

# Wealth and asset management

## FINRA 2025 Regulatory Outlook

### EY Forensic & Integrity Services

In 2025, the Financial Industry Regulatory Authority (FINRA) will continue to enforce priority issues in addition to addressing emerging risks. Recently, EY Forensics heard from FINRA representatives directly who spoke as part of a forum hosted in New York titled FINRA's 2025 Regulatory Operations Programs to further understand the agency's priorities for the year ahead.

#### FINRA's areas of focus for this year include:

- Enforcement of regulations for Best Interest (Reg BI), best execution, Consolidated Audit Trail (CAT), market manipulation and cybersecurity
- Increased volumes of best execution cases as well as a focus on the handling of Regulation Crowd Funding (Reg CF) offerings by broker-dealers and funding portals
- Commitment to protecting seniors from investment scams, as FINRA is expected to see more cases addressing elder abuse

#### Issues in focus

##### Regulation Best Interest

###### FINRA discussion points and focus

- Advisors providing recommendations without developing a sufficient understanding of the associated features and risks
- Inadequate disclosures, conflicts of interest, and insufficient training of associated persons and supervisors
- Firm cooperation - thoughtful cooperation and remediation can result in reduced penalties.

###### Emerging trends

- Advisor recommendations involving Registered Index-Linked Annuities (RILAs), which essentially force liquidation at a specified date, even if market conditions are unfavorable
- There are liquidity concerns given the tie to indexes.
- Firms should evaluate what the customer is losing in this exchange given the terms that can be applied to RILAs (e.g., cap rate, surrender charges, participation rate) as well as how firms surveil advisor and RILA activity for Reg BI implications.
- Double-dipping on fees: opening accounts and then changing/moving the account (e.g., from variable annuity to RILA)

##### Market surveillance

###### FINRA discussion points and focus

- Emphasis on market surveillance protecting against market manipulation
- Reasonable supervision of CAT, timely corrections, design of surveillance systems, and accurate recordkeeping

###### Emerging trends

- Market access and the focus on CAT continues to be a staple. Customer and Account Information System (CAIS) reporting obligations were made effective as of May 2024.
- Firms that participate in extended hours trading must comply with trade reporting, CAT reporting, and provide a risk disclosure statement for customers.
  - The customer should understand what happens when trading during that time.
- There is growth with extended hours trading as Alternative Trading Systems (ATS) and exchanges increasingly announcing them.
- From an enforcement perspective, FINRA observed that firms are not conducting testing on surveillance systems, and external tips are not responded to.
- Firms must follow up on red flags (e.g., layering, spoofing, close sales, wash sales, small cap IPO manipulation).

Emerging risks	Key considerations
Third-party risk	<ul style="list-style-type: none"> <li>In recent years, FINRA has observed an increase in cyber attacks and outages at third-party vendors used by member firms.</li> <li>Firms are encouraged to have ongoing discussions with their Risk Monitoring Analysts (RMAs) on potential bad actors and changes to third-party artificial intelligence (AI) systems.</li> <li>FINRA advises firms to be proactive in establishing adequate third-party risk management policies, such as assessments and contingency plans. Firms are obligated to maintain supervisory procedures and conduct ongoing due diligence on third-party vendors.</li> </ul>
Artificial intelligence	<ul style="list-style-type: none"> <li>FINRA is concerned with the “speed to market” of AI, which may cause firms to overlook concerns such as accuracy or bias, exploitation by bad actors, and compliance with regulatory requirements.</li> <li>Firms should consider risks associated with third-party vendors’ use of Generative AI (GenAI) (e.g., leakage of personally identifiable information (PII) and proprietary information).</li> <li>FINRA views AI from a technologically neutral stance. Firms should test before deploying, incorporate controls, and include all relevant stakeholders in discussions.</li> </ul>
Cyber-enabled fraud	<ul style="list-style-type: none"> <li>New account fraud: malicious use of GenAI to create synthetic IDs and falsified customer information (e.g., false identification documents, deepfake media).</li> <li>Continued focus on managing customer information through Customer Identification Program (CIP)/Customer Due Diligence (CDD) efforts. Automated tools and software are often utilized to address customer onboarding and maintenance, which should be calibrated and tested accordingly.</li> <li>Increase in digital “boiler room” schemes where chat rooms and social media lure investors into opening accounts via online investment clubs.</li> </ul>

### Your trusted advisors



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The EY Forensics Wealth and Asset Management team has extensive industry experience with these topics of focus addressing regulatory affairs, litigation and investigations. The EY team works with both internal and external legal counsel, investment advisors, and broker-dealer clients to address these key issues. Our contacts are happy to discuss any topic in more depth.

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