



Compliance program hygiene

Key issues and
industry standards

2025

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Key SEC examination emerging risk



Information security and operational resiliency

The Securities and Exchange Commission (SEC) has emphasized cybersecurity and overall resilience by broadening the scope and enhancing existing regulatory requirements through statements and proposed rules.



Marketing Rule

On April 18, the SEC issued a risk alert regarding the SEC Marketing Rule. The staff highlighted recent deficiencies uncovered through a recent series of sweep examinations as well as a handful of enforcement settlements. Among the topics of discussion were implementation of policies and procedures for use of hypothetical performance, material misstatements and omissions, and books and records.



Generative AI and emerging technology

The SEC is cracking down on companies making false claims about artificial intelligence (AI) technology. Chair Gary Gensler stresses the need for accurate disclosure, especially regarding the use of AI. Violators are being investigated and warned by the SEC. The SEC highlights the risk of investor excitement and false claims associated with new technologies like AI.



Anti-money-laundering programs

The SEC is examining broker-dealers and certain registered investment companies to evaluate the adequacy of their tailored anti-money-laundering programs, independent testing, SAR filing obligations, OFAC sanctions monitoring, and customer identification programs, to effectively mitigate money laundering and terrorist financing risks.



T+1

This aims to promote efficiency in the settlement cycle for securities transactions, with a focus on shortening the time between trade execution and settlement. The SEC issued an examination risk alert highlighting specific T+1-related concerns for IAs, such as allocations.



Off-channel communications

Off-channel communications pose an emerging risk in market participants' examinations, as the SEC remains committed to safeguarding investors and maintaining market integrity.

Mock exams, why now?

Mock exams have historically proven to be a beneficial tool for preparing for and successfully navigating real-world regulatory inquiries. In today's landscape marked by significant, macroeconomic, geopolitical, and technological changes, coupled with increased regulatory oversight, readiness for examinations and inquiries is now a critical aspect of effectively managing heightened supervision.

Recent final rules and proposed rules

- Anti-money Anti-money Laundering Rules for RIA
- Marketing Rule
- Form PF Amendments
- Money Market Fund Rule
- T+1
- National Futures Association (NFA) Compliance Rule 2-51
- NFA Interpretive Notice 9073

1

Enhancing compliance and risk mitigation

- Serve as proactive measures to promote compliance with regulatory standards
- Identify weaknesses or gaps in compliance processes and procedures, thereby mitigating risks and preventing protentional instances of noncompliance

2

Utilizing a risk-based approach

- Provide valuable insight into the compliance posture of market participants
- Aid in the prioritization of regulatory actions and resource allocation, enhancing regulatory effectiveness and efficiency

3

Risk monitoring and informed policy decisions

- Allows regulators to monitor and assess risk levels associated with various market participants, including investment advisers
- By identifying and addressing risk areas through mock exams, regulators can make informed policy decisions, ensuring regulatory frameworks remain robust and adaptable to market changes

Value of conducting mock exams

As the SEC and NFA intensify the frequency and rigor of their examinations, investment advisers must prioritize preparation to sidestep potential penalties and sanctions. Mock compliance exams stand out as a highly effective preparatory strategy. Here is why:

Tailored to the unique risk of Your firm

Each mock exam is customized to address the specific risks and challenges your firm faces, ensuring targeted assessment and mitigation strategies are in place.

Assessment of team responses

These exams evaluate the quality of your team's responses to regulator-style interviews and information requests. This process enhances preparedness and boosts confidence during actual examinations.

Staying up-to-date with regulatory priorities

Mock exams keep your firm ahead of regulatory changes and the evolving priorities of the SEC and NFA. This forward-looking approach helps understand the impact on your business model, facilitating proactive adjustments to compliance practices.

Identification of gaps and areas for improvement

Mock exams are instrumental in detecting compliance gaps or deficiencies. They provide actionable insights that help strengthen your compliance program and mitigate regulatory risks.

Independent assessment of compliance program

Fulfill regulatory requirements under Rule 206(4)-7 by obtaining an independent assessment of the operating effectiveness of your compliance program. This not only identifies strengths but also pinpoints areas for enhancement.



