



# 1Q 2025 Regulatory Update: Broker-Dealers

SEC Division of Trading & Markets

**forv/s**  
**mazars**

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# Overview

This paper provides an overview of recent activity by the SEC's Division of Trading and Markets, reminders on newly effective and soon-to-be-effective rules, and recent enforcement actions. The article includes links to resources from Forvis Mazars for a deeper dive into implementing or planning for new guidance. This is current through events of March 20, 2025.

SEC chair nominee Paul Atkins' approval hearings are tentatively scheduled for March 27, 2025. His previous time at the SEC—first as a staffer in the 1990s and then as a commissioner from 2002 to 2008—offers several insights into his approach to regulation and enforcement. In a [speech](#) to the American Institute of CPAs (AICPA), Atkins stated:

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*“Even if a sanction is “light,” the mere existence of an enforcement action is significant. We must acknowledge the heavy personal toll an enforcement investigation takes on the subjects of the action.”*

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Both current Republican-appointed Commissioners Mark Uyeda (acting chair) and Hester Peirce have worked with Atkins during his previous SEC stints, which could make for quick regulatory change once confirmed. The semiannual publication of the SEC's regulatory agenda in 2Q 2025 is likely to see substantial updates for the Division of Trading and Markets.

Even before Atkins' confirmation, Uyeda is exercising his powers as acting chair to make some significant changes:

- On January 29, 2025, the SEC extended the compliance date for Form PF changes for funds.
- On February 11, 2025, Uyeda issued a [statement](#) that he halted SEC lawyers from defending existing legal challenges on the climate disclosure rule in the Eighth Circuit court.
- On February 25, 2025, the SEC withdrew its appeal on a U.S. district court's ruling to vacate the dealer definition rule in its entirety because the SEC exceeded its statutory authority.<sup>1</sup> The rule would have been effective in April 2025.
- On February 25, 2025, the SEC [extended](#) the compliance dates for changes for U.S. Treasury clearing.

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*“Direct participants will also have more time to implement important risk management changes to comply with U.S. Treasury covered clearing agency rules. The Commission stands ready to engage with market participants on issues associated with implementation.” – Mark Uyeda, acting chair*

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- On February 27, 2025, the SEC [dropped charges](#) against Coinbase that it was allegedly operating an unregistered exchange and sold unregistered securities.

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*“... the regulation-by-enforcement strategy ill-served the Commission's staff. The Commission—unwisely in my view—chose not to use its policy tools but instead relied on a series of enforcement actions to write crypto policy.” – Commissioner Hester Peirce*

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<sup>1</sup>“US regulator withdraws appeal of rule on Treasury markets,” [reuters.com](#), February 20, 2025.

- On March 3, 2025, the Division of Corporation Finance [enhanced](#) the accommodations available for nonpublic review of draft registration statements to include additional registration statements. These accommodations were initially part of the *Jumpstart Our Business Startups Act* for emerging growth companies.

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*“Over the years, staff have observed companies seeking to raise capital are taking advantage of the nonpublic review process when available. Expanding these popular accommodations will provide new and existing companies greater flexibility to explore and plan public offerings. These enhanced accommodations will further support capital formation while retaining investor protections available to purchasers in public offerings.” – Cicely LaMothe, acting director of the SEC’s Division of Corporation Finance*

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- On March 10, 2025, the SEC issued a [final rule](#) repealing the August 2009 delegation of authority to issue format orders of investigation (subpoenas) from the director of the SEC’s Division of Enforcement “to more closely align the Commission’s use of its investigative resources with Commission priorities.”
- On March 14, 2025, the SEC issued a [final rule](#) extending the compliance date for the Funds Name rule by six months in response to an industry request for additional time to address implementation challenges.

## Regulation ATS

Uyeda highlighted areas where the SEC could work with other financial regulators to improve the efficiency of the U.S. Treasury market under Regulation ATS (alternative trading system). When Regulation ATS was adopted in 1998, ATSs were excluded from SEC registration if their activities were limited to government securities and were registered as a broker-dealer or a bank. Principal trading firms entered the interdealer Treasury markets and provided short-term liquidity but rarely carried inventory overnight. As a result of changes to the Treasury market, narrow reforms were proposed in 2020 at the end of SEC Chair Jay Clayton’s term. A second proposal was issued in 2022 under SEC Chair Gary Gensler that went much further and would have updated the “exchange” definition.

