the need for AI governance action is urgent. Wealth management firms must develop comprehensive AI governance frameworks that address data privacy, algorithmic transparency, and ethical considerations. These frameworks should be dynamic, capable of evolving alongside technological advancements, and regulatory changes. By prioritizing AI governance, firms can mitigate risks, foster innovation, and maintain a competitive edge in a rapidly changing landscape.

Potential actions

- **While establishing a GenAI governance framework, management should be focused on alignment to regulatory principles**: fairness, explainability/ accountability, risk management, security and resiliency, data privacy, and data integrity.

Thought leadership

- AI Regulations: Present & Future

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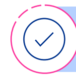

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