Mock exam process timeline

Depending on the agreed-upon scope of the mock examination and the size and complexity of your organization, the exercise can range between two and three weeks for small- to medium-sized firms and between four and seven weeks for medium to large firms. See below for the phased approach:

1

Pre-mock exam

- **Risk assessment**

Conduct a high-level risk assessment of the firms' compliance, governance, risk, and control for advisory and fund activities, using information from requests and interviews, incorporating recent SEC and NFA guidance, enforcement learnings, and prevailing industry practices

2

Mock exam kick-off

- **Information request**

Issue a preliminary request letter akin to an SEC and NFA exam to assess response quality and promptness; review the business's framework, offerings, marketing, filings, and policies to identify high-risk areas

3

Fieldwork

- **Interview and inquiry**

SEC and NFA examination style interviews with a range of the firms' personnel

- **Deep dive reviews of selected topics**

- **Deeper dive review design**

Design review procedures to perform a deep dive review of the agreed-upon focus areas

4

Reporting

- **Drafting**
Draft preliminary findings and observations and obtain the firms' input to ensure factual accuracy
- **Communication of observations and recommendations**
Prepare observation and recommendation outlines and conduct workshop sessions to discuss review results
- **Final summary report**
Deliver a final report outlining the scope, review procedures, results of assessments and tests, and any recommendations

5

Response and remediation

- **Findings and recommendations**
Make recommendations regarding risks or deficiencies identified in the mock exam and further rank the deficiencies in order of priority
- **Implementation**
Assist with planning and/or implementing remediation in response to report observations

Point of contacts

SEC and NFA examiners tend to interview personnel from across the three lines of defense. The mock exam would include interviews with the following key points of contact:

Chief compliance officer

Or highest-ranking compliance expert

- Ensures compliance with laws and policies
- Handles correspondence with regulatory agencies
- Manages compliance programs

Risk manager

Head of Risk or head of First Line Business Control would also be acceptable

- Identifies and mitigates risks
- Develops risk management strategies
- Communicates risk-related information to stakeholders

1st line/business

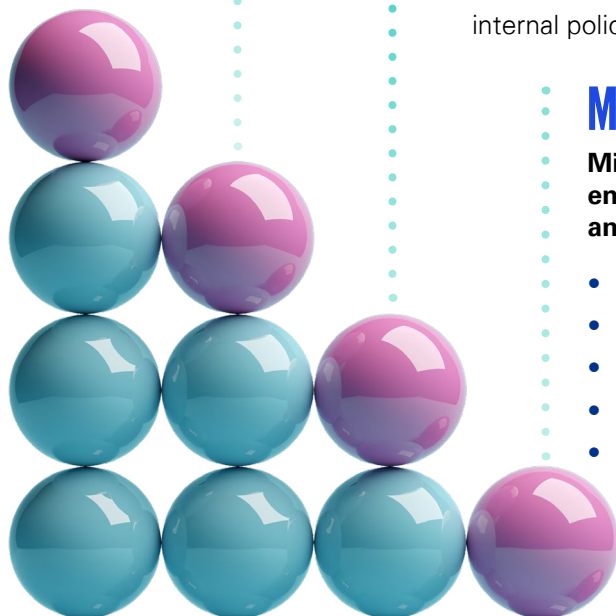
Portfolio manager, trader, or other high-ranking business employee

- Oversees trading activities
- Executes trades
- Manages positions and risks
- Ensures compliance with regulations and internal policies

Middle office/operations

Middle office, operations, or even tech employees who can explain how systems and processes come together

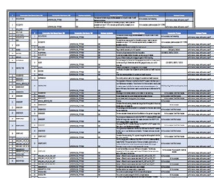
- Supports front- and back-office teams
- Reconciles trading activities
- Manages settlements
- Maintains trade records
- Administers funds



Fieldwork: Request for documents

The request for documents would include following compliance/risk governance artifacts. The reviewer would scrutinize these documents, probe relevant points of contact on any weaknesses, and make recommendations, as necessary.

Policy and procedures

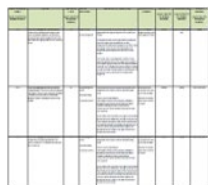


Document inventory list



Policy and procedures

Risk management framework

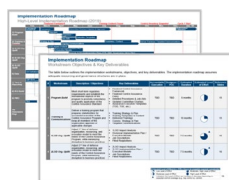


Controls inventory list



Risk and controls matrix

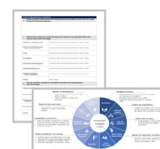
Disclosures and third-party reviews



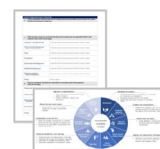
NFA or due diligence questionnaire



Correspondence and inquiries



Prior reports



Financial filings

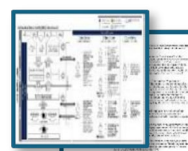
Evidence of trading controls



Info barriers



Trade allocations



General ledger and trade flows



Evidence of control testing

KPMG | Core asset and wealth management regulatory offerings



Solution objective

To be a trusted and long-term adviser to our capital markets clients on compliance, risk, and related considerations.