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*“In my view, it was a mistake for the SEC to link together regulation of Treasury markets with a heavy-handed attempt to tamp down the crypto market. Market participants have not benefited from the additional disclosures and the protections of the Fair Access Rules and regulation SCI as called for in Chairman Clayton’s proposal. In light of the significant negative public comment received on the definition of exchange with respect to crypto, I have asked the SEC staff for options on abandoning that part of the proposal” – Mark Uyeda, SEC acting chair*

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## Rulemaking Process

In a recent [speech](#), Uyeda has highlighted a new blueprint for SEC rulemaking:

- Restoring historical comment periods to at least 60 days or even 90 days for complex rule changes.
- Where appropriate, consider reproposing rule changes when significant changes to a proposal are contemplated or reopening the comment period for changes in market conditions or where significant time has passed since the original proposal.
- Develop a more robust feedback process, including roundtables, requests for information, concept releases, and advice notices of proposed rulemaking.
- Improve assessment of a rule’s economic impacts, especially for small entities.
- Updating the small entity definition.

SEC rulemaking will be subject to a new process. On February 18, 2025, President Donald Trump signed an executive order, “[Ensuring Accountability for All Agencies](#),” requiring independent agencies—including the SEC—to submit draft



regulation to the president's Office of Information and Regulatory Affairs for review before **Federal Register** publication. Independent regulatory agencies must consult with the White House on their priorities and strategic plans, and the White House will set their performance standards. According to the order:

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*"No employee of the executive branch acting in their official capacity may advance an interpretation of the law as the position of the United States that contravenes the President or the Attorney General's opinion on a matter of law, including but not limited to the issuance of regulations, guidance, and positions advanced in litigation, unless authorized to do so by the President or in writing by the Attorney General."*

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## Federal Staffing

The impact on SEC staffing levels and morale is still unclear from the announced [hiring freeze](#), return to work [executive order](#), Office of Personnel Management's (OPM) Deferred Resignation Program (DRP) and [plans](#) to shrink the current civilian workforce.

On February 12, 2025, a judge lifted the pause on the DRP, noting that the unions that filed suit did not have standing to sue under the *Administrative Procedure Act* and that the U.S. district court lacked jurisdiction (union suits should first go through the Federal Services Labor-Management Relations Statute).<sup>2</sup> The ruling did not opine on the buyout's legality or prevent future legal challenges. Several media sources noted that roughly 75,000 employees had accepted the deal before OPM closed the program at 7 p.m. on February 12, 2025.<sup>3</sup> Despite this court ruling, there is still great uncertainty related to government agency staffing.

As legal challenges continue, the directors from the Office of Management and Budget and the OPM announced more details operationalizing the workforce optimization executive order. Agencies have until March 13, 2025 to develop reorganization plans, including cost efficiencies, reduction in force plans, and a list of essential positions. Phase two deliverables due by April 1, 2025 include new organization charts and plans to move offices out of Washington, D.C.

In response to Trump's executive order, "[Return to In-Person Work](#)," the SEC has notified union staffers to return to office beginning April 1, 2025.<sup>4</sup> The union representing SEC employees will challenge the mandate as it violates a 2023 collective bargaining agreement that allows for remote work but has advised its members to plan to comply with the order while litigation is underway. Forbes has reported that certain SEC staff have been offered \$50,000 to resign or retire in 30 days.<sup>5</sup>

## I. Enforcement Actions

### Failure to Supervise

On January 13, 2025, the SEC [charged](#) a registered broker-dealer with failing to supervise employees who sold \$3 billion of agency collateralized mortgage obligation bonds using materials that were misleading and did not accurately describe the collateral backing the bonds. The broker-dealer agreed to \$40 million in disgorgement, prejudgment interest, and civil penalties.

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<sup>2</sup><https://storage.courtlistener.com/recap/gov.uscourts.mad.280398/gov.uscourts.mad.280398.66.0.pdf>.

<sup>3</sup>NBC News: White House says about 75K federal workers accepted 'deferred resignation' offer," yahoo.com, February 12, 2025.

<sup>4</sup>"SEC calls staff back to office in April," politicopro.com, February 26, 2025.

<sup>5</sup>"Would You Resign In One Month for \$50,000? The SEC Wants to Know," forbes.com, March 6, 2025.

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*“It is critical that firms have supervisory processes that are customized to their business units.” – Sanjay Wadhwa, acting director of the SEC’s Division of Enforcement*

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## Record-Keeping

On January 13, 2025, the SEC [charged](#) nine investment managers and three broker-dealers for failing to maintain and preserve electronic communications. The firms will pay \$63 million in penalties and implement improvements to compliance policies and procedures. Personnel sent and received off-channel communications that were records required to be maintained under the securities laws. The failures involved personnel at multiple levels of authority, including supervisors and senior managers.

## Cybersecurity

Two broker-dealers were [charged](#) with a variety of violations, including cybersecurity, record-keeping, and off-channel communications. The firms failed to adequately address known risks posed by a cybersecurity vulnerability related to remote system access. As a result, a third party obtained unauthorized access and downloaded information related to millions of individuals. Penalties for all the violations—not just the cyber breach—totaled \$45 million.

