

SEC AND FINRA ENFORCEMENT TRENDS FOR BROKER-DEALERS

2026 Outlook

Morgan Lewis

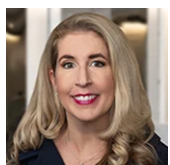
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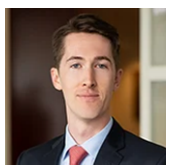
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SEC & FINRA ENFORCEMENT TRENDS FOR BROKER-DEALERS 2026 OUTLOOK

SUMMARY

In 2025, the US Securities and Exchange Commission (SEC or the Commission) and Financial Industry Regulatory Authority (FINRA) saw key changes in leadership, staff departures, and a “back to basics” focus on traditional investor fraud. This report covers key takeaways and enforcement developments in the broker-dealer space and a look ahead at what is to come with the SEC and FINRA in 2026 and beyond.

We typically begin our discussion with an analysis of the historic trends in enforcement cases and the rise or fall in the number of cases of certain types. In 2025, however, for the first time in recent history, the SEC’s Division of Enforcement did not release case numbers following the close of the fiscal year (September 30, 2025). Several commentators have analyzed the SEC’s public announcements and concluded that there was a precipitous drop in filed enforcement actions in 2025. This is consistent with our experience, as the change in administration brought the closure of a number of active investigations and a drawn-out decision-making process while SEC Chairman Paul Atkins appointed Enforcement leadership.

In addition, both the SEC and FINRA saw significant changes in their organizations and staffing. FINRA implemented a major reorganization of its core regulatory functions with implications for enforcement that we discuss below. In addition, although FINRA has not released the number of individuals who accepted the organization’s broad early retirement offer, it appears that FINRA lost important institutional knowledge in several key departments. Meanwhile, the SEC saw a meaningful number of staff depart because of buyouts and other retirements, which resulted in a nearly 20% decrease in the number of full-time employees.¹ No doubt this exodus will have a profound effect on how broker-dealers are examined and investigated. Consistent with this view, on January 16, 2026, the Commission released its 2025 Agency Financial Report,² including the inspector general’s (IG) Statement on Management and Performance Challenges. The IG identified “human capital management” as a challenge for the Commission and commented:

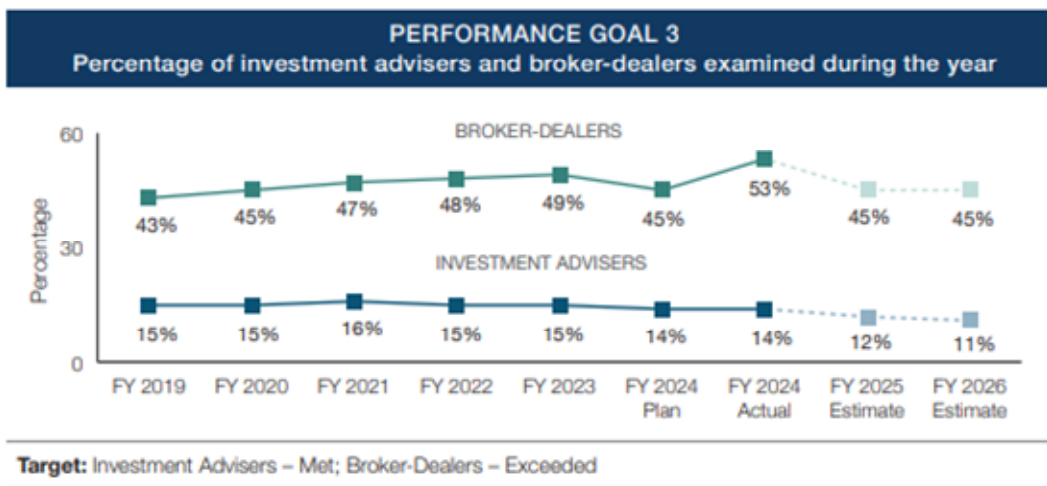
Thirteen percent of SEC staff took advantage [of resignation and retirement incentives] and departed the agency in early 2025, with some smaller offices losing as much as 26 percent of their staff. Coupled with the hiring freeze and changes to the federal government hiring process, in FY 2025, the agency experienced an attrition rate of 17.8 percent—which is over five percent higher than the previous year—in addition to an approximately 27 percent reduction of contract personnel.³

The SEC simply will not have sufficient staff to examine and investigate registrants at the same pace that it has in the past. And the SEC signaled this reality in May 2025 when it submitted its Fiscal Year 2026 Congressional Budget Justification and Annual Performance Plan; Fiscal Year 2024 Performance Report.⁴ The budget request for 2026 sought authorization for significantly fewer full-time employees in all of the major divisions as compared to prior years.⁵

FULL-TIME EQUIVALENTS (FTE) BY PROGRAM

	FY 2024 Actual	FY 2025 Enacted	FY 2026 Request
	FTE	FTE	FTE
Enforcement	1,424	1,304	1,178
Examinations	1,135	1,073	965
Corporation Finance	429	406	369
Trading and Markets	279	256	230
Investment Management	224	206	186
Economic and Risk Analysis	194	183	169
General Counsel	157	143	121

When discussing the SEC’s Division of Examinations (Exams) performance goal regarding the percentage of investment advisers and broker-dealers examined in May 2025, the SEC again predicted a significant decline.⁶



What does this mean? We expect to see more correspondent examinations where the staff does not come on site and harnesses data to focus on specific issues. These exams may occupy fewer resources, but they are counted in the same reporting statistics as an on-site general examination. In turn, this will likely lead to fewer enforcement referrals.

