



# Preparing for an SEC Exam and 2026 Exam Priorities

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# Overview of the SEC's Role and Examination Objectives

## Purpose of SEC Examinations

The Division of Examinations conducts the SEC's National Exam Program. The Division's mission is to protect investors, ensure market integrity, and support responsible capital formation through risk-focused strategies that:

- Improve Compliance
- Prevent Fraud
- Monitor Risk
- Inform Policy

The results of the Division's examinations are used by the SEC to inform rule-making initiatives, identify and monitor risks, improve industry practices and pursue, misconduct.

# *Overview of the SEC's Role and Examination Objectives*

## **Importance of Compliance to Investment Advisors:**

While investment advisors are required to pass an exam to secure their registration as an advisor or their license, maintaining that license is considered a privilege rather than right. There are a multitude of errors that you could commit that would lead a regulator to suspend or revoke your license.

Compliance is a path to following the rules and regulations to avoid such an outcome.

SEC examinations are designed to make sure you are on the right track and following all the rules and regulations that apply to your business.

# *Common Focus Areas in SEC Examinations*

Each year, the SEC publishes a list of examination priorities. It is important to continuously review the agency's priorities to make sure you are on track with:

- **Marketing**
- **Compensation Arrangements**
- **Illiquid Investment Evaluations**
- **Safeguards to Protect Clients' Non-Public Information**
- **Disclosures**
- **Accuracy and Completeness of Regulatory Filings**

## *Discussion Question*

**If an SEC examiner reviewed your website today, what marketing or disclosure issue would concern you most?**

# *Fiduciary Obligations*

Investment Advisor Representatives (IARs) have a fiduciary responsibility to their clients. This includes both a duty of loyalty and a duty of care. Under your duty of loyalty, you must not put your needs above the needs of your clients. Under your duty of care, you must act as you would if you were in your client's position while maintaining your own knowledge and experience of the financial markets and investing.

Documenting and disclosing your adherence to these duties is accomplished through disclosures and regulatory filings.

This includes properly disclosing all conflicts of interest and carefully disclosing your process to understand your client's investor profile.

# *Disclosure and Transparency*

## **Common Pitfalls and How to Avoid Them:**

The most common finding for SEC registered firms in the past few years has been errors with the Form CRS.

1. Reg BI requires Form CRS to be prominently displayed on the homepage of a website. Firm was cited for having the CRS behind a “Disclosures” link. The link must take customers directly to the CRS. The customers must not have to scroll through other disclosure to get to it.
2. The CRS must display the effective date prominently at the beginning of the summary and it may be in the header or footer of the first page. The date must meet this requirement in all formats, including electronic. Each time the CRS is reviewed or modified; the date must be updated.
3. There must be a record of each time a CRS is delivered to a customer. The record must include how the delivery was made, on what date, and which version. This includes a record of the annual delivery.
4. A copy of the CRS must be maintained in the customer file as evidence of which version the customer received.
5. Policies & Procedures must include who at the firm is responsible for updates and timely filings of the CRS.

# Disclosure and Transparency

Additional Information section must not refer back to other sections of the CRS, it must reiterate any information that belongs in that section. For example, if in the Fees section, the document directs customers to look at the ADV Part 2A, in the Additional Information section, rather than state look at the Fee section above (which sends the customer to the ADV Part 2A), just state see the ADV Part 2A.

All required verbiage must be in the CRS. Specific “Conversation Starters” are provided in the instructions, all of them must be included verbatim.

All incentives must be disclosed; this includes non-cash compensation such as sales meetings or trainings where travel and lodging is covered for some top performers but not for all advisors.

On the CRS, all questions must be clearly and accurately responded to with definitive answers. For example, In item 4 “Do you or your financial professionals have legal or disciplinary history?” if the firm has history, the response must be “Yes.” Firm was cited for stating “Does have disciplinary history.” The “yes” was missing. (See instructions for Item 4.B)

The CRS must be readable and contain white space. The deficiency the firm received stated “jumbled, tightly spaced, with little to no design or change in font structure or spacing.”

The Fee schedule on ADV 2A must match the fee schedule on the CRS. Whenever fee schedules change, the firm must be diligent to update all disclosures.

# *Disclosure and Transparency*

**Another common deficiency recently has been errors with the Marketing Rule.**

1. All tables and hypotheticals displayed on the firm's website must be clear and accurate, and proper disclosures must be prominently displayed with the hypothetical. Example, website contained hypothetical fee structures comparing the difference between a tiered flat fee structure and a 1% fee structure. Firm was cited for methodological errors in the calculations including, cherry picking the initial value and time frame displayed without disclosing that other assumptions would lead to differing results and that competitor firms may use a variety of other methods of calculation. Further, the hypothetical fees published did not align with the firm's policies and procedures for charging fees.