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*“As AI becomes more popular in the investing space, we will continue to be vigilant and pursue those who lie about their firms’ technological capabilities and engage in ‘AI washing’.”*  
– Andrew Dean, former co-chief of the SEC’s Asset Management Unit

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## II. Financial Stability Report Updates

On a semiannual basis, the Federal Reserve publishes an assessment of the stability of the U.S. financial system. The [November 2024](#) report carries forward the same four concerns from the previous report:

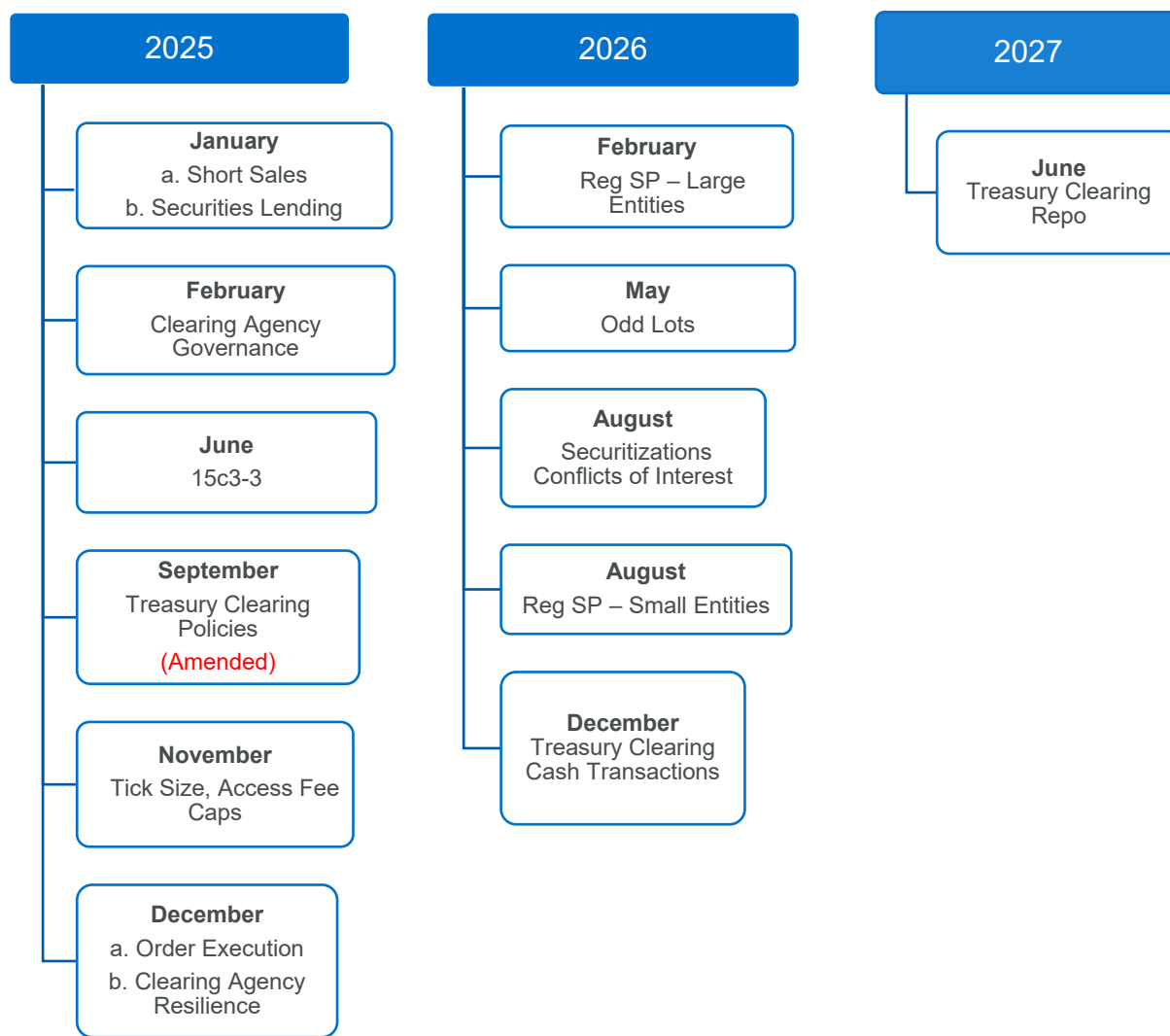
- Valuation pressures.
  - Pressures elevated in equity, corporate debt, and residential real estate.
- Excessive borrowing by businesses and households.
- Excessive leverage within the financial system.
  - Broker-dealer leverage continued to be low.
- Funding risks.

Other potential near-term risks to the financial system include:

- A worsening of global geopolitical tensions.
- A marked slowdown in economic growth, domestically or abroad.
- Shocks caused by cyber events.

