

SEC 2025 Examination Priorities – Advisers, Funds, & Broker-Dealers

On October 21, 2024, the SEC’s Division of Examinations (Division) issued its [2025 Examination Priorities](#) that support its stated mission—promote compliance, prevent fraud, monitor risk, and inform policy. The group will continue its focus on compliance, governance practices, and cybersecurity. Here’s what investment advisers, investment companies, and broker-dealers need to know to prepare for upcoming exams.

Since 2013, the Division has published its annual examination priorities for the areas with the highest risk to investors and the market. While many of the focus areas have been carried forward from 2024, new items mentioned include commercial real estate valuations, the use of third-party vendors, and products targeted at older investors and retirement or college plans. The group also publishes risk alerts throughout the year to promote compliance. This year’s issuances include:

- [Broker-Dealers: Staff Assessment of Risks, Scoping of Examinations, and Requesting of Documents](#)
- [Initial Observations Regarding Advisers Act Marketing Rule Compliance](#)
- [Shortening the Securities Transaction Settlement Cycle](#)
- [Observations Related to Security-Based Swap Dealers](#)

“We hope that registrants will evaluate their compliance programs in the areas we identified and make the changes necessary to protect investors and maintain fair and orderly capital markets.” – Keith Cassidy, acting director of the Division of Examinations

Investment Advisers

As in previous years, the Division will prioritize examinations of advisers that have never been examined or not recently examined with a continued focus on newly registered advisers.

Fiduciary Standards of Conduct. An adviser must, at all times, serve the best interest of its clients and must not place its own interests ahead of the client’s interests. An adviser also must eliminate or make full disclosure of all conflicts of interest. The Division will continue to focus on:

- Investment advice provided to clients and if that advice satisfies client fiduciary obligations. The focus will be on recommendations for high-cost products, unconventional instruments, illiquid and difficult-to-value assets, and assets sensitive to higher interest rates or changing market conditions, including commercial real estate.
- The impact of advisers’ financial conflicts of interest on providing impartial advice and best execution, with consideration given for non-standard fee arrangements.
- For dual registrants and advisers with affiliated broker-dealers, exams will concentrate on:
 - Assessing investment advice and recommendations to determine if they are suitable for clients’ advisory accounts

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- Reviewing disclosures to clients regarding the capacity in which recommendations are made
- Reviewing the appropriateness of account selection practices, *e.g.*, brokerage versus advisory, including rollovers from an existing brokerage account to an advisory account
- Assessing if and how advisers adequately mitigate and fairly disclose conflicts of interest

Compliance Program Effectiveness. These examinations generally include an evaluation of the core areas of advisers' compliance programs, including marketing, valuation, trading, portfolio management, disclosure and filings, and custody, as well as an analysis of the annual review of an adviser's compliance program effectiveness. Focus areas include:

- Fiduciary obligations of advisers that outsource investment selection and management
- Alternative revenue sources
- Appropriateness and accuracy of fee calculations and the disclosure of fee-related conflicts (select clients negotiating lower fees when similar services are provided to other clients at a higher fee rate)

Private Funds. For advisers to private funds, focus areas include reviewing:

- If disclosures are consistent with actual practices and if an adviser met its fiduciary obligations in periods of market volatility or interest rate fluctuations, *e.g.*, commercial real estate, illiquid assets, and private credit. Advisers to private funds experiencing poor performance and significant withdrawals and/or holding more leverage or difficult-to-value assets will be scrutinized.
- The accuracy of calculations and allocations of private fund fees and expenses (both fund level and investment level). The Division will look at the valuation of illiquid assets, calculation of post-commitment period management fees, offsetting of fees and expenses, and the disclosure adequacy.
- Disclosure of conflicts of interests and risks, and adequacy of policies and procedures, especially for the following situations:
 - Use of debt, fund-level lines of credit, investment allocations, adviser-led secondary transactions, and transactions between funds
 - Investments held by multiple funds
 - Use of affiliated service providers
- Compliance with recently adopted SEC rules, including amendments to Form PF and investment adviser marketing.

Resources:

[SEC Finalizes First Round of Form PF Updates](#)

[New Fund Shareholder Report and Advertising Rules](#)

Investment Companies

For registered investment companies (RICs), exams will evaluate compliance programs, disclosures, and governance practices focusing on:

- Fund fees and expenses, and any associated waivers and reimbursements

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- Oversight of service providers (both affiliated and third party)
- Portfolio management practices and disclosures, for consistency with claims about investment strategies or approaches and with fund filings and marketing materials
- Issues associated with market volatility
- Exposure to commercial real estate
- Compliance with new and amended rules

Resource: [Funds & Asset Managers – 3Q 2024 SEC Regulatory Update](#)

Broker-Dealers

There was almost no change in the Division’s focus from 2023. Broker-dealer exams will continue to focus on recommended products that are complex, illiquid, or present higher risk to investors (highly leveraged or inverse products, crypto assets, structured products, alternative investments, non-SEC registered products, products with complex fee structures or return calculations, or products based on exotic benchmarks).