Where there are referrals, we expect to see more “sweep-like” matters that focus on a practice or conduct that affects a number of investment advisers or broker-dealers. Because the current enforcement focus is on protecting retail investors, such investigations will still garner significant Enforcement resources even in this environment.

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Moreover, we do not expect that large broker-dealers will experience a decline in regulatory interest from the SEC. Given the dollar volume of assets and the number of retail investors that interact with larger broker-dealers, whether directly or indirectly, these larger entities will always rank high on the Exams program's risk-based selection process.

Similarly, whether enforcement attention is generated by examination referrals or through other sources, we anticipate that, as discussed below, broker-dealer investigations will continue to comprise a significant portion of the Enforcement Division's docket.

As for FINRA, we continue to see a focus on best execution, Regulation Best Interest (Reg BI), and anti-money laundering (AML), reflecting that the organization likewise is laser-focused on cases that impact retail investors. In addition, as discussed below, FINRA has indicated an intent to shift its enforcement program's approach to interactions with firms through a number of initiatives.

This report focuses on several key areas of interest for the SEC and FINRA involving broker-dealers, including:

- Penalties and remedies
- Impact of SEC administration changes on broker-dealers
- SEC focus on violations that touch retail investors
- The FINRA Forward initiative
- FINRA enforcement matters
- FINRA on the use of artificial intelligence (AI)
- FINRA's annual regulatory oversight report

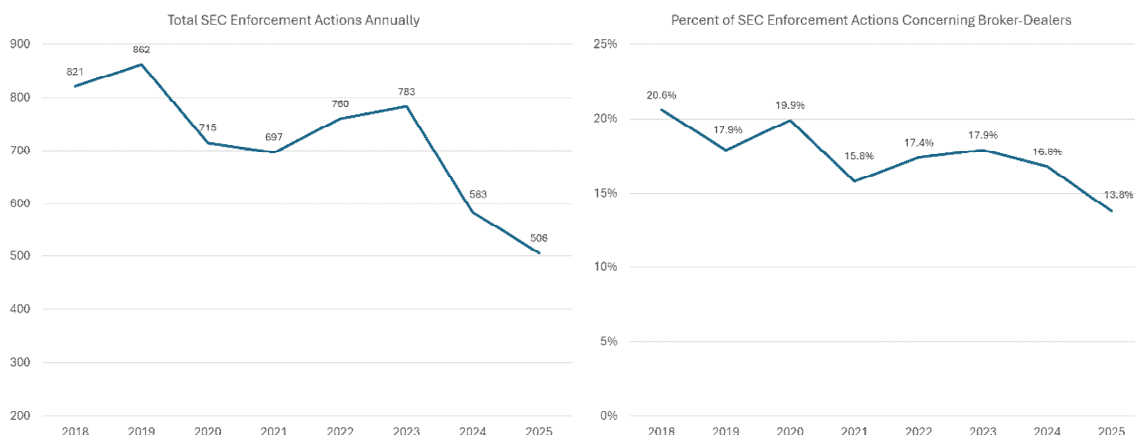
BROKER-DEALER AREAS OF FOCUS AND A LOOK AHEAD

BROKER-DEALER PROCEEDINGS DROP AS A PORTION OF THE SEC'S MIX OF CASES

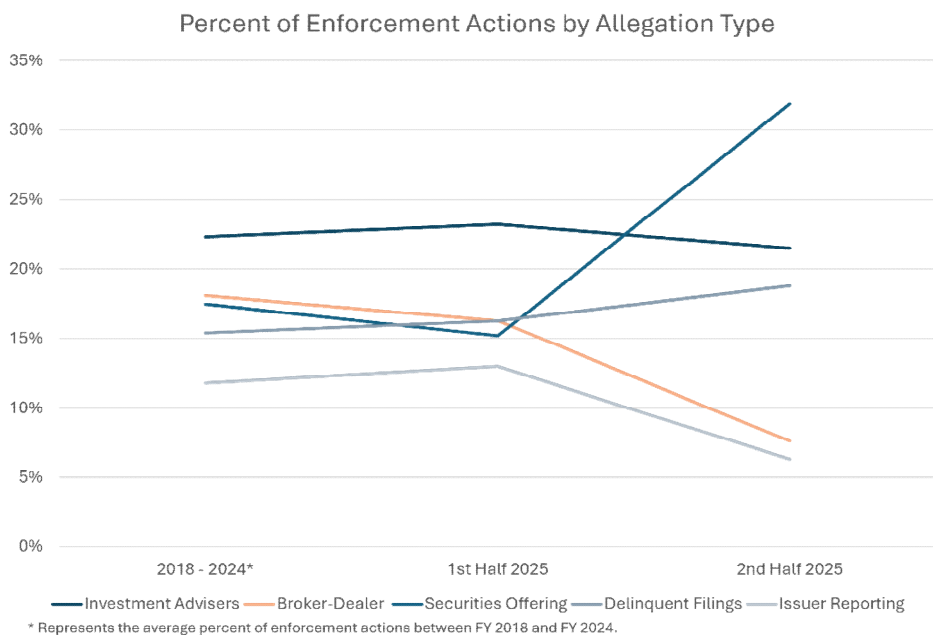
During FY 2025, the SEC filed a total of 506 enforcement actions, representing a 13% decrease compared to the 583 total enforcement actions brought in FY 2024.⁷ Though a decline in enforcement actions during a year of leadership transitions is not uncommon, the steep drop-off in FY 2025 is significantly larger than in prior transition years. For example, enforcement actions fell only 2.5% in the last transition year, FY 2021.⁸

The overall decrease in enforcement actions did not apply consistently across all types of action brought by the SEC, potentially indicating a shift in enforcement priorities in the coming year. Historically, actions against broker-dealers were among the most common.

