DINSMORE COMPLIANCE SERVICES

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Special Alert

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Division of Examinations: SEC Fiscal Year 2027 Examination Priorities for Investment Advisers



On October 23, 2026, the Division of Examinations of the United States Securities & Exchange Commission (the "Division") published the Fiscal Year 2027 Examination Priorities. In addition to investment advisers, the Division has examination responsibility for broker-dealers, investment companies, self-regulatory organizations, clearing agencies, and other market participants such as municipal advisors. This DCS Alert addresses the examination priorities applicable to investment advisers.

As an introduction, the 2027 Examination Priorities provides a high-level summary of the activities of the Division, as well as general priorities and initiatives. Following are highlights from the Examination Priorities:

- The Division notes the growth in the number of registered investment advisers and the amount of assets they manage.

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- The Division seeks to strengthen how investment advisers can access the Division's observations gathered in examinations. The timely sharing of practical examination observations while giving investment advisers an opportunity to share their perspectives is noted as a central focus.

- The updating of the SEC Exam Handbook: A Practical Guide on Process and Engagement is referenced as providing a clear roadmap of the examination process covering each stage of an examination, avenues to provide feedback and practical tips. The updated SEC Exam Handbook: A Practical Guide on Process and Engagement was issued on October 1, 2026.

- The Division acknowledges how technology is changing the industry. Investment advisers are increasingly utilizing super intelligence ("SI") into their business, for such tasks as research support, client communications, advisory and portfolio management functions and compliance monitoring and surveillance. The Division will seek to understand how SI technologies influence outcomes and whether investment advisers continue to comply with existing, technology-neutral obligations. Furthermore, the Division is working to incorporate SI technologies into examinations and risk assessments. The use of SI technologies may be utilized to strengthen analysis, improve workflow efficiency, or detect patterns and risks across complex datasets, while supplementing, but not replacing Division staff judgment.

Focus Areas For 2027

Fiduciary Standards of Conduct

As with previous Examination Priorities, the Division highlights a focus on whether investment advisers adhere to fiduciary duties, particularly with respect to retail and older investors, and those saving for retirement. Examinations will review whether investment advisers have:

- Provided full and fair disclosure of all material facts relating to advisory relationships;

- Conducted reasonable due diligence into products or services recommended to clients;

- Adopted and evaluated the effectiveness of compliance policies and procedures; and

- Assessed the reasonableness of their valuation processes and methodologies.

By reference to the June 9, 2026 Risk Alert: Examinations Observations of Investment Adviser Obligations Related to Economic Conflicts of Interest, the Division notes the priority to review investment advisers' obligations relating to economic conflicts of interest. Reviews will assess whether financial conflicts of interest may affect the impartiality of investment advice.

In addition, the Division will emphasize the review of investment advisers' fiduciary obligations related to the formulation of investment advice. Reviews will consider the range of factors investment advisers consider as part of their process for providing investment advice and whether investments or investment

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strategies are consistent with client suitability profiles. The Division provides the following examples of factors that will be assessed:

- Liquidity;
- Risk profile and potential rewards;
- Volatility;
- Projected performance across diverse market and economic conditions;
- Time horizons; and
- Costs, including exit costs.

The Division will also prioritize investment advisers that recommend products that are difficult to trade or are illiquid. These products include:

- Loans provided by private funds or business development companies;
- Investments in private companies through special purpose vehicles;
- Exchange traded funds ("ETFs") based on less liquid assets, options-based funds, inverse ETFs, single-stock ETFs; and
- Zero-days-to-expiration options.

In regard to investment advisers to private funds, the Division will review the accuracy of fee and expense calculations at both the fund and investment levels. In addition, the Division will assess investment-related disclosures of risks and whether compliance policies, procedures, and controls are designed to address both fund-level and investment-level risk. The Division provides the following examples of disclosures subject to review:

- Use of debt and fund-level lines of credit;
- Investments and allocations; and
- Use of affiliated service providers.

