Addressing top of mind issues for capital markets and wealth management

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Contents

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Regulation Best Interest

Update

Recent (July 2025) enforcement actions[1] by the Financial Industry Regulatory Authority (FINRA) have spotlighted critical deficiencies in how firms are implementing and supervising compliance with Regulation Best Interest (Reg BI). These cases involved failures to establish adequate supervisory systems, insufficient oversight of product-specific trading patterns, and inaccurate trade reporting. Regulators flagged short-term trading of complex securities that generated high commissions but resulted in customer losses—raising concerns about suitability and conflicts of interest. Additionally, systemic issues in trade reporting and net capital calculations revealed operational blind spots that could expose firms to financial and reputational risk.

- These enforcement actions serve as a clear reminder that regulators are moving beyond surface-level compliance checks and are now examining how firms operationalize Reg BI in practice.
- It's not enough to have policies on paper; firms must show that their supervisory systems are actively identifying and mitigating risks tied to unsuitable recommendations, high-cost products, and conflicted compensation structures.
- For broker-dealers, this means elevating compliance from a reactive function to a proactive discipline.
- Surveillance tools must be calibrated to detect nuanced patterns of investor harm, and supervisory reviews should be capable of flagging behaviors that may technically comply with disclosure requirements but still fall short of the "best interest" standard.
- Firms should also expect increased scrutiny of how they document the rationale for recommendations, especially in cases involving complex or short-term trading strategies.

Ultimately, these actions reinforce that Reg BI is reshaping the regulatory landscape—not just in terms of enforcement, but in how firms define and demonstrate investor-first conduct. Beyond core Reg BI compliance, firms must continue to navigate an increasingly complex regulatory landscape, including the US Treasury clearing mandate and evolving FINRA guidance. These mandates necessitate continuous review of operational processes and client communication strategies to ensure full adherence and mitigate risk.

Opportunity

1 Implement product-specific surveillance

Monitor for excessive trading or patterns that may indicate conflicts of interest, especially in complex or high-commission products.

2 Enhance suitability reviews

Conduct periodic reviews of account recommendations, especially for short-term trades and complex products.

3 Improve trade reporting accuracy

Assign clear ownership for Real-Time Trading Reporting System and Trade Reporting and Compliance Engine reporting, and implement real-time monitoring to prevent delays or misclassification.

4 Validate net capital calculations

Ensure proper treatment of open contractual commitments and verify accuracy in Financial and Operational Combined Uniform Single (FOCUS) Report filings.

Resources

- SEC Examinations Risk Alert: Regulation Best Interest

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[1] Recent enforcement actions FINRA, FINRA (July 2025)

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Cybersecurity and operational resilience (SEC Rules 15c3-1/15c3-3)

Update

Cybersecurity threats are an increasingly critical concern for broker-dealers, as operational disruptions can result in significant regulatory consequences and business risks. The Securities and Exchange Commission's (SEC) capital and customer protection rules are particularly vulnerable to the impact of cyber incidents and operational disruptions due to an increasing initiative to automate and streamline routine functions. It is essential for firms to proactively identify, assess, and address the risks associated with these functions to ensure ongoing resilience and regulatory adherence:

- **SEC Rule 15c3-1 impact:** Cyber incidents can disrupt systems needed for capital reporting and liquidity management, and system outages may delay these critical processes, risking noncompliance with net capital requirements. If outages prevent timely calculations or transfers, then firms may fall below required net capital levels and face regulatory action. To mitigate these risks, integrating cyber resilience into capital stress testing, SEC's Cybersecurity and Resiliency Observations,[2] helps ensure firms can anticipate and mitigate the impact of technology disruptions to maintain required capital levels.
- **SEC Rule 15c3-3 impact:** Breaches involving customer accounts can compromise the segregation and protection of client assets, which is central to the customer reserve formula. Unauthorized access or manipulation of account data may result in inaccurate reserve computations, misallocation of funds, or delays in transferring required amounts to the reserve bank account. These failures can trigger reserve deficiencies, expose firms to regulatory scrutiny, and erode client trust. By including cyber event scenarios in reserve contingency planning and regularly testing controls, firms can better detect and respond to threats, ensuring the integrity of customer asset segregation and ongoing compliance.

Operational resilience remains paramount with recent industry dialogues underscoring the critical importance of daily 15c3-3 compliance, emphasizing robust internal controls and continuous monitoring to safeguard client assets and maintain operational integrity. By proactively integrating cyber event scenarios into stress testing and business continuity planning, organizations can identify vulnerabilities, strengthen governance, and ensure operational continuity.

Opportunity

1 Strengthen governance and oversight

Establish a cybersecurity governance framework aligned with SEC Rules 15c3-1 and 15c3-3 guidance, assigning senior leadership accountability and ensuring regular board-level reporting on cyber risk and compliance.

2 Integrate cyber risk into regulatory processes

Incorporate cyber event scenarios into capital stress testing and reserve contingency planning, update business continuity plans for cyber disruptions, and implement daily monitoring to mitigate system outage risks.

3 Enhance incident response and testing

Develop incident response playbooks that address regulatory reporting, conduct tabletop exercises for cyber threats, and regularly test vendor resilience with clear contractual cybersecurity standards.

4 Monitor regulatory guidance

Stay current with SEC and FINRA Cybersecurity Guidance,[3] deploy threat intelligence to address evolving risks and maintain thorough documentation to demonstrate compliance during regulatory examinations.