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Between FY 2018 and FY 2024, an average of 18.1% of all enforcement actions were brought against broker-dealers.⁹ In FY 2024, 16.8% of enforcement actions focused on broker-dealers. This trend held relatively steady in the first half of FY 2025, when broker-dealer actions made up 16.3% of all actions.¹⁰ However, in the latter half of FY 2025, the proportion of actions against broker-dealers fell by more than half to just 7.6%, decreasing more than any other type of action.¹¹



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PENALTIES AND REMEDIES

Going forward, we anticipate the SEC and FINRA to continue to seek and order numerous remedies involving broker-dealers, including:

- **Monetary Relief:** We continue to expect penalties against broker-dealers to be driven by factors such as actual harm to customers or clients, as well as comparable past precedent. Accordingly, we expect the size of penalties against broker-dealers to decrease, but we expect the SEC and FINRA to concurrently focus on disgorgement and restitution, respectively.
- **Cooperation Credit:** The SEC and FINRA have historically emphasized the importance of cooperation, particularly self-reporting. We anticipate greater credit for other forms of cooperation in the new administration, including self-policing and remediation. We also anticipate that cooperation will receive greater credit in the examination phase, giving firms opportunities to avoid enforcement referrals. As part of enforcement investigations, we expect that cooperation credit will translate into some investigations being closed without enforcement action, with other investigations seeing a narrowing of the conduct that a case covers and the remedies imposed (monetary and otherwise).
- **Independent Compliance Consultants:** In 2025, the SEC continued to require the retention of independent compliance consultants across a variety of cases. Independent compliance consultants (ICCs) are an expensive undertaking, and their engagements involve the review of a company's policies, procedures, and controls with requirements to implement the consultant's recommendations for improvements. We expect the SEC to continue to require ICCs in some matters going forward, but we also anticipate greater room to argue that an ICC is unnecessary due to remedial steps already voluntarily taken by the firm.

THE SEC

CHANGE IN ADMINISTRATION: IMPACT ON BROKER-DEALERS

With the change in administration, the SEC has emphasized its back-to-basics approach, focusing on identifying and combating fraud. As discussed below, this focus has significant implications for broker-dealers, including with respect to insider trading and manipulation. Likely gone for now are cases focused on stand-alone off-channel communications violations and registration violations by dealers and trading venues that handle crypto assets. However, recent enforcement actions reflect that the SEC is continuing to pursue violations by broker-dealers that do not require a finding of fraud and instead are aimed at preventing misconduct.

Rulemaking Changes

Meanwhile, on June 12, 2025, in a move signaling a substantial change in priorities from the prior administration, the SEC announced that it was withdrawing notices of proposed rulemaking for fourteen rules.¹² Four of these withdrawals have significant implications for broker-dealers:

- **Conflicts of Interest Associated with Predictive Data Analytics Use:** On August 9, 2023, the SEC published rules to "address certain interactions between broker-dealers or investment advisers and investors through these firms' use of predictive data analytics," such as AI.¹³

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- **Cybersecurity Risk Management Rule for Broker-Dealers, Exchanges, and Other Market Infrastructure Entities:** On April 5, 2023, the SEC published rules that would have required, among other things, cybersecurity policies, incident reporting, and public disclosure for broker-dealers.¹⁴
- **Regulation Best Execution:** On January 27, 2023, the SEC proposed Regulation Best Execution, which would have established a best execution standard under the federal securities laws for broker-dealers, as well as required broker-dealers to establish related policies and procedures and regular reviews for compliance with the standard.¹⁵
- **Order Competition Rule:** On December 14, 2022, the SEC proposed a rule to 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, including off-exchange dealers, known as wholesalers.¹⁶

At the same time, the SEC further indicated a change in regulatory emphasis in its approach to two other large areas of focus for the broker-dealer industry.