Dealers’ profits were up year over year and slightly above pre-pandemic levels and continue to be evenly distributed between equity, fixed income, rates, and credit. Dealers’ intermediation activity increased to record highs, driven mainly by higher Treasury positions and secured financing amid rising volumes of outstanding Treasury securities and elevated Treasury issuance. Nonetheless, during periods of market stress, broker-dealers may not be able to meet increased intermediation demand, as their capacity to intermediate may become reduced due to internal risk limits, a factor that has been a structural vulnerability for the Treasury market.

### III. Final Rules – Newly Effective & on the Horizon



#### A. 2025 Compliance Dates

##### 1. Short Sales

On October 13, 2023, the SEC issued new [Rule 13f-2](#) and updated the consolidated audit trail (CAT) to increase market transparency on short activity on equity securities. Institutional investment managers must report certain short sale-related data to the SEC monthly, 14 days after month-end. At the end of the following month, the SEC would publicly report aggregate data about large short positions, including daily short sale activity for each individual security.

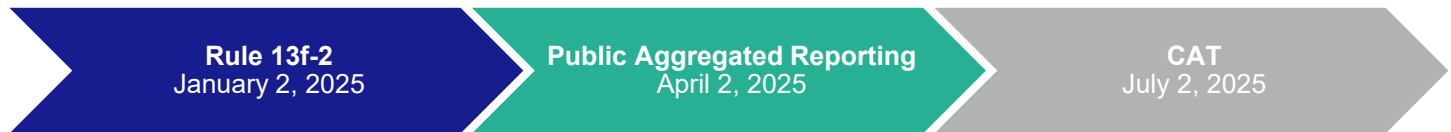
**Resource:** [SEC Finalizes New Short Sale Disclosures](#)



## 2. Securities Loans Reporting

On October 13, 2023, the SEC approved new [Rule 10c-1a](#) to increase transparency in the securities lending market by mandating disclosures for security lenders. This rule not only covers investment companies but also banks, insurers, and pension plans. Only 12 pieces of data are required, but the implementation effort is substantial.

**Resource:** [SEC New Disclosures on Securities Lending](#)



## 3. Clearing Agency Governance & Conflicts of Interest

On November 16, 2023, the SEC adopted [rules](#) to establish new governance requirements for all registered clearing agencies, including these requirements:

- For independent directors and for the composition of a registered clearing agency's board of directors, nominating committee, and risk management committee.
- To identify, mitigate, or eliminate conflicts of interest involving directors or senior managers and to document such actions.
- For policies and procedures that obligate directors to report conflicts of interest.
- For policies and procedures for the management of risks from relationships with service providers for core services.
- For policies and procedures for the board to solicit, consider, and document the views of participants and other relevant stakeholders.



## 4. Treasury Clearing & Broker-Dealer Customer Protection Rule

On December 13, 2023, the SEC issued a [final rule](#) expanding the use of central clearing for U.S. Treasury securities for secondary market transactions, including:

- All repurchase and reverse repurchase agreements collateralized by U.S. Treasury securities to which a direct participant is a counterparty.
- All purchase and sale transactions of U.S. Treasury for direct participants who are acting as interdealer brokers.
- All purchases and sales of U.S. Treasury securities between a direct participant and a registered broker-dealer, government securities dealer, or government securities broker; a hedge fund; and a levered account.

To address a jump in margin requirements resulting from increased central clearing, the amendments update the broker-dealer customer protection rules to permit margin required and on deposit at a covered clearing agency (CCA) to be included as a debit item in the customer reserve formula, subject to certain conditions.



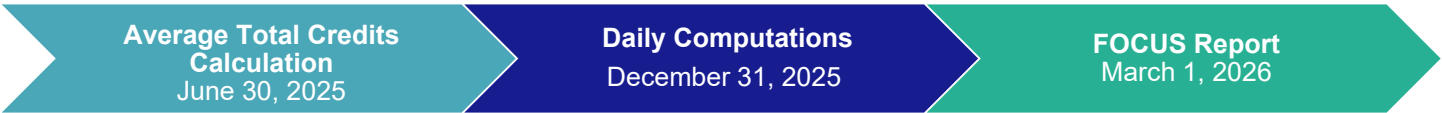
## 5. Customer & Broker-Dealer Reserve Requirements (15c3-3)

On December 20, 2024, the SEC approved a final rule that requires daily 15c3-3 calculations and lockup for carrying broker-dealers with customer and proprietary accounts of broker-dealers (PAB) credits of more than \$500 million. Broker-



dealers that perform a daily reserve computation would be permitted to reduce customer-related receivables by 2% rather than 3%.