2. Third Party Ratings must follow the Marketing Rule. Firm failed to disclose the criteria for the rating, the category for which the rating was determined, the number of advisors surveyed, the number of advisors that received the rating, and that rating is not indicative of the advisor's future performance.

# *Disclosure and Transparency*

Best Execution  
is yet another  
common  
deficiency.

1. Mutual Fund Share class selection must be the best option for the individual client's needs and financial profile. The firm must have policies and procedures to ensure that the firm recommends the most advantageous mutual fund share class for each account. The firm must monitor mutual fund trades for compliance with the policies.

# *Disclosure and Transparency*

## **Importance of Accurate and Clear Disclosures:**

SEC examiners focus on information that is disclosed in each part of your ADV Brochure. It is important that you complete each item accurately and keep them updated. While clients may or may not rely on these documents, the position of the Agency is that these documents are of the utmost of importance and are the foundation for your firm's disclosures.

When the SEC is performing an exam, before they request documents for their review, the Staff carefully combs over each of your documents looking for items that are unclear or potentially omitted.

# Disclosure and Transparency

## Case Studies on Disclosure-Related Deficiencies

Advisor A: This advisor's client, who was in her 80s, requested that he be trustee on her revocable trust as she had no family or friends whom she felt like she could rely on. He wanted to help. By becoming the trustee on this client's trust, he inadvertently took custody of her assets. He did not update his ADV to reflect that his firm takes custody of client assets. This resulted in the examiner requiring audits of the past two years of her accounts and a deficiency that led to a small fine.

Advisor B: This advisor provided his clients with a tiered fee schedule based on the assets that he managed for them. In addition, he offered financial planning services at an hourly rate. His exam revealed that for a few clients who had less than \$50,000 under management with his firm, which put them in his 2% tier on his fee schedule, he also had charged them to develop a financial plan. For these clients, when the planning service fee was added to the management fee, the total annual fee was greater than 2.5% of assets managed. The Staff determined that these fees were excessive. The exam resulted in an order to refund fees with interest and to immediately cease this billing practice.

# *Compliance Programs and Policies*

In order to develop an effective compliance program, it is important to understand the:

- Services that you will offer
- How you will charge for those services
- Any conflicts of interest that must be disclosed and mitigated

Then, you must develop policies and procedures that help you to best provide your services within the rules and regulations of the SEC and State Securities Divisions.

You must then test the policies and procedures regularly to ensure that they are helping you effectively meet the regulatory requirements.

Finally, you must document these tests.

## ***Discussion Question***

**Have you ever been asked by a client to be trustee on their Trust?**

**A. Yes**

**B. No**

# *Custody and Safeguarding Client Assets*

## **Custody Rule Requirements:**

An advisor has custody if they hold, directly or indirectly, client funds or securities, or have any authority to obtain possession of them.

If you have custody of client accounts, among other requirements, you are required to have an annual surprise audit by a PCAOB (Public Company Accounting Oversight Board) registered accounting firm.

Ways that you may take custody of client assets:

- By being the trustee of a client's trust
- By being the named executor in a client's will
- By putting in place a Standing Letter of Authorization (SLOA) where monies are sent to a third-party account
- By logging into a client's 401(k) using the client's credentials (username and password)
- By having a client write a check to your firm for deposit into their brokerage account
- By accepting a stock certificate and holding it for more than 24 business hours prior to depositing into the client's account

# *Custody and Safeguarding Client Assets*

## **Common Custody-Related Issues and How to Address Them:**

Often, a firm for an advisor is designated as an executor as a client's will without the firm or individual's knowledge. If a client has informed you that they have made you the executor of their will, you must decline and ask them to change the document. If the client has already passed and you were named the executor, you must decline the appointment.

Another common form of inadvertent custody is putting in place a SLOA to a third party without considering the custody implications to the firm.

## *Discussion Question*

**Where in your business are you most vulnerable to “inadvertent custody” of client assets?**

## ***Discussion Question***

**At what point does a conflict of interest become significant enough that disclosure alone is not enough?**

# *Compliance Programs and Policies*

Conflicts of interest can come from a variety of business and financial activities.