First, the SEC announced reconsideration of Rule 611, also known as the Order Protection Rule or Trade Through Rule, which prohibits the purchase or sale of a Regulation NMS stock during regular trading hours at a price that is lower than a protected bid or higher than a protected offer.¹⁷ Chairman Atkins explained his concern, dating back to the rule's original adoption, that the rigidity of Rule 611 had contributed to the fragmentation of markets, rather than enhancing market efficiency and long-term growth.¹⁸

The SEC held roundtables in September and December 2025 regarding Rule 611, which focused on the effects of trade-through prohibitions on retail and institutional trading, the cost of compliance for different market participants, experiences in markets without a trade-through prohibition, the impact on market data if the trade-through prohibitions are modified or rescinded, and potential enhanced best execution guidance if the trade-through prohibitions are modified or rescinded.¹⁹ Chairman Atkins has advocated for a deliberate and cautious approach but stated that the Commission is considering several paths forward, including volume thresholds for protected quotes, block exceptions, rescinding the locked and crossed market prohibition, adjustments to access fee caps, and revisions to the market data revenue allocation formula.²⁰

Second, the change in administration also meant changes to the Consolidated Audit Trail (CAT). The goal of CAT "was to create a modernized audit trail system that would provide regulators with timely access to a comprehensive set of trading data, thus enabling regulators to more efficiently and effectively analyze and reconstruct market events, monitor market behavior, conduct market analysis to support regulatory decisions, and perform surveillance, investigation, and enforcement decisions."²¹ CAT placed certain obligations on national securities exchanges and broker-dealers, including requiring broker-dealers to report certain customer identifying information in connection with orders placed by their customers.

In February 2025, citing potential security risk concerns, the SEC provided an exemption from the requirement that broker-dealers report customer names, addresses, and years of birth to CAT, fields that were originally required to help regulators identify the person(s) responsible for an order.²² Prior to rescinding the requirement, the SEC had faced a lawsuit, which was stayed, that challenged its authority to require that this information be collected.²³

Then, in July 2025, the Eleventh Circuit struck down CAT's 2023 Funding Order, which had allowed self-regulatory organizations (SROs) to pass the entire cost of running CAT onto their members.²⁴ The Eleventh Circuit held that the 2023 Funding Order violated the Administrative Procedure Act, finding that the SEC did not justify its decision to allow SROs to pass all CAT-related costs to their members and did not meaningfully update its initial economic analysis with actual costs.²⁵

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Following that decision, in September, the SEC issued an order to reduce the operating costs of CAT.²⁶ That order allows plan participants to take a number of cost-saving measures, including easing requirements related to the reprocessing of late records.²⁷ In the press release announcing the order, Chairman Atkins explained that the SEC and plan participants “need to take very seriously their roles in reducing these seemingly endless cost increases.” Chairman Atkins also reiterated that the SEC’s order was “just the start” of its efforts to reduce the cost of CAT.

In contrast to the above deregulatory actions, the SEC moved forward with amendments to Regulation S-P. The May 2024 amendments to Regulation S-P (Reg S-P) went into effect for large entities in December 2025 and will go into effect for small entities in June 2026. The amendments “modernize and enhance the rules that govern the treatment of consumers’ nonpublic personal information by certain financial institutions.”²⁸ The amendments require broker-dealers (and other covered institutions) to “develop, implement, and maintain written policies and procedures for an incident response program that is reasonably designed to detect, respond to, and recover from unauthorized access to or use of customer information.”²⁹ The amendments further require the response program to include procedures for providing notice “to individuals whose sensitive customer information was or is reasonably likely to have been accessed or used without authorization.”³⁰

The SEC’s 2026 Exam Priorities for Broker-Dealers

Exams released its Priorities Report on November 17, 2025, featuring several key areas for broker-dealers.³¹ These priorities reflect the SEC’s focus on retail investors, and we expect not only examinations in these spaces but also referrals to the Division of Enforcement, particularly where the end customers are retail investors and the firm under examination has failed to demonstrate cooperation and, where appropriate, remediation.

The Priorities Report listed a number of specific areas of continued focus for broker-dealers, including:

- **Financial Responsibility Rules:** Exams will continue to focus on compliance with the net capital rule and operational resiliency programs, including the supervision of third-party vendors; risk management controls related to credit, market, and liquidity stress testing; and cash sweep and prime brokerage activities, focusing on issues related to concentration, liquidity, and counterparty credit risks.³²
- **Trading-Related Practices and Services:** Exams will continue to review both equity and fixed-income trading practices, with particular attention to those associated with extended hours trading and municipal securities; reviewing firms’ order routing and execution practices, including best execution, the pricing and valuation of illiquid instruments and related disclosure; and whether firms are appropriately relying on the bona fide market making exception and compliance with requirements under Regulation ATS.³³
- **Retail Sales Practice, Including Compliance with Reg BI:** Exams will continue to prioritize examinations of broker-dealer practices with respect to Reg BI with a focus on (1) recommendations pertaining to products and investment strategies, including, but not limited to, account and rollover recommendations; (2) conflict identification and mitigation practices particularly regarding account, rollover, and limited product menu recommendations; (3) processes for reviewing available alternatives; and (4) processes for satisfying the Care Obligation, including specific factors in a customer’s investment profile, as well as the product and account type characteristics considered in the recommendation. As it examines these areas, Exams will pay particular attention to products that are complex or tax-advantaged, have complex fee structures or return

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calculations, are based on exotic benchmarks, are illiquid, or represent a growth area for retail investment.³⁴

The Priorities Report also emphasized several risk areas impacting various market participants that have implications for broker-dealers. The Priorities Report focused heavily on cybersecurity, noting that “[p]articular attention will be on firms’ policies and procedures pertaining to governance practices, data loss prevention, access controls, account management, and responses and recovery to cyber-related incidents, including those related to ransomware attacks.”³⁵ The Priorities Report went on to specifically highlight several policies and procedures that apply to broker-dealers:

