OPTIMA

Regulatory Alert

Key Risks for Registered Investment Advisers in the SEC's 2027 Examination Priorities

On October 23, 2026, the SEC Division of Examinations (the "Division") published its Fiscal Year 2027 Examination Priorities (the "2027 Exam Priorities"). Some themes are familiar: fiduciary duty; conflicts of interest; compliance programs; and the protection of retail, older and retirement investors. New themes for 2027 are described herein.

WHAT IS NEW THIS YEAR

Private credit moves to center stage. Last year, private credit was mainly an example of an alternative product. This year it is a named focus area and valuation methods, pricing-vendor oversight and liquidity disclosures are likely targets.

Conflicts are described more concretely. The 2027 Exam Priorities identify specific economic conflicts, and private fund fee and expense calculations at both the fund and investment level are back on the list after being omitted last year.

"Super intelligence" replaces "AI." The 2027 Exam Priorities use super intelligence ("SI") to refer to AI and related tools. The term is new, but the standard is not: examiners will apply existing, technology-neutral rules to how firms use SI and guard against SI-enabled fraud.

The SEC is using SI in its own exams. The Division is deploying SI-supported tools for risk assessment and document review, and a model to help choose which firms to examine. Tools that can compare Form ADV, offering documents, policies and actual practice side by side may surface inconsistencies that previously went unnoticed.

What dropped off. The following areas were noticeably absent:

- Cryptocurrency is no longer a standalone priority;
- Investment advisers are no longer named in the Anti-Money Laundering discussion; and
- The Marketing Rule (approaching four years after its effective date) is not specifically mentioned but remains part of routine compliance program reviews.

Omission from the list does not change any compliance obligations.

The table below summarizes the areas of greatest exam exposure for advisers.

Economic conflicts of interest	Fee rebates, fee and expense calculations, cash management, revenue sharing and quid pro quo arrangements
Complex and illiquid products	Private credit, SPVs, leveraged assets, inverse and single-stock ETFs, option-based funds, and fit with each client's liquidity needs, horizon and costs
Private fund fees and disclosures	Allocations, fund-level credit lines, affiliated service providers, and fee and expense calculations at the fund and investment level
Valuation of illiquid holdings	Valuation processes for private credit and other hard-to-value assets, and the conflicts when fees depend on those values
SI use and SI-enabled threats	Accuracy of claims about SI tools, supervision of SI used in compliance and trading, and SI-generated phishing and deepfakes
Regulation S-P and S-ID	Incident response and customer notification under amended Reg S-P; red flags for account takeovers and stolen credentials
Third-party service providers	Third-party access to client accounts, affiliated service providers, and vendor cybersecurity risk
Proxy advisory firms	How advisers evaluate proxy firm recommendations and conflicts, and whether reliance meets their voting obligations

HIGHEST RISK AREAS FOR ADVISERS

Economic Conflicts of Interest

This is the area most likely to produce deficiency letters and Division of Enforcement referrals. This is related to the Division's June 9, 2026 Risk Alert, "Examinations Observations of Investment Adviser Obligations Related to Economic Conflicts of Interest," that provided information regarding inappropriate and undisclosed economic conflicts of interest observed by the Division in examinations. Examiners will assess whether an adviser's financial incentives could compromise the impartiality of its advice, evaluating fee rebates, fee and expense calculations, revenue sharing, cash management, quid pro quo arrangements, and deposits and withdrawals.

Expect examiners to compare actual practice against Form ADV disclosure, the advisory agreement and the adviser's policies and procedures. Disclosure alone may not be enough. Advisers should also have controls to supervise higher-risk areas. For example, even where expenses charged to clients are disclosed, examiners may ask whether policies exist to confirm those expenses are reasonable. Dual registrants should expect added scrutiny of brokerage-versus-advisory account selection and wrap fee recommendations.

Complex, Illiquid or Higher-Risk Products

The Division will prioritize advisers that recommend products that are hard to trade, have unusual features or are illiquid. Examples include: private credit exposure through private funds or BDCs; private company investments through SPVs; ETFs based on less liquid assets; option-based, inverse and single-stock ETFs; and zero-days-to-expiration options.

Examiners will review how the advice was formed and whether each investment fits the client's profile, objectives and risk tolerance, considering liquidity, volatility, performance across market conditions, time horizon and total cost, including exit costs. Recommendations to retail, older and retirement investors will draw the closest attention.

Private Fund Advisers

Examiners will assess whether risk disclosures meet fiduciary standards and whether controls cover both fund-level and investment-level risks, including allocations, fund-level debt and credit lines, affiliated service providers, and fee and expense calculations at both levels. Fee and expense errors remain one of the most common sources of exam findings and investor reimbursements.