Resources

- Cybersecurity Services

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[2] SEC, "SEC's Cybersecurity and Resiliency Observations" (January 2020)
[3] FINRA, "FINRA Cybersecurity Guidance"

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Update

The financial advisory sector is undergoing a significant transformation, driven by a massive intergenerational wealth transfer and evolving investor preferences. This shift necessitates a re-evaluation of traditional advisory models to integrate digital capabilities effectively:

- A substantial $105 trillion in wealth is being transferred to younger, digitally native generations, fundamentally altering investor expectations.
- While human-led advisory models continue to foster high trust and satisfaction, a clear generational divide shows Gen Z valuing digital capabilities seven times more than Baby Boomers. This generation is also uniquely more satisfied with self-directed investing compared to adviser-supported models.
- The emerging standard is a hybrid approach, combining trusted human guidance with sophisticated digital tools—a model already embraced by 30 percent of all investors.
- Additionally, more than 20 percent of investors are now exploring alternative investments, demanding a higher level of specialized expertise from their advisers.

Adapting to the new investor requires understanding the underlying economic shifts. The industry is operating within a 'new equilibrium' for the US Economy, characterized by evolving market dynamics and investor expectations. This economic backdrop reinforces the need for flexible, hybrid advisory models that cater to diverse client preferences and risk appetites. The imperative for financial advisers is to proactively adapt to this new market reality. Success hinges on embracing a hybrid model that seamlessly integrates human expertise with advanced digital solutions, ensuring relevance and continued value for a diverse and evolving client base.

Opportunity

1

Embrace a hybrid model that blends trusted human guidance with seamless digital accessibility.

2

Evolve from an information source into a trusted coach who provides context and validation for clients.

3

Leverage technology to deliver personalized advice and tailored client experiences at scale.

4

Expand your expertise to guide clients through the complexities of new markets like alternative investments.

Resources

- The Future of Investment Advice

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Update

Agentic AI represents a significant evolution beyond traditional GenAI, offering the capacity to autonomously manage intricate tasks across the entire wealth management spectrum. The 'agentic leap' towards the adviser of the future is fundamentally driven by advancements in the 'digital frontier, and includes leveraging new technologies for investment, innovation, and navigating the associated regulatory landscape. This encompasses everything from client acquisition and onboarding to financial planning, portfolio management, operational processes, client servicing, reporting, and ensuring compliance and risk management. This advanced technology is no longer a distant concept but a critical strategic requirement for firms today:

- Agentic AI moves beyond GenAI, enabling independent execution of complex tasks.
- It covers the full wealth management value chain, including prospecting, acquisition, onboarding, financial planning, portfolio management, operations, servicing, reporting, and compliance.
- Embracing this technology is essential for unlocking substantial cost efficiencies.
- It significantly enhances both adviser and client experiences.
- It provides a crucial competitive advantage in the market.

The adoption of agentic AI is paramount for firms looking to secure their position and drive growth. Those who integrate this technology early are poised to gain a decisive edge, potentially leading to market consolidation by these proactive leaders.

Opportunity

1 Develop a strategic plan

Create a firm-wide plan and governance framework for Agentic AI, launching pilot projects to build momentum and demonstrate value.

2 Modernize technology and data

Assess the technology infrastructure and ensure data is clean, enriched, and ready for AI deployment.

3 Prepare the workforce

Implement training programs focused on data analytics, AI ethics, and agent management to ensure effective collaboration.

4 Establish governance and risk

Form a steering committee and use a robust framework to manage ethical deployment, risk, and regulatory compliance.

Resources

- Agentic AI in Wealth Management

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Update

The 2025 National Conference on the Securities Industry brought together industry participants to discuss critical economic, regulatory, technology, and accounting matters. A key theme of the conference was the continued evolution and rapid pace of change within the industry, driven by new regulatory requirements, digital assets and technological innovation. The conference underscored the need for firms to adapt to these changes to maintain regulatory compliance and market competitiveness. Key discussions and updates included:

- A significant and complex regulatory shift is underway with the SEC mandate requiring in-scope US Treasury, repurchase and reverse repurchase ('repo') transactions to be cleared via a Covered Clearing Agency (CCA). This rule, effective at various points in time through 2027, aims to enhance transparency and standardize risk management in the vital Treasury market, directly impacting core financial responsibility rules and raising other critical industry concerns.
- Broker-dealers are experiencing a period of rapid expansion and innovation in digital assets, fueled by a positive shift in sentiment from the US administration. Panels provided insights into key digital asset products such as payment stablecoins and tokenized securities.
- Changes in broker-dealer regulatory requirements remain robust, with key changes including daily 15c3-3, treatment of free credit balances in IRA accounts, capital treatment of securities with more than a minimal amount of credit risk, etc.
- The Financial Accounting Standards Board (FASB) provided updates on recently issued Accounting Standards Updates (ASUs) and ongoing projects relevant to the broker-dealer industry, emphasizing a balance between practical application for preparers and valuable information for financial statement users.

The securities industry is in a continuous state of evolution, and the speed of change shows no signs of slowing. For firms to remain competitive and successfully navigate the future, it is imperative to stay informed and proactive regarding these ongoing developments and innovations.

Opportunity

1

Assess the impact of the US Treasury clearing mandate and update systems/processes by key regulatory deadlines.

2

Evaluate digital asset strategies in light of evolving SEC, CFTC, and FINRA guidance.

3

Prepare for FASB's latest standards, including software cost and derivative accounting.

4

Understand recent SEC Rule 15c3-1 and SEC Rule 15c3-3 regulatory changes and evaluate the impact they will have on processes and controls.

5

Engage proactively with regulators and industry groups to inform and shape ongoing rulemaking.

Resources

- 2025 National Conference on the Securities Industry
- 24x5 trading
- US Treasury central clearing and settlement transformation

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