**Resource:** [SEC Requires Daily 15c3-3 Calculations](#)



6. Tick Sizes, Access Fees, & Odd-Lots

On September 18, 2024, the SEC adopted amendments to:

- Establish a second minimum pricing increment, also known as tick size, of \$0.005 under Rule 612 of Regulation NMS for the quoting of certain National Market System (NMS) stocks, which are stocks listed on a national securities exchange (NSE), regardless of trading venue.
- Reduce the access fee caps under Rule 610 of Regulation NMS and require NSEs to make the amounts of all fees and rebates determinable at the time of execution.
- Accelerate the implementation of the round lot and odd-lot information definitions adopted in 2020 under the Market Data Infrastructure Rules and add information about the best odd-lot order to the definition of odd-lot information.



7. Order Execution Disclosures

On March 6, 2024, the SEC issued a [final rule](#) updating order execution rules as follows:

- Expand the scope of entities subject to Rule 605 by requiring broker-dealers that introduce or carry 100,000 or more customer accounts, single-dealer platforms, and entities that would operate qualified auctions to make available to the public monthly execution quality reports.
- Amend the definition of “covered order” to include certain orders submitted outside of regular trading hours, orders submitted with stop prices, and nonexempt short sale orders.
- Recategorize required information, including changing the order type categories and order size categories to include fractional share orders, odd-lot orders, and larger-sized orders.
- Eliminate time-to-execution categories in favor of average time to execution, median time to execution, and 99th percentile time-to-execution statistics, each as measured in increments of a millisecond or finer.
- Amend the information required to be reported under the rule, including changing the realized spread statistics to 15-second and one-minute realized spread and requiring new statistical measures of execution quality that could be used to evaluate price improvement and size improvement for all order types, additional price improvement statistics for market and marketable order types, and certain statistical measures that could be used to measure execution quality of nonmarketable limit orders.
- Make a summary report available.



## 8. Covered Clearing Agency (CCA) Resilience

On October 25, 2025, the SEC issued a [final rule](#) to improve CCA risk management and resilience. These new requirements for CCAs include:

- Policies and procedures to establish risk-based margin systems for CCAs that provide central counterparty services, including the authority to make intraday margin calls as frequently as circumstances warrant (including when risk thresholds specified by the CCA are breached or when the products cleared or markets served display elevated volatility), and documents when the CCA determines not to make an intraday call pursuant to its written policies and procedures.
- Recovery and orderly wind-down plans with content requirements, including elements related to planning, timing, implementation, testing, and board approval.

**CCA to File Proposed Rule Changes**  
April 17, 2025

**Compliance Date**  
December 15, 2025

## B. 2026 Compliance Dates

### 1. Regulation S-P, Privacy of Consumer Information

On May 16, 2024, the SEC issued a [final rule](#) updating Regulation S-P. The rule covers broker-dealers (including funding portals), investment companies, registered investment advisers, and transfer agents. Changes include:

- Covered institutions must develop, implement, and maintain written policies and procedures for an incident response program to address unauthorized access to or use of customer information. The incident response program should be reasonably designed to detect, respond to, and recover from unauthorized access to or use of customer information.
- Covered institutions must have written policies and procedures to provide timely notification as soon as practicable (no later than 30 days after an incident) to affected individuals whose sensitive customer information was or is reasonably likely to have been accessed or used without authorization.
- Broadening the scope of information covered by Regulation S-P requirements.

**Resource:** [SEC Issues New Regulation S-P Rules](#)

**Large Entities**  
February 2, 2026

**Small Entities**  
August 2, 2026

### 2. Conflicts of Interest – Securitization

On November 27, 2023, the SEC issued a [final rule](#) completing a Dodd-Frank Act mandate to prohibit conflicts of interest in securitizations. The rule covers an asset-backed security (ABS) and hybrid cash and synthetic ABS and applies to any underwriter, placement agent, initial purchaser, or ABS sponsor. The rule prohibits a securitization participant from entering a conflicted transaction for a period ending one year after the date of the first closing of the ABS' sale. A conflicted transaction means any of the following transactions if there is a substantial likelihood that a reasonable investor would consider the transaction important to the investor's investment decision, including a decision whether to retain the asset-backed security:

- A short sale of the ABS.
- The purchase of a credit default swap or other credit derivative that entitles the securitization participant to receive payments upon the occurrence of specified credit events with respect to the ABS.

- The purchase or sale of any financial instrument (other than the relevant ABS) or entry into a transaction that is substantially the economic equivalent of a transaction described in the first two bullet points above, other than—for the avoidance of doubt—any transaction that only hedges general interest rate or currency exchange risk.