- **Regulation S-ID:** Exams will focus “on firms’ development and implementation of a written Identity Theft Prevention Program that is designed to detect, prevent, and mitigate identity theft in connection with covered accounts.”³⁶ Specifically, Exams will assess the reasonableness of the policies and procedures associated with such programs, including whether they are reasonably designed to identify and detect red flags and whether they include firm training on identity theft prevention.³⁷
- **Regulation S-P:** Exams “will engage firms during examinations about their progress in preparing incident response programs reasonably designed to detect, respond to, and recover from unauthorized access to or use of customer information.”³⁸ And following the applicable compliance dates (December 2025 for large entities and June 2026 for small entities), the division will examine whether firms have developed, implemented, and maintained policies and procedures in accordance with the rule’s new provisions.³⁹

Exams also pointed to emerging financial technologies—including automated investment tools, AI, and trading algorithms or platforms—as an area of focus, noting that with respect to AI, Exams will review not only for accuracy representations made to investors regarding a firm’s AI capabilities but also “whether firms have implemented adequate policies and procedures to monitor and/or supervise their use of AI technologies, including for tasks related to fraud prevention and detection, back-office operations, AML, and trading functions, as applicable.”⁴⁰

Finally, Exams pointed to a continued focus on firms’ AML programs—a perennial issue for the SEC. Specifically, the division will focus on whether firms are (1) appropriately tailoring and updating their AML programs to their evolving business and AML risks (particularly with regard to omnibus accounts for foreign financial institutions), (2) conducting sufficient independent testing, (3) establishing an adequate customer identification program, and (4) meeting all Suspicious Activity Report filing obligations. These reviews may also evaluate policies and procedures for oversight of financial intermediaries and whether firms are appropriately monitoring the US Department of the Treasury’s Office of Foreign Assets Control sanctions and taking adequate steps to comply.

SEC Dismisses Dealer Cases

Earlier this year, the SEC dismissed with prejudice four lawsuits brought by the prior administration against entities allegedly operating as unregistered “dealer[s].”⁴¹ At the time that other unregistered dealer enforcement proceedings were settled, SEC Commissioner Mark Uyeda issued dissents and statements that discussed his objections, including that the SEC’s interpretation of the “dealer” definition was imprecise and resulted in arbitrary and discriminatory enforcement.⁴² In explaining the dismissal of the four dealer lawsuits, the SEC’s statement noted only that the Commission chose to dismiss the cases “as a policy matter.”⁴³

FOCUS ON CASES THAT IMPACT RETAIL INVESTORS

As discussed above, the new administration is particularly focused on protecting retail investors from market abuse. In 2025, we saw the SEC pay particular attention to investment adviser cases with a retail investor component, including non-fraud violations.⁴⁴ We expect that focus to continue with the SEC placing more attention on broker-dealers for both fraud and non-fraud violations that impact retail investors. We also anticipate that the Exams priorities discussed above will result in continued referrals to the Division of Enforcement for broker-dealer conduct.

Regulation Best Interest

Although it does not require a finding of fraud, Reg BI's provisions impose duties on broker-dealers in their interactions with retail clients, as well as more technical policy and procedure requirements. The SEC continues to investigate and bring Reg BI cases. Firms should therefore regularly review their policies and procedures for evaluating whether a customer's circumstances match the risk profile of recommended investments and implement processes to confirm and monitor for compliance with Reg BI.

In August 2025, for example, the SEC brought settled cases against a broker-dealer and a registered representative for violations of Reg BI, discussing extensively in both orders Reg BI's requirements that broker-dealers and their associated persons act in the best interest of retail clients and not place the financial or other interests of the broker, dealer, or associated person ahead of the retail client.⁴⁵

In each instance, the SEC found that the firm and its registered representative willfully violated Reg BI by recommending certain securities to retail customers without exercising reasonable diligence, care, or skill to have a reasonable basis to believe the recommendations were in the best interest of each customer based on the totality of that retail customer's investment profile and the potential risks, rewards, and costs associated with the recommendation.⁴⁶ The SEC also alleged that the firm failed to have sufficient Reg BI policies and procedures because they did not provide more than general recitations of the firm's Reg BI obligations.⁴⁷ As a result, both the broker-dealer and the registered representative were ordered to pay disgorgement, prejudgment interest, and a civil penalty.⁴⁸

Continued Focus on Cybersecurity

In February 2026, the Commission announced the creation of the Cyber and Emerging Technologies Unit (CETU), which replaces the Commission's former Crypto Assets and Cyber Unit.⁴⁹ The new CETU will "focus on combatting cyber-related misconduct" and "protect[ing] retail investors from bad actors in the emerging technologies space."⁵⁰ In particular, the CETU will combat misconduct in the following areas that implicate broker-dealers:

- Fraud committed using emerging technologies, such as AI and machine learning
- Use of social media, the dark web, or false websites to perpetrate fraud
- Hacking to obtain material nonpublic information
- Takeovers of retail brokerage accounts
- Fraud involving blockchain technology and crypto assets
- Regulated entities' compliance with cybersecurity rules and regulations⁵¹

Illustrating this focus, the SEC brought charges against or involving multiple broker-dealers related to account-takeover schemes. These cases reflect the SEC's attention to the policies, procedures, and controls of broker-dealers focused on detecting, preventing, and mitigating these cyber intrusions.

