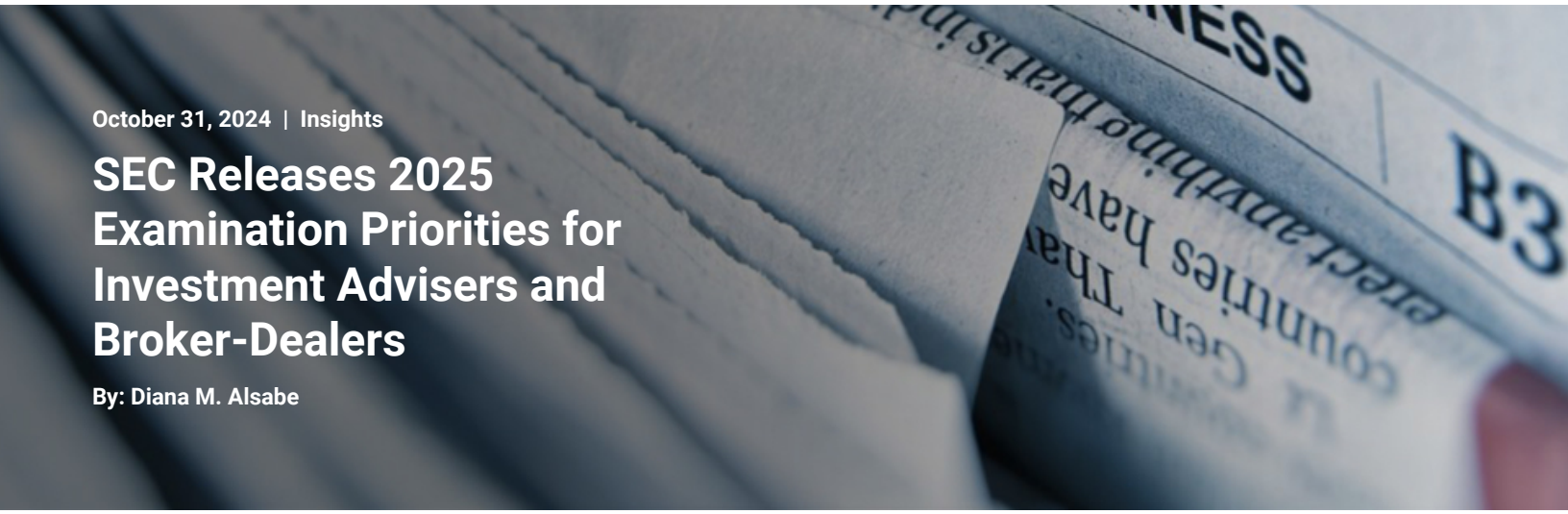

October 31, 2024 | Insights

SEC Releases 2025 Examination Priorities for Investment Advisers and Broker-Dealers

By: Diana M. Alsabe

On October 21, 2024, the Securities and Exchange Commission (the "SEC") Division of Examinations (the "Division") released its 2025 Examination Priorities (the "Examination Priorities").

Published annually, the Examination Priorities highlight the Division's key areas of concern regarding investment advisers, investment companies, broker-dealers, self-regulatory organizations, and other market participants' compliance with federal securities laws. The Division's press release dated October 21, 2024 ("Press Release") emphasizes that these priorities identify areas with potentially heightened risks to investors.

This article focuses specifically on the Examination Priorities as they apply to SEC-registered investment advisers ("RIA" or "RIAs") and dually registered RIAs who are also SEC-registered broker-dealers ("BD" or "BDs") (collectively, "Dual Registrants").

1. Priorities for SEC-Registered Investment Advisers.

a. **Fiduciary Standards of Conduct.** The Division emphasizes that advisers, as fiduciaries, owe a duty of care and loyalty to their clients, requiring them to act in the best interests of their clients rather than prioritizing their own interests. Within fiduciary standards, the Division identifies two specific areas of focus:

- **Recommendations involving high-cost products and complex assets**: This includes unconventional instruments, difficult-to-value or illiquid assets, and assets sensitive to rising interest rates or changing market conditions, such as commercial real estate.