**Effective Date**  
February 5, 2024

**Compliance Date**  
August 5, 2026

## IV. Outstanding Proposals

### A. 2023 Proposals

#### 1. Cybersecurity Risk Management – Broker-Dealers & Other Market Participants

On March 15, 2023, the SEC issued a [proposal](#) that addresses cybersecurity risk management policies and procedures for broker-dealers, the Municipal Securities Rulemaking Board, clearing agencies, major security-based swap (SBS) participants, national securities associations, NSEs, SBS data repositories, SBS dealers, and transfer agents (collectively, “market entities”). Under new Rule 10, all market entities must establish, maintain, and enforce written policies and procedures that are reasonably designed to address their cybersecurity risks. At least annually, market entities also would be required to review and assess the design and effectiveness of their cybersecurity policies and procedures, including whether they reflect changes in cybersecurity risk over the review period. Covered entities also would need to give the SEC immediate written electronic notice of a significant cybersecurity incident upon having a reasonable basis to conclude that the significant cybersecurity incident had occurred or is occurring. New Form SCIR would require information about the entity’s efforts to respond to—and recover from—the cyber incident and would be filed with the SEC and posted on the entity’s website. Covered broker-dealers, subject to additional requirements, would include carrying and introducing broker-dealers, broker-dealers with regulatory capital equal to or exceeding \$50 million, broker-dealers with total assets equal to or exceeding \$1 billion, broker-dealers that operate as market makers, and broker-dealers that operate an ATS.

The SEC received 245 letters mostly supporting the proposal. Some respondents felt the scope was too broad and costly, while others suggested the scope could be expanded.

#### 2. Regulation System Compliance & Integrity (SCI)

Regulation SCI was adopted in 2014 to strengthen the technology infrastructure of the U.S. securities markets. Regulation SCI applies to certain entities and covers automated and similar systems that directly support any one of six key securities market functions—trading, clearance and settlement, order routing, market data, market regulation, or market surveillance—as well as systems that, if breached, would be reasonably likely to pose a security threat to SCI systems. These systems include those outsourced to third parties. The [proposed amendments](#) would expand the definition of SCI entities to include:

- Registered SBS data repositories.
- Broker-dealers registered with the commission under Section 15(b) that exceed a total assets threshold or a transaction activity threshold in National Market System (NMS) stocks, exchange-listed options, U.S. Treasury securities, or agency securities.
- All clearing agencies exempted from registration.

The proposal updates and strengthens Regulation SCI, including to:

- Specify that an SCI entity’s required policies and procedures include:
  - An inventory, classification, and life cycle management program for SCI systems and indirect SCI systems.

- A program to manage and oversee third-party providers, including cloud service providers, that provide or support SCI or indirect SCI systems.
  - Business continuity and disaster recovery (BC/DR).
  - A program to prevent unauthorized access to SCI systems and information therein.
  - Identification of current SCI industry standards with which each such policy and procedure is consistent, if any.
- Amend the definition of “systems intrusion” to include additional types of cyber events and threats, which is intended to capture cybersecurity events such as certain distributed denial-of-service attacks and require notification of systems intrusions to the SEC without delay.
  - Update the SCI review to specify that objective personnel assess the risks to covered systems, internal control design and operating effectiveness, and third-party provider management risks and controls, and require penetration testing at least annually.
  - Specify that SCI entities include key third-party providers in annual BC/DR testing.

The SEC received 40 letters with pushback from industry participants, most notably from large market makers and cloud providers who would be covered by the rule for the first time. While most agreed the data security is critically important to capital markets, the feedback said that the SEC’s “isolated and piecemeal approach to comprehensive rulemaking is substantively and procedurally flawed.” NYCE, CBOE, OCC, and DTCC weighed in with several suggestions for improving the SCI regulations.

### 3. Large Securities-Based Swaps Reporting

SBSs include credit default swaps and total return swaps on equity securities. On December 15, 2021, the SEC proposed new rules requiring that large SBS positions be reported to the SEC and restricting SBS dealer personnel from unduly influencing chief compliance officers in the performance of their duties. The SEC also repropose regulations—first proposed in 2010 following the 2007 mortgage crisis—prohibiting fraudulent, deceptive, and manipulative conduct in connection with SBSs.

On June 7, 2023, the SEC issued a [final rule](#) on the fraud and manipulation portions of the proposal and on June 20, 2023, the SEC reopened the comment period and released supplemental economic data for the portion of the proposal that related to the reporting of large SBS positions.

The first proposal received more than 500 comment letters with very little support. Most felt existing rules were working as intended and there has not been a full review of the impacts of the recently effective Regulation SBSR. Many felt that the reporting costs, impact on liquidity, and inadequate safe harbors more than outweighed the perceived benefits. Even those who generally supported closing existing reporting loopholes called for raised thresholds and more than one day for required reporting. More than 1,300 comment letters were received for the reissued proposal. Feedback was mixed. Individual investors supported the changes while market participants and trade associations challenged the cost and cited operational hurdles, especially for smaller firms. Most cited the low threshold for reporting large swap-based positions.

### 4. Conflicts of Interest on Predictive Data Analytics Use by Broker-Dealers & Investment Advisers

On July 26, 2023, the SEC issued a [proposal](#) that would require:

- A firm to eliminate or neutralize the effect of conflicts of interest related to the firm’s use of covered technologies in investor interactions that place the firm’s or its associated person’s interests ahead of investors’ interests.