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For example, in November 2025, the SEC announced settled charges against a broker-dealer for violations of Rule 30(a) of Regulation S-P and Rule 201 of Regulation S-ID after several of the firm's "branch offices experienced email account takeovers . . . by unauthorized third parties that exposed records and personally identifiable information of approximately 8,500 individuals, including a significant number of customers."⁵²

The settlement order found that the firm "did not have any written policies and procedures to govern information security across its member firms before September 2020," and that the September 2020 policy was not reasonably designed because the firm "continued to lack required information security policies and controls, such as multi-factor authentication, annual security awareness training, and written incident response policies. . . ."⁵³ The SEC also found that the firm's Identity Theft Prevention Program was deficient because it failed to "develop or implement reasonable policies and procedures to ensure its program was updated periodically to reflect changes in risks related to identity theft from ongoing cybersecurity incidents and did not periodically determine whether the firm offered or maintained covered accounts."⁵⁴ The firm ultimately agreed to pay a civil penalty of \$325,000.⁵⁵

As another example, the SEC charged a Russian national "for his role in a multi-year fraudulent scheme in which hundreds of US retail brokerage accounts were hacked and improperly used to manipulate the price and trading volume of hundreds of securities. . . ."⁵⁶ The SEC did not charge any broker-dealers in connection with this scheme, but the matter reflects the SEC's ongoing attention to this area.

Insider Trading/Market Manipulation

The change in administration does not appear to have impacted the SEC's continued interest in potential insider trading and market manipulation. This year, for example, the SEC filed multiple cases against individuals related to a manipulative trading practice known as "spoofing," whereby a trader places multiple spoof orders (or orders they did not intend to execute) in order to induce other market participants to trade at the manipulated prices.⁵⁷ The manipulative traders then place orders on the opposite side of the market with the benefit of the newly manipulated price and then quickly cancel their spoof orders.

Unless involved in the misconduct, we do not expect this administration to bring standalone cases against broker-dealers for matters in which their customers engage in manipulative trading. However, broker-dealers should anticipate receiving requests from the SEC in such cases. As a result, firms should refresh their policies regarding trade surveillance and market manipulation to avoid potential enforcement issues. Similarly, the SEC continues to bring a number of insider trading cases, which, although usually focused on individuals, do involve requests of broker-dealers that require time and effort to handle and have the potential for the SEC to focus on the firm's policies and procedures for handling material, nonpublic information.

FINRA: A YEAR OF CHANGE

2025 was marked by significant changes at FINRA as the organization sought to modernize its rules and processes, improve its regulatory programs, and adapt to market developments, new technology, and a changing regulatory environment.

THE FINRA FORWARD INITIATIVE

The most ambitious change last year was the April 2025 launch of FINRA Forward, described by the organization as “a series of initiatives to further improve [FINRA’s] effectiveness and efficiency in pursuing [its] mission.”⁵⁸ In announcing the project, FINRA indicated that it intended to focus on leveraging the expertise of member firms and obtaining input from the industry, enhancing its regulatory programs and technology, supporting innovation, and tailoring its regulatory policies and activities to the current market, business, and technology.⁵⁹ FINRA Forward initiatives (or those undertaken in the spirit of the exercise) include reorganizing the organization’s key regulatory functions, modernizing rules, empowering firms’ compliance, and fighting cybersecurity and fraud risks. Several of these projects are described below.

Reorganization of Core Regulatory Functions and Personnel Changes

After an extensive review of its structure, FINRA implemented a major reorganization of its core regulatory functions in the fall of 2025. As part of the new structure, FINRA created a group called Regulatory Operations (RegOps), led by Greg Ruppert, who was appointed chief regulatory operations officer. RegOps encompasses the Enforcement, Market Oversight (previously called Market Regulation), and Member Supervision teams.⁶⁰ As chief regulatory officer, Ruppert’s direct reports include Bill St. Louis (Enforcement), Feral Talib (Market Oversight), Ornella Bergeron (Member Supervision), and Sarah Wallis (RegOps Transformation).⁶¹ The establishment of RegOps is intended to increase coordination across FINRA’s regulatory program, improve and expand information sharing, and streamline decision-making. Interestingly, the creation of RegOps appears to harken back to a similar structure that was previously in place at FINRA and its predecessor, in which a group also called Regulatory Operations consisted of both Enforcement and Member Supervision, perhaps demonstrating that what is new is old.

Along with the launch of RegOps, FINRA also created a new group called Market & Regulatory Services (MRS), led by Stephanie Dumont as the organization’s first chief market services officer.⁶² Among other things, MRS includes Transparency Services (responsible for operating FINRA’s over-the-counter equity and fixed income trade reporting facilities), Credentialing, Registration, Education and Disclosure (responsible for the operation of the Central Registration Depository program and overseeing BrokerCheck), and Regulatory Services Management (responsible for managing certain regulatory relationships, such as those with various equities and options exchanges).⁶³

Finally, last year, FINRA offered certain of its employees the option to retire early. Although FINRA has not publicly stated the number of individuals who left the organization, it appears that at least several longtime senior officials took advantage of the buyout, which means that the organization lost a fair amount of institutional knowledge in certain key departments.

Rule Modernization

An important component of FINRA Forward is a broad review of the organization’s rules intended to “modernize requirements, facilitate innovation, and eliminate unnecessary burdens.”⁶⁴ In rapid succession, FINRA announced three rule modernization reviews in Regulatory Notices 25-04, 25-06, and 25-07.