The Division also highlights the review of investment advisers that use third-party service providers to access clients' accounts, where existing controls may be insufficient to protect client assets and data. Also, the Division will examine investment advisers that rely on proxy advisory firms, assessing how those

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investment advisers evaluate recommendations, examine their bases, identify potential conflicts of interest, and determine whether the reliance satisfies legal obligations.

Compliance Programs

The Division will review key components of investment advisers' compliance program addressing its business and operations, including such areas as:

- Marketing;
- Valuation;
- Trading;
- Portfolio management;
- Disclosure and filings;
- Custody; and
- Annual compliance review.

Furthermore, the Division will continue to review investment advisers' policies and procedures to address conflicts of interest. Reviews will focus on whether investment advisers' policies and procedures are implemented and whether disclosures address fee-related conflicts of interest, particularly those arising from account and product compensation structures.

The Division notes that it will focus on compliance practices when advisers have undergone certain changes, such as business model, client focus and utilized asset classes changes. Also, the Division will prioritize the review of investment advisers that have grown through mergers and acquisitions or are operating from geographically dispersed branch offices. Reviews will assess whether such investment advisers have appropriately adapted their compliance policies and procedures.

In regard to investment advisers with activist practices, the Division will ensure that timely and accurate filings of Schedules 13D and 13G, Form 13F, Form 13H, Forms, 3, 4,5 and Form N-PX, as applicable, have been completed.

Never-Examined Advisers and Recently Registered Advisers

The Division notes its continued prioritization of examinations of investment advisers that have never been examined, with an emphasis on recently registered investment advisers.

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Risk Areas Impacting Investment Advisers, Broker-Dealers and Other Market Participants

The Division notes its continued prioritization of examinations of investment advisers that have never been examined, with an emphasis on recently registered investment advisers.

Cybersecurity

- The Division will continue to prioritize examinations focused on cybersecurity practices. The Division will review firms' policies and procedures regarding:
- Governance practices;
- Data loss prevention;
- Access controls;
- Account management;
- The use of third-party services providers and shared technologies; and
- The response and recovery protocols for cyber-related incidents.

Emerging Financial Technology

The Division will focus examinations on compliance with relevant rules relating to firms' assessment and preparation for potential threats from SI-related cyberattacks, such as SI-generated phishing messages and synthetic or deepfake voice and video used for social engineering. Also, the Division will engage in reviews of policies and procedures relating to monitoring SI, including its use in fraud prevention and detection, back-office operations, compliance and trading.

Firms utilizing automated investment tools and trading algorithms will be subject to review by the Division. Such reviews will generally include whether:

- Representations are fair and accurate;
- Operations and controls are consistent with disclosures made to investors; and
- Algorithms lead to advice or recommendations consistent with investors' suitability profile or stated strategies.

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Regulation S-ID and Regulation S-P

The Division will focus on whether firms have developed and implemented reasonably designed policies and procedures required by Regulation S-P. Policies and procedures should address administrative, technical, and physical safeguards to protect customer information. In addition, the Division will review response program policies and procedures for unauthorized access to customer information, including customer notification procedures and oversight of service providers.

The Division will also review policies and procedures under Regulation S-ID with a focus on firms' identification and detection of, and response to, red flags to prevent or mitigate against customer identity theft. Also, the Division will assess whether firms are updating their Reg S-ID programs to address emerging risks, such as those related to SI and stolen credentials.

Following is the link to the Fiscal Year 2027 Examination Priorities: https://www.sec.gov/files/2027-exam-priorities.pdf

Questions? Contact the DCS Team

Dinsmore Compliance Services (DCS), an affiliate of Dinsmore & Shohl LLP, offers compliance solutions for investment managers and municipal advisers. DCS will help you develop and maintain high-quality compliance programs customized to your particular business demands and operational realities. We offer these services, all as an affiliate of a coast-to-coast, full-service law fim.

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