- Are you investing in the same investments as your customers?
- Do you own a building and one of your clients leases an office from you?
- Do you also sell fixed insurance for a commission to your clients?
- Are you a member of an LLC with one of your customers who is also a member?
- Are you referring clients to a tax preparation firm that you own?
- Are you receiving referrals from a trust company owned by your spouse?

## ***Discussion Question***

**Has your firm or a client of your firm ever experienced a hack or cyber breach?**

**A. Yes**

**B. No**

# SEC Priority Items in 2026

The SEC published amendments to Reg S-P in the Federal Register in 2024

**47786 Federal Register / Vol. 89, No. 107 / Monday, June 3, 2024 / Rules and Regulations excerpt from Page 99:**

PART 248—REGULATIONS S-P, S- AM, and S-ID § 248.30 Procedures to safeguard customer information, including response programs for unauthorized access to customer information and customer notice; disposal of customer information and consumer information.

(5) Service providers. (i) A covered institution's response program prepared in accordance with paragraph (a)(3) of this section must include the establishment, maintenance, and enforcement of written policies and procedures reasonably designed to require oversight, including through due diligence and monitoring, of service providers, including to ensure that the covered institution notifies affected individuals as set forth in paragraph (a)(4) of this section. The policies and procedures must be reasonably designed to ensure service providers take appropriate measures to:

- (A) Protect against unauthorized access to or use of customer information; and

- (B) Provide notification to the covered institution as soon as possible, but no later than 72 hours after becoming aware that a breach in security has occurred resulting in unauthorized access to a customer information system maintained by the service provider. Upon receipt of such notification, the covered institution must initiate its incident response program adopted pursuant to paragraph (a)(3) of this section.

# *SEC Priority Items in 2026*

## **Regulation S-ID**

Because the SEC is increasing focus on identity theft prevention controls as cyber-enabled fraud and account takeover schemes continue to rise, Regulation S-ID will also be an important focus areas in 2026. The SEC will review whether firms subject to Regulation S-ID have developed and implemented a written Identity Theft Prevention Program that is reasonably designed to detect, prevent, and mitigate identity theft in connection with covered accounts. Examiners will specifically focus on whether firms can identify and detect “red flags,” particularly involving attempted account takeovers, fraudulent disbursement requests, and suspicious account activity, and if firms have provided meaningful employee training on identity theft prevention.

Firms should be prepared to demonstrate active monitoring procedures, escalation protocols, periodic risk assessments, vendor oversight, and documented updates to their program as threats evolve. The SEC has also emphasized that Regulation S-ID programs must be tailored to a firm’s size, business model, and account risks.

# *SEC Priority Items in 2026*

## **Cybersecurity**

In its 2026 Examination Priorities, the SEC specifically identified cybersecurity as a “perennial” focus area and stated that examiners will review firms’ governance practices, data loss prevention controls, access management, account monitoring, vendor oversight, and incident response and recovery procedures, including preparedness for ransomware and other disruptive cyber events

Going forward, the SEC will examine whether controls are implemented, tested, and reasonably designed for the firm’s business model. There will be scrutiny around compliance with amended Regulation S-P safeguarding requirements, third-party service provider risk management, employee cybersecurity training, and the use of AI-driven tools that create new cyber and privacy risks. Firms that cannot demonstrate active governance, documented testing, and prompt incident escalation protocols may face deficiencies or enforcement exposure.

# *SEC Priority Items in 2026*

## **Emerging Technology**

Emerging technology such artificial intelligence (AI) will be another key SEC examination priority because regulators are increasingly focused on how firms deploy automated tools in investment advice, operations, and client communications. Examiners will review whether firms' disclosures about AI capabilities and recommendations are accurate, consistent with fiduciary obligations, and whether firms maintain effective oversight of technology that influences investment decisions.

The SEC is expected to scrutinize governance controls, human supervision, model testing, vendor due diligence, data integrity, cybersecurity risks created by AI systems, and employee training on appropriate AI use. They will also focus attention on if firms overstate or misrepresent their AI capabilities in marketing or disclosures. RIAs using AI for portfolio construction, compliance monitoring, trading, or client servicing should be prepared to demonstrate documented policies, risk controls, and ongoing oversight.

## *Discussion Question*

**Which emerging technology risk worries you more and why?**

**A. AI**

**B. Cybersecurity**

**C. Identity Theft**

# *SEC Priority Items in 2026*

## **Anti-Money Laundering**

Anti-money laundering (AML) will be a notable SEC examination priority in 2026 as regulators have increased scrutiny on firms' ability to detect, prevent, and report suspicious financial activity that could expose clients, markets, or the advisory firm to illicit finance risk. Examiners will review whether advisors have implemented risk-based policies, procedures, and internal controls reasonably designed for their business model.