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*Member Firms and Associated Persons*⁶⁵

FINRA's first foray into its rule modernization project related to requirements regarding member firms and associated persons. In Regulatory Notice 25-04, FINRA sought feedback on a wide range of topics, including (1) specific rules that should be the focus of modernization based on costs, benefits, and "changes in markets, products, services, or technology"; (2) areas of FINRA guidance regarding existing rules that should be a focus for modernization; (3) changes in rules that would facilitate the "development and deployment of new technologies and services that enable [firms] to better serve markets and investors"; (4) "gaps, risks or other challenges created by changes in markets, products, services or technology" where additional guidance would better enable member firms to serve investors; (5) the interaction of the organization's oversight with other non-FINRA regulatory requirements in a manner that should be a focus for modernization, "based on unnecessary or duplicative burdens, insufficiently tailored requirements, member firm or investor confusion, or otherwise"; and (6) data reporting or production modernization.

In response to the notice, FINRA received 48 comment letters from individual investors, broker-dealers, and several industry groups such as the Public Investors Advocate Bar Association and Securities Industry and Financial Markets Association. FINRA has not announced any action it anticipates taking with respect to this broad-based review and the extensive comments it received, but we expect it to do so in 2026.

*Facilitation of Capital Formation*⁶⁶

Next in line, in Regulatory Notice 25-06, FINRA stated that its "members play a critical role in facilitating capital formation for businesses of all sizes" and sought comment on potential changes to its rules that would enable capital formation and reduce unnecessary regulatory costs and burdens impacting the capital-raising process. Specifically, FINRA requested comments regarding (1) permitted activities of capital acquisition brokers and other limited-purpose broker-dealers, (2) research rules, and (3) "rules and regulatory notices setting standards for members' supporting capital formation." Although this exercise was more limited in scope than that of Regulatory Notice 25-04, FINRA nevertheless received 31 comment letters from a variety of interested parties. FINRA has not indicated its next steps or the timing of any action, but we expect some response in 2026.

*Modernizing Member Workplaces*⁶⁷

The last initial rule modernization project under FINRA Forward related to ways to better align its approach with the evolving nature of modern workplace practices (e.g., more remote and hybrid work arrangements in place of in-person workplace arrangements).

Regulatory Notice 25-07 highlighted several key areas for potential modernization, such as (1) updates to Rule 3110, including "reconceptualize[ing] the use of specific types of offices and other locations in defining supervisory requirements"; (2) registration processes for members, branches, and individuals; (3) the use of new technologies to support candidate assessment and FINRA's Continuing Education Program; (4) electronic delivery of information to clients and the use of negative consent letters; (5) recordkeeping and digital communications; (6) compensation arrangements, including the use of personal services entities and continuing commission programs; and (7) fraud protection tools. FINRA received 48 comment letters in connection with this exercise from various individuals, FINRA members, and financial services groups, and the industry is eagerly awaiting a response from the organization.

Proposed Rule Changes

FINRA has long had in place a Retrospective Rule Review project that looks "at the substance and application of a rule or rule set, including any gaps or unintended consequences, as well as FINRA's processes to administer the rules."⁶⁸ As part of the FINRA Forward initiative, the organization has expanded and accelerated its efforts to revisit its rules.⁶⁹

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Indeed, as FINRA's Chief Legal Officer Robert Colby explained in his September 2025 blog post, in connection with FINRA Forward, the organization "ha[s] opened up [its] whole rule book."⁷⁰ In addition to the three requests for comments described above, Colby cited FINRA's work on rule proposals relating to (1) associated persons' outside business activities; (2) gifts and gratuities; (3) capital acquisition brokers; and (4) capital formation.⁷¹ Colby reported that FINRA and the SEC continue to review these items, and we expect further updates later in the year.

Initiatives Regarding FINRA's Enforcement Program

In a July 2025 blog post, FINRA CEO Robert Cook highlighted Enforcement's critical role in deterring misconduct and preserving investor confidence through "a transparent, fair, and consistent enforcement process."⁷² To achieve these goals, and again as part of FINRA Forward, Cook announced an effort "to develop meaningful common-sense improvements" to FINRA's Enforcement program that would allow the staff to better serve its self-regulatory mission.⁷³

This initiative is being led by FINRA's Head of Enforcement Bill St. Louis and is supported by two outside experts: former SEC Commissioner Troy Paredes and William and Mary Law School Professor Paul Eckert. Paredes and Eckert are tasked with assessing Enforcement's governance, policies, processes, and communications, as well as its coordination with other regulators, to ensure FINRA Enforcement is effective both within and outside the organization.⁷⁴

To gather information relevant to their work, Paredes and Eckert met with FINRA staff, member firms, outside counsel, industry groups, and many other interested parties. As CEO Cook noted in his blog post, Paredes and Eckert will share their observations with FINRA's Board of Governors, and we anticipate that FINRA will ultimately publicly issue some information regarding the results of the review, possibly including changes to the enforcement program. The format and timing of that output have not yet been shared with the industry.

