

Regulatory Alert

Regulatory Insights for Financial Services

June 2026

Risk Alert: SEC Adviser Conflicts of Interest, Compensation Disclosure

KPMG Regulatory Insights

- **Examination Priority:** Consistent with the SEC's 2026 Examinations Priorities, focus includes advisers' consideration of conflicts of interest, the effectiveness of their compliance programs, and adherence to fiduciary duties.
- **Fiduciary Duty:** The SEC reminds advisers of their fiduciary obligation to act in their clients' best interests, which includes "fully and fairly" identifying and addressing economic conflicts of interest.
- **Double-Check:** Advisers are encouraged to review their compliance arrangements and programs, fee and expense disclosures, and billing practices to ensure they are consistent, accurate, and aligned with their fiduciary duties under the Investment Advisers Act of 1940.

The Securities and Exchange Commission (SEC) Division of Examinations (Division) has issued a [Risk Alert](#) intended to assist registered investment advisers in developing effective compliance programs and disclosures with respect to economic conflicts of interest. Compliance issues highlighted by the Division are based on staff observations derived from recent examinations and include:

- Conflicts of interest associated with advisers' cash management recommendations
- Conflicts of interest associated with other revenue opportunities
- Disclosing fees and economic conflicts of interest in Form ADV
- Fees deviating from advisory agreements and fee-related disclosures
- Compliance programs identifying and addressing fee-related issues

Conflicts of Interest Associated with Advisers' Cash Management Recommendations

The Division states that advisers that receive revenue in exchange for cash management recommendations create an economic conflict of interest, which should be "fully and fairly disclosed to clients in order for clients to provide informed consent." Staff observed that advisers omitted material information or provided misleading disclosures regarding:

- Revenue sharing arrangements (e.g., cash sweeps) with broker-dealers, custodians, and other third parties.
- Fees and expenses associated with cash balances (e.g., impact on investment returns).
- Alternatives to cash management recommendations tied to money market fund shares.

Conflicts of Interest Associated with Other Revenue Opportunities

Staff observed advisers that did not make full and fair disclosure to clients regarding the economic benefits the advisers received for recommendations related to:

- Mutual fund share class selection (outside of cash management).
- Custodial credits, margin loans and credits, and transaction markup fees.
- Revenue received by broker-dealer affiliates in connection with interest rate markups on margin loans made by advisory clients.
- Additional fees and expenses, including markups of clearing broker fees.

Disclosing Fees and Economic Conflicts of Interest in Form ADV

SEC registered advisers are required to provide clients with a narrative brochure that addresses certain minimum requirements (including those related to conflicts of interest arising from advisers' compensation arrangements). However, the Division observed compensation-related misstatements or omissions during reviews of advisers' brochures prepared pursuant to Part 2A of Form ADV, including:

- Material conflicts created by compensation arrangements with affiliates.
- Material facts related to revenue sharing arrangements with clearing agencies.

Fees Deviating from Advisory Agreements and Fee-Related Disclosures

The Division observed advisers assessing client advisory fees that were inconsistent with the advisers' agreements, disclosures, or both, including examples where:

- Advisory fee calculations were not aligned with the advisers' disclosures in their Form ADVs and/or the terms in written advisory agreements.
- Advisers assessed fees to clients for services not provided or assessed higher fees than agreed to for the services that were provided.
- Advisers did not issue refunds to clients who were billed in advance and terminated their agreements with the advisers prior to the end of the billing period.

Compliance Programs Identifying and Addressing Fee-Related Issues

The Division found that some investment advisers did not appear to adopt and implement written policies and procedures that were reasonably designed to prevent violations of the Advisers Act and the rules thereunder consistent with the nature of their operations.

With regard to fees and billing practices, staff observed instances where written policies and procedures:

- Did not include all billing arrangements applicable to their clients, such as prepaid fees, fee reductions (e.g., householding of accounts), and margin on client accounts.
- Conflicted with information provided to clients in disclosures and signed client agreements, and/or were not easily reconciled with other disclosures.
- Lacked controls regarding monitoring for accurate calculations when billing client fees and applying rebates.

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