Target clients

Our client base includes entities regulated by the SEC, Financial Industry Regulatory Authority (FINRA), Commodity Futures Trading Commission (CFTC), NFA, and exchanges, as well as entities entering the regulated space or concerned about regulatory impacts.

Core asset and wealth management offerings



Mock exam

Compliance program reviews

Perform **SEC mock exams** and targeted compliance assessments, including the following areas: books and records requirements, conflicts of interest, code of ethics, personal trading, fee and expense practices, policies and procedures, material nonpublic information surveillance, portfolio management, operational due diligence of third-party managers, compliance testing and monitoring, valuation governance, best execution, nonfinancial reporting, control rooms, information barriers, and marketing and advertising.



Regulatory remediation

Regulatory remediation, response, and undertakings

Assist clients as they address regulatory examination and/or enforcement findings, issues, and concerns. Whether from the SEC, FINRA, a state securities regulator, or a federal banking agency, we help our clients address findings in a manner that will be acceptable to all stakeholders, internal and external.



Monitoring and testing

Outsource compliance monitoring and testing

KPMG assists firms with the design and execution of a tailored compliance monitoring and testing program. KPMG recognizes that there is no one-size-fits-all approach to implementing a compliance monitoring and testing program. Our solutions help firms with developing, implementing, and maintaining a program that is tailored to our client's size, complexity, and unique business model.

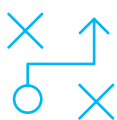


Regulatory reporting

Regulatory reporting

KPMG offers ongoing regulatory reporting capabilities and subject matter support to our clients in various regulatory reporting areas, including Form PF, CPO-PQR, 13F, etc., equipped with an established methodology, technology tool, and a team of dedicated professional advisers to help you meet these challenges.

Our team closely monitors regulatory updates and requirements to help ensure that our services continues to remain up to date.



Risk assessment

Risk assessment

KPMG assists clients with enhancing their compliance risk assessment (CRA) frameworks and conducting risk assessment processes to align with leading industry practices and regulatory expectations. This includes identification of risks horizontally across the enterprise and within each line of business. Assist with documentation of inherent risk, control effectiveness, and residual risk. We bring various project accelerators such as CRA templates, risk calibration methods, and project management.

Contact us

Asset & Wealth Management

regulatory leadership



Mike Sullivan

Principal, Financial Services Risk, Regulatory, and Compliance Services, KPMG LLP

Mike leverages deep industry experience to help broker dealers meet complex regulatory requirements. His achievements include assisting a SEC with CFTC reporting compliance and guiding a futures commission merchant through regulations on capital modeling and risk management.

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Larry Godin

Principal, Financial Services Risk, Regulatory, and Compliance Services, KPMG LLP

As a principal and national practice lead for Asset & Wealth Management for KPMG, Larry brings over 20 years of experience in the financial services industry where he focuses on legal, risk, and compliance issues in the asset and wealth management space. He has held such positions as chief legal officer for asset management, senior counsel and general counsel at large institutional asset management and dually registered broker-dealer/investment advisory firms.

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Mark McKeever

Director, Financial Services Risk, Regulatory, and Compliance Services, KPMG LLP

Mark has 20 years of experience in the industry, including serving as a senior securities compliance examiner with the SEC's Division of Exams focused on investment advisers. His areas of concentration include a deep knowledge of US securities laws and regulations (i.e., Investment Advisers Act and Investment Company Act) and their practical applications across various business models within the investment management and wealth management industry sectors.

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Related thought leadership from KPMG

- Ten Key Regulatory Challenges for 2025
- Insights into Recent SBSD and SD Examinations
- Markets Compliance Asset and Wealth Management Solution Brief
- Artificial Intelligence and Model Risk Management
- Regulatory Insights
- Risk Alert: SEC Investment Adviser Supervision
- SEC Examinations Risk Alert: Marketing Rule
- Names Rule: SEC Final Amendments
- Third-Party Risk Management: SEC Investment Adviser Proposal
- SEC Private Fund Adviser Reforms: Final Rules
- Form PF and Share Repurchase Disclosures: Final Rules
- Cyber Security: SEC Proposal for Adviser/Fund Risk Management
- SEC Proposals on Cyber Risk Management for Market Entities
- SEC Proposes Amendments to Regulation S-P
- Public Company Cyber Security Risk Management, Strategy, Governance and Incident Disclosure

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