For RIAs, this means examiners are likely to focus on customer due diligence, beneficial ownership identification, suspicious activity escalation procedures, recordkeeping, and oversight of third-party service providers. Firms will be expected to demonstrate employee training, testing of AML controls, and governance practices that ensure red flags are identified and investigated promptly.

## ***Discussion Question***

**Have you ever put a client agreement in the file without it being counter-signed, and realized it later?**

**A. Yes**

**B. No**

# *SEC Priority Items in 2026*

## **Fees**

Fees are perennially a concern of the SEC.

Are your fees disclosed properly?

Does your investment advisory agreement explain fees properly?

Is the number on the advisory agreement match the amount that you are charging?

Are your fees excessive?

Can you provide evidence of the work that you done to earn the fees that you charge?

## ***Discussion Question***

**Could you demonstrate today that every client fee charged by your firm was reasonable, disclosed, and earned?**

**A. Yes**

**B. No**

## ***Discussion Question***

**Have you ever had a client transfer A shares to an  
Advisory account?**

**A. Yes**

**B. No**

# *SEC Priority Items in 2026*

## **Best Execution**

The SEC staff reviews all holdings in every account for best share class.

# *Implementing Effective Compliance Controls*

## **Techniques for Monitoring and Reviewing Compliance:**

Rather than waiting for your annual review, it is a best practice to review individual compliance activities on a more frequent basis.

While some tasks such as email review and trade review should be done weekly, others may only require quarterly review. For example, if you bill your clients quarterly, it is important to identify any errors in billing on a quarterly basis.

Keeping your ADV and all U4s up-to-date should not be left to annual review. If you are offering a new product or service mid-year, you must update your documents. If you move your office to a new location, you must promptly update your ADV. A quarterly review of your documents helps to avoid long periods of noncompliance.

# *Implementing Effective Compliance Controls*

## **Role of Compliance Officers and Staff Training:**

Compliance is too important to be left as a side job to your top producer. Finding the right people to help keep your advisor representatives on track and your disclosures properly filed and updated is a difficult task. It is important.

Once you have the right compliance staff, it is important that they provide proper training and support to each member of your team.

Industry-wide, it is standard to spend approximately 5% of your gross revenue on compliance.

Regulators require that your compliance program is tailored to meet your business' needs.

Firm management must lead a culture of compliance; it starts at the top.

# Preparing for an SEC Examination

The examination process typically unfolds in several stages, outlined as follows:

1. Introduction to Examiners: You will meet with the examiners to establish rapport and provide an overview of your Firm's operations.
2. Receipt of Request Letter: Following the initial meeting, you will receive a formal request letter outlining the specific documents and information required for the examination.  
  
I encourage you to reach out to your Compliance Team or legal counsel with any questions or concerns regarding the request letter.
3. Provision of Documents: You will quickly gather and provide the requested documents to the examiners for their review. Keeping organized and meeting the requested turnaround time is important. If you need more time to complete a request, you may ask for an extension.
4. Response to Additional Requests: In some cases, the examiners may request additional information or clarification. You should cooperate fully and address any additional requests in a timely manner.
5. Receipt of Deficiency Letter: Upon completion of their review, the examiners may identify deficiencies or areas for improvement within the Firm's compliance program. It's important to note that deficiencies are a common occurrence, as each office/examiner may have their own priorities and concerns.
6. Correction of Deficiencies: In the event that deficiencies are identified, you will need to address them and formulate a comprehensive response to the deficiency letter.

# *Preparing for an SEC Examination*

## **Steps for a Successful Examination Process:**

1. Design an effective compliance program
2. Continuous and effective compliance reviews
3. Be organized
4. Document EVERYTHING
5. Be organized
6. Provide clear and accurate responses to each item requested by the SEC

Once the examiners are in your office, you cannot hide the ball – it is too late. Be prepared ahead of time, focus on compliance, don't let it be an afterthought.

# *Preparing for an SEC Examination*

## **Documentation and Record-Keeping Best Practices:**

Have a thorough and complete system for filing and achieving each section of your compliance manual that requires documentation. Make sure you date everything appropriately and ensure that you have a filing system that makes sense to you and is easily accessible.

The easiest way to achieve this is to work through your compliance manual and confirm that, for each item that begins with “CCO shall,” you have a way to evidence your reviews of that item.

**Q&A**





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