Regulation Best Interest

Focus areas include:

- If the broker has a reasonable basis to believe a recommendation is in the customer’s best interest and does not place the broker’s interests ahead of the customer’s interests
- Conflict of interest disclosures made to investors
- Conflict identification and mitigation and elimination practices
- Processes for reviewing reasonably available alternatives
- Factors considered based on the investor’s investment profile

Examinations also may focus on recommendations:

- Using automated tools or other digital engagement practices
- Related to opening different account types such as option, margin, and self-directed IRA accounts
- Made to certain types of investors, such as older investors and those saving for retirement or college

For dual registrants, exams will focus on reviews of firms’ processes for identifying, mitigating, and eliminating conflicts of interest; account allocation practices; and account selection practices, e.g., brokerage versus advisory, including when rolling over to an IRA or transferring an existing brokerage account to an advisory account.

See [Staff Bulletin: Standards of Conduct for Broker-Dealers and Investment Advisers Care Obligations](#)

Customer Relationship Summary (CRS). How does the broker-dealer describe the relationships and services that it offers to retail customers, fees and costs, conflicts of interest, and whether the broker-dealer discloses any disciplinary history?

Financial Responsibility Rules. Examinations will continue to focus on broker-dealer compliance with the net capital rule, the customer protection rule, and related internal processes, procedures, and controls. Areas of review will include broker-dealer accounting practices impacted by recent regulatory changes, as well as the **timeliness** of

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notifications and filings. Reviews also will focus on broker-dealers' operational resiliency programs, including supervision of third-party or vendor-provided services that contribute to the records firms use to prepare their financial reporting information. Examinations will assess broker-dealer credit, market, and liquidity risk management controls to ensure that firms have sufficient liquidity to manage stress events.

Trading Related Practices. Reviews will consider the structure, marketing, fees, and potential conflicts associated with offerings by broker-dealers to retail customers, including bank sweep programs, fully-paid lending programs, and mobile apps/online trading platforms. Exams also will review trading practices for pre-IPO companies and the sale of private company shares in secondary markets. The Division also will be checking if broker-dealers are appropriately relying on the bona fide market making exception under Regulation SHO.

Risk Areas (Various Market Participants)

Cybersecurity/Operational Resiliency. Operational disruption risks remain elevated due to cybersecurity attacks, dispersed operations, weather-related events, and geopolitical concerns. Exams will assess whether registrants' procedures and practices are reasonably managing information security and operational risks and evaluate how a registrant addresses risks from the use of third-party products and subcontractors for essential operations.

Regulation S-P & S-ID. Exams will focus on policies and procedures, internal controls, oversight of third-party vendors, and governance practices as required by Regulations S-ID and S-P, including:

- Identification and detection to prevent and protect against identity theft during customer account takeovers and fraudulent transfers
- Practices to prevent account intrusions and safeguard customer records and information, especially for firms with multiple branch offices
- Firm training on identity theft prevention and if policies and procedures are reasonably designed to protect customer records and information. Examinations also will assess a firm's efforts to address operational risk as operational failures may impact a firm's ability to safeguard customer records and information

Examiners also will ask about progress in preparing for soon-to-be-effective changes to Regulation SP.

Resource: [SEC Issues New Regulation S-P Rules](#)

T+1 Settlement. The Division will evaluate broker-dealer compliance with T+1 Settlement, including new books and records requirements and any operational changes related to adviser facilitation of institutional transactions for allocation, confirmation, or affirmation processes.

Emerging Technologies. The Division remains focused on the use of automated investment tools, AI, and trading algorithms or platforms, and alternative sources of data. The Division will examine firms that employ digital investment advisory services, recommendations, and related tools and methods and will assess if:

- Representations are fair and accurate
- Operations and controls in place are consistent with investor disclosures
- Algorithms produce advice consistent with investors' investment profiles or stated strategies
- Controls to confirm that advice from digital engagement practices are consistent with regulatory obligations to investors, especially older investors

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The Division will review registrant representations on AI capabilities or AI use for accuracy. The Division will assess whether firms have implemented adequate policies and procedures to monitor and/or supervise AI use, including for tasks for fraud prevention and detection, back-office operations, anti-money laundering (AML), and trading functions.

Crypto Assets. Exams will focus on the offer, sale, recommendation, advice, trading, and other activities involving crypto assets. Exams will review if registrants:

- Meet and follow standards of conduct when recommending or advising customers and clients regarding crypto assets, especially for older retail investors or involving retirement assets
- Routinely review, update, and enhance compliance practices, risk disclosures, and operational resiliency practices

The Division also will assess registrant practices to address blockchain and distributed ledger technology.

Resource: [SEC Update on Crypto-Asset Safeguarding & Custody](#)

Anti-Money Laundering (AML). Similar to previous years, examiners will review if broker-dealers and RICs are:

- Appropriately tailoring an AML program to their business model and associated AML risks
- Conducting independent testing
- Establishing an adequate customer identification program, including for beneficial owners of legal entity customers
- Meeting their suspicious activity report filing obligations

Conclusion

The asset management team at Forvis Mazars has more than 50 years of experience providing accounting, tax, and consulting services to various types of investment holdings, including conventional debt and equity investments, loans, businesses, alternative investments, and other unique assets. As of June 2023, Convergence Optimal Performance ranked Forvis Mazars as a top 20 accounting and audit firm to RIAs and ranked in the top 20 by AUM. We have experience providing services to funds ranging from emerging managers to \$100-plus billion in AUM. Our knowledge allows us to provide tailored services to help meet your unique needs. We provide services to private and public funds. For more information, visit forvismazars.us.

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