- **Dual Registrants and advisers affiliated with BDs**: The Division reiterates



Related Services

Investment Management & Private Funds

Real Estate Development

Related Attorneys

Diana M. Alsabe

©2026 Rich May, P.C. All Rights Reserved

the importance of prioritizing investors' interests over those of the RIA or BD. The focus includes whether investment advice and broker-dealer recommendations are suitable for clients' advisory accounts, ensuring proper disclosure to clients about the recommendations made, reviewing the selection process between advisory and brokerage accounts, and verifying adequate disclosure and mitigation of conflicts of interest.

b. **Effectiveness of Compliance Structures.** Under Rule 206(4)-7 of the Investment Advisers Act of 1940 (the "Advisers Act"), RIAs must establish and maintain written policies and procedures, designate an individual to oversee these policies, and conduct an annual review. Compliance has been a longstanding area of concern for the Division. The Division identified three areas of focus in assessing the efficacy of compliance programs.

- The fiduciary obligations of investment advisers who outsource investment selection and management.
- Non-cash revenue or benefits that advisers receive, such as selling non-securities products to clients.
- The appropriateness and accuracy of fee calculations, along with the disclosure of conflicts of interest related to fees.

The Division also notes unique considerations for integration of artificial intelligence ("AI") into advisory operations, including portfolio management, trading, marketing and compliance. The Division intends to review specific compliance policies and procedures and disclosures made to investors that pertain to AI.

The Division will also examine compliance programs for advisers utilizing a large number of independent contractors operating from geographically separate locations, as well as advisers modifying their business models.

c. **Private Fund Advisers.** The Division also prioritizes the examination of private fund advisers, with a focus on their fiduciary duties, fee structures, and the accuracy of disclosures provided to investors. Specifically, the Division highlights four priority areas within the private funds sector:

- *Consistency between disclosures made by advisers and their actual practices.* Does the adviser meet its fiduciary duty to investors during market volatility, particularly when private funds are exposed to interest rate fluctuations? This focus area includes advisers to private funds that are underperforming, experiencing significant withdrawals, or holding leveraged or difficult-to-value assets.

©2026 Rich May, P.C. All Rights Reserved

- *Accuracy of private fund fee and expense calculations and allocations.* This includes valuations of illiquid assets, calculation of post-commitment period management fees, and adequacy of disclosures regarding fee offsets.

- *Adequacy of disclosures and conflict-of-interest policies and procedures.* The Division's focus includes the use of debt or fund-level lines of credit, investments held by multiple funds, and utilization of affiliated service providers.

- *Compliance with recent SEC rules and changes*. This includes, but is not limited to, amendments to Form PF, new marketing rules, and other compliance requirements.

d. **Never-Examined Advisers and New Advisers.** As in previous years, the Division prioritizes the examination of advisers who have never been examined, including new advisers, as well as revisiting advisers who have not been examined recently.

2. <u>Risk Areas Impacting Multiple Market Participants Including Investment Advisers.</u>

a. **Cybersecurity Concerns.** Cybersecurity remains a priority for the Division, which will continue examining registrants' policies and procedures to ensure reasonable protection of information security and the safeguarding of customer records. The Division also emphasizes the importance of managing cybersecurity risks associated with third-party resources, including IT providers.

- **Newly Developing Financial Technologies.** As in previous years, the Division will focus on registrants' use of automated investment resources and trading algorithms. This includes digital investment advisory programs and recommendations. The Division aims to ensure that representations of these technologies are fair and accurate, that operations align with investor disclosures, that algorithmic advice aligns with investor profiles, and that digital advice meets regulatory obligations.

- **Artificial Intelligence.** The Division continues to prioritize monitoring the evolving use of AI among registrants. This includes examining representations regarding AI capabilities and accuracy and ensuring firms have implemented oversight structures for AI use in fraud prevention,

©2026 Rich May, P.C. All Rights Reserved

anti-money laundering ("AML"), and back-office operations.

- **Anti-Money Laundering.** Pursuant to the Bank Secrecy Act, the Division monitors certain registrants' AML programs to ensure they are appropriately tailored to the firm's business model, conducting independent testing, establishing a customer identification program, and meeting Suspicious Activity Report filing obligations. While AML is currently a priority for BDs and SEC-registered investment companies ("RICs"), it should be noted that a similar rule, adopted by FinCEN in August 2024, will apply to RIAs in 2026.

We recommend that all investment adviser clients review these enforcement priorities in light of their own activities, policies, and procedures, as well as applicable regulatory obligations. Clients with questions or concerns regarding the Division's 2025 examination targets or regulatory compliance should consult a Rich May attorney.

Disclaimer: This summary is provided for educational and informational purposes only and is not legal advice. Any specific questions about these topics should be directed to attorneys Thomas Bilodeau III, Scott Stokes or Diana Alsabe.

© 2024 by Rich May, P.C. and Diana Alsabe. All rights reserved.