- Investment advisers and broker-dealers using covered technology must have written policies and procedures reasonably designed to comply with the proposal.
- Record-keeping related to the proposed conflict rules.

“Covered technology” includes a firm’s use of analytical, technological, or computational functions, algorithms, models, correlation matrices, or similar methods or processes that optimize for, predict, guide, forecast, or direct investment-related behaviors of an investor. This would generally apply to the use of a covered technology in a firm’s engagement or communication with an investor, including by exercising discretion with respect to an investor’s account, providing information to an investor, or soliciting an investor.

One hundred thirty-six comments were received with universally negative feedback noting the changes would harm both investors and the trading markets. Many felt that some of the recent tech innovations have brought a younger and more diverse group of investors into the capital markets and on a path to long-term financial security and generational wealth. The academic community weighed in, challenging the data used to support the proposed legislation. Others suggested that new disclosure would be more appropriate and a less costly approach to address conflicts of interest. Industry participants and trade groups cited the proposal’s overly broad scope, existing regulatory protections, and the SEC’s lack of statutory authority to make these changes.

## 5. Volume-Based Exchange Transaction Pricing for NMS Stock

On October 18, 2023, the SEC [proposed Rule 6b-1](#) under the *Securities Exchange Act of 1934* to prohibit NSEs from offering volume-based transaction pricing in connection with the execution of agency-related orders in certain stocks. If exchanges offer such pricing for their members’ proprietary orders, the proposal will require the exchanges to adopt rules and written policies and procedures related to compliance with the prohibition, as well as disclose—monthly—certain information, including the total number of members that qualified for each volume tier during the month.

Seventy-eight letters were received with evenly divided opinions. Those who opposed the changes felt that the outcome would be de facto price setting and inconsistent with the proposed changes to Regulation NMS for tick size. Proponents of the proposal felt the change would improve market competition between exchanges and brokers. Individual investors generally supported the end of volume-based rebate tiers and felt that the SEC also should focus on the broader issue of payment for order flow.

## B. 2022 & Earlier Outstanding Proposals

### 1. Regulation Best Execution

Currently, the SEC does not have a best execution rule; instead, self-regulatory organizations have created their own policies. The Financial Industry Regulatory Authority’s (FINRA) best execution rule was last updated in 2014, and the Municipal Securities Rulemaking Board implemented a best execution rule for municipal securities in 2016. To close this regulatory gap, on December 15, 2022, the SEC issued a [proposal](#) creating Regulation Best Execution as follows:

- Establish a best execution standard for brokers, dealers, government securities brokers, government securities dealers, and municipal securities dealers, collectively “broker-dealers.”
- Require broker-dealers to establish, maintain, and enforce written policies and procedures reasonably designed to comply with the best execution standard.
- Require more robust policies and procedures for broker-dealers that engage in certain conflicted transactions for or with a retail customer.
- Require broker-dealers to review the execution quality of their customer transactions at least quarterly.



- Exempt broker-dealers that qualify as “introducing brokers” from certain requirements if they establish, maintain, and enforce specified policies and procedures.
- Require broker-dealers to review their best execution policies and procedures at least annually and present a report detailing the results of such reviews to their boards of directors or equivalent governing bodies.

More than 2,250 comment letters were received, including four form letters, primarily from individual investors and investor advocacy groups that supported the changes. Asset managers and pension funds with high concentrations of retail activity supported the changes. They cited increased costs due to lack of price discovery from payment-for-order-flow arrangements. Yet, firms like Citadel that pay for order flow vehemently opposed the proposed changes. Industry participants, trade groups, and NYSE and NASDAQ generally supported the need for improvement to the existing “weak” FINRA rule but pushed back on the need for a massive overhaul of the equities market (four proposals) and suggested a sequential approach to market reform with adequate time to study the impacts of each change. Several bond market participants cited potential unintended impacts on their market segment without editing changes to the proposal’s scope.

## 2. Order Competition

The December 14, 2022 [proposed rule](#) would enhance competition for the execution of marketable orders of individual investors. The rule would require certain orders of individual investors to be exposed to competition in fair and open auctions before they could be executed internally by any trading center that restricts order-by-order competition.

This proposal received more than 3,600 comment letters, including several form letters. Most market participants felt the proposal as written would not achieve the SEC’s intended goals and included significant areas for improvement. A slower approach to the overhaul of the equity market was a key theme.

## 3. ATSS – Exchange Definition (Rule 3b-16)

On January 26, 2022, the SEC reissued a [proposal](#), first issued in September 2020, to expand and modernize Rule 3b-16, which governs ATSS. ATSS are trading systems for securities that meet the exchange definition under federal securities laws but are not required to register with the SEC as an NSE if the ATS complies with certain exemption conditions. The proposal would make the following updates:

- Expand Regulation ATS for ATSS that trade government securities, NMS stock, and other securities.
- Extend Regulation SCI to ATSS that trade government securities.
- Amend the SEC exchange definition to include communication protocol systems.