Valuation of Illiquid Holdings

For private fund advisers, valuation feeds directly into fees, so a valuation error is often also a fee and expense error. The risk is highest where a firm values hard-to-price assets itself and earns fees based on those values. Examiners will look for documented methodologies, independent pricing sources or challenge, consistent application, and disclosure of the conflict that arises when an adviser marks its own book. Advisers to registered funds holding private credit should expect related questions on valuation and redemptions.

Super Intelligence: Use, Oversight and Threats

Examiners will look at both sides of SI. As a threat, examiners will ask whether firms are prepared for SI-generated phishing and deepfake voice or video. As a tool, they will ask how firms monitor SI used in operations, compliance and trading. Firms offering automated advice should expect questions on whether their claims about the technology are accurate, whether operations match disclosures, and whether outputs fit client profiles. Robo and digital advisers will also be prioritized. Any adviser marketing SI capabilities without documented testing risks a misleading-statements finding.

Regulation S-P and Regulation S-ID

This is the first full exam cycle under amended Regulation S-P. Examiners will test incident response programs, customer notification procedures, data disposal policies and service-provider oversight. Under Regulation S-ID, the focus is red flags for account takeovers and fraudulent transfers, and whether identity theft programs address SI and stolen credentials.

Third-Party Service Providers

Advisers that allow third parties to access client accounts will face review of whether controls protect client assets and data. Cybersecurity exams will also assess governance, access controls, incident response and recovery (including for ransomware), and how firms manage risk from vendors and shared technology.

Proxy Advisory Firms

Advisers relying on proxy advisory firms must show how they evaluate the firms' recommendations and process, and how they identify the proxy firm's conflicts. Examiners will ask whether that reliance meets the adviser's obligations when voting on clients' behalf.

OTHER ITEMS TO NOTE

- **Firms in transition.** Advisers that changed business models, added client types, asset classes or services, grew through M&A, or operate dispersed branch offices, will be checked for whether compliance kept pace.
- **Never-examined and newly registered advisers** remain a priority, with first exams covering core compliance and how conflicts are identified and disclosed.
- **Activist and ownership filings.** Advisers that engage with issuers should confirm Schedules 13D and 13G and related Forms 13F, 13H and N-PX are timely and accurate.
- **Regulator coordination.** An enhanced agreement with the CFTC allows joint or aligned exams, so dually registered firms should keep filings and exam responses consistent across agencies.

REGISTERED INVESTMENT COMPANIES

For advisers to mutual funds, ETFs and BDCs, exams will center on fund fees and expenses, including waivers and reimbursements, and on whether portfolio management matches the strategy described in the prospectus, filings and marketing materials. Examiners will also watch funds holding private credit or other illiquid assets (with attention to valuation, redemptions and conflicts), funds with leverage risk such as BDCs and leveraged or inverse ETFs, funds relying on exemptive orders, and never-examined funds.

WHAT ADVISERS SHOULD DO NOW

The most efficient preparation is a focused review of conflicts and complex investments, the two areas most likely to generate findings.

- Map the FY2027 priorities to your annual review and testing calendar, and confirm the compliance program reflects any recent growth, acquisitions or new services.
- Test economic conflicts, cash management, and fee and expense calculations, including private fund calculations at the fund and investment level.

- Identify clients holding: private credit, SPVs, alternative and leveraged assets, inverse, single-stock or option-based ETFs, and document why each fits their liquidity needs, horizon and costs.
- Review valuation procedures for illiquid and hard-to-value holdings, including pricing-vendor oversight.
- Check that Form ADV, offering documents, marketing, compliance policies and procedures and day-to-day practice are consistent.
- Catalog SI tools in use, confirm marketing claims match actual capabilities, document testing and supervision, and add SI-enabled phishing and deepfake scenarios to incident response plans and training, especially for client requests to move money.
- Test amended Regulation S-P procedures, update Regulation S-ID Red Flags Programs for account takeover and stolen-credential red flags, and refresh due diligence on vendors, affiliated service providers and third parties with client account access.
- Document oversight of any proxy advisory firm and revisit Schedule 13G eligibility if you engage with issuers.

Dually registered firms should also review Reg BI documentation for rollover and account-type recommendations, confirm supervisory designations for new products, and refresh the AML risk assessment.

HOW WE CAN HELP

We can assist your firm with an appropriate engagement that may include the following: compliance program gap analysis; mock examination; or targeted testing to ensure your readiness in addressing relevant 2027 Exam Priorities.

Please contact us at Info@optima-partners.com for more information.

This alert is for general informational purposes only and is not legal advice. The Division's priorities reflect staff views and have no legal force or effect.

SOURCE: SEC Division of Examinations, Examination Priorities: Fiscal Year 2027.