On April 14, 2023, the SEC reopened the comment period. The reopening release reiterated the applicability of existing rules to platforms that trade crypto asset securities, including so-called “DeFi” systems, and provides supplemental information and economic analysis for systems that would be included in the new, proposed exchange definition. The reopening release also requested information and public comment on crypto asset securities trading on such systems and certain aspects of the proposed amendments applicable to all securities.

The initial proposal generated more than 300 responses. Most agreed with the first bullet point above. There was confusion over the application of Rule 15c2-11 to fixed income securities based on a no-action letter issued on September 24, 2021 and this ATS proposal. Much of the pushback concerned updating the “exchange” definition and a request for a definition of a communication protocol system. Blockchain and decentralized finance groups pushed back on SEC overreach in applying existing concepts to recent technology innovations. The SEC received an additional 2,000 comments on the re-exposure. Several comment letters cited the cost for smaller ATSS and a potential reduction in the number of firms.

**Resource:** [Changes for Alternative Trading Systems in 2024?](#)

## 4. NMS – Consolidated Audit Trail

Issued in August 2020, the [proposed amendments](#) would enhance the security of the CAT by making the following changes:

- Define the scope of the current information security program.
- Require the operating committee to establish and maintain a security-focused working group.
- Require the plan processor to create secure analytical workspaces; direct participants to use such workspaces to access and analyze personally identifiable information (PII) and CAT data obtained through the user-defined direct query and bulk extract tools; set forth requirements for the data extraction, security, implementation, and operational controls that will apply to such workspaces; and provide an exception process that will enable participants to use the user-defined direct query and bulk extract tools in other environments.
- Limit the amount of CAT data that can be extracted from the central repository outside of a secure analytical workspace and require the plan processor to implement more stringent monitoring controls on such data.
- Impose requirements related to the reporting of certain PII.
- Define the workflow process that should be applied to govern access to customer and account attributes that will still be reported to the central repository.
- Modify and supplement existing requirements relating to participant policies and procedures on the confidentiality of CAT data.
- Refine the existing requirement that CAT data be used only for regulatory or surveillance purposes.
- Codify existing practices and enhance the security of connectivity to the CAT infrastructure.
- Require the formal cyber incident response plan to incorporate corrective actions and breach notifications.
- Amend reporting requirements relating to firm designated IDs and allocation reports.

Respondents rejected collecting additional PII and questioned the SEC’s authority to make such changes.

## Conclusion

Forvis Mazars delivers extensive experience and skilled professionals to assist with your objectives. Our proactive approach includes candid and open communication to help address your financial reporting needs. We help broker-dealers, bank holding companies, and others across the capital markets with financial and nonfinancial regulatory reporting. From data origination through report remediation, we help solve clients’ complex regulatory reporting challenges. For more information, visit [forvismazars.us](https://forvismazars.us).

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# Financial Services

## Broker Dealers

The broker-dealer industry faces unprecedented challenges due to evolving regulations and heightened investor scrutiny. To meet these challenges, industry participants need timely guidance on controls and best practices and reliable regulatory compliance assistance. Forvis Mazars can help. As a top 10 U.S. public accounting firm, we have an experienced team of broker-dealer professionals with strong technical and client service capabilities. We serve several large and midsize clearing broker-dealers, introducing broker-dealers, investment advisers, swap dealers, and trading firms.

### Broker-Dealer Services

Forvis Mazars can provide clients insight on the latest SEC and FINRA regulatory changes and compliance requirements that affect their bottom line. Our broker-dealer experience includes:

- Clearing Broker-Dealers
- Proprietary Trading Firms
- Market Makers
- Investment Banking
- Exchanges & Clearing Organization
- Commodity Pools
- Investment Advisers
- Introducing Broker-Dealers

Our professionals understand the constantly evolving issues facing the broker-dealer industry, including SEC Customer Protection Rules related to 15c3-1 & 15c3-3, tax legislation, new accounting pronouncements, and market tactics that affect investment decisions, financial reporting, and tax planning.

### Broker-Dealer Strategies

Our industry-focused professionals work with many investment fund clients and have developed industry-tailored strategies, including:

#### Financial Statement Audits

- U.S. GAAP
- Agreed-Upon Procedures
- Custody Audits

#### Tax Planning & Compliance

- Federal & State Income Taxes
- Transfer Pricing
- International Tax Compliance & Planning
- State & Local Sales, Severance, & Property Tax
- Cost Segregation Studies

#### Consulting Services

- Business Valuations
- Internal Control Over Compliance Assessments
- Regulatory Compliance Services
- IT Assessment & Implementation

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