Self-Reporting Pilot Program and Credit for Extraordinary Cooperation

FINRA Rule 4530(b) requires member firms to self-report certain violations of various rules, regulations, or industry standards of conduct. A member firm that made such a disclosure was often promptly faced with the opening of a Cause Examination or Enforcement investigation, which typically included the issuance of document, data, and information requests while the company was trying to complete its own review of the facts and take remedial action where appropriate. These competing priorities left firms frustrated with the self-reporting process.

To address those concerns, and in a purported effort to encourage more self-reports, last year Enforcement rolled out a pilot program for reacting to Rule 4530(b) disclosures, which represented a substantial change in the way the department approaches such matters. In the pilot program, FINRA committed to a more collaborative review process both inside the organization (e.g., among Enforcement, Market Oversight, and Member Supervision) and with the reporting member firm. Through this approach, upon receipt of a Rule 4530(b) disclosure, FINRA will permit a firm to continue its own internal investigation and refrain from commencing a formal inquiry provided the firm keeps the staff regularly informed of the status of the internal review and shares the firm's findings with FINRA.

It will be difficult to tell whether the pilot program will in fact spur additional self-reports, but in concept FINRA's new approach may make the Rule 4530(b) process less adversarial and more efficient. We anticipate that, if successful, FINRA may more formally publicize the program and adopt it.

On a related topic, in Regulatory Notices 08-70 and 19-23, FINRA advised the industry that certain types of actions taken by a firm may directly influence the outcome of an investigation.⁷⁵ This concept is referred to as "credit for extraordinary cooperation."⁷⁶

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The actions that may receive credit from FINRA in this regard include (1) self-reporting violations above and beyond compliance with Rule 4530(b), (2) taking steps to correct deficient procedures and systems, (3) offering remediation to customers, and (4) providing substantial assistance in connection with FINRA's inquiry.⁷⁷ FINRA is currently reviewing its guidance regarding extraordinary cooperation, including whether to provide credit for "cooperation" rather than only in those instances where a firm demonstrates "extraordinary cooperation," and appears likely to publish a Regulatory Notice on this important topic in 2026.

FINRA Enforcement's Use of Introductory Letters and Meetings

FINRA Enforcement's longstanding practice has been to formally notify a firm when a matter has been referred by another department to Enforcement for investigation. That notification typically came in the form of a short letter with little information on the matter other than the name of the staff attorney assigned to the file or a FINRA Rule 8210 request for documents and information.

As part of its continuing efforts at transparency, Enforcement has begun a practice of sending a letter notifying the firm of the referral, the Enforcement attorney handling the matter, and that attorney's supervisor, and then offering to meet with the firm (and/or its counsel) to provide information on the enforcement process, describe at a high level the issues under review in the matter, and allow the firm to ask questions and offer any feedback. There is no requirement that the firm or its lawyers participate in the meeting. FINRA hopes that this meeting provides greater transparency to the process, particularly for firms that have less experience with Enforcement.

Investigative Findings Meeting

A common concern in the industry has been a lack of transparency both during and at the end of an Enforcement investigation, including long periods of silence from the staff and instances in which the staff has drawn certain conclusions regarding the facts and law without input from the affected firm. In direct response to the former, in 2024, Bill St. Louis discussed his goal of "seeking to have more frequent touchpoints with potential respondents,"⁷⁸ which has resulted in Enforcement staff often providing periodic updates on the status of an investigation, even when there was no actual change in the status.

To address the latter issue, in instances in which FINRA Enforcement is leaning toward resolving a matter through formal disciplinary action (e.g., issuing a Letter of Acceptance, Waiver, and Consent), the staff has begun a new practice of holding meetings with a firm (and/or its counsel) during which it will lay out in detail its investigatory findings and alleged rule violations. These meetings take place before any final determinations are made regarding violations and without any discussion by the staff about potential sanctions. The firm is provided the opportunity at or after the meeting to correct the staff's understanding of the facts or to provide additional information, but the firm is not obligated to do so.

Areas of Specialization

In another pilot program, FINRA Enforcement created 11 areas of specialization in an effort to build expertise, drive consistency in outcomes, and encourage staff to have a sense of ownership over their matters. The areas of specialization include cybersecurity, AML, fixed income securities, variable annuities, financial operations, market regulation, Reg BI, and advertising. The specialization units are subject to change based on what Enforcement is seeing and are not published on the FINRA website or otherwise.

ENFORCEMENT ACTIONS

In 2025, the hot enforcement areas continued to include cases involving (1) best execution, with a focus on regular and rigorous reviews and execution quality reviews of competing markets; (2) Reg BI, with matters involving recommendations of options strategies, speculative fixed income investments, exchange-traded products and penny stocks, as well as replacement or switching involving variable annuities and mutual funds and 529 plans); and (3) AML (including actions relating to written supervisory procedures with respect to suspicious activity, customer identification programs, and independent testing).⁷⁹

In 2025, FINRA also brought several disciplinary actions in areas such as Trade Reporting and Compliance Engine (TRACE) reporting, option accounts, and mutual fund fees, while also instituting more one-off type cases involving gifts and gratuities and a bank sweep program. Finally, as in the past, FINRA has remained laser focused on cases involving restitution to retail investors in appropriate matters, including certain of the above-mentioned actions.

FINRA'S USE OF AI

On October 28, 2025, CEO Cook published a blog post on FINRA's use of AI to facilitate its regulatory operations.⁸⁰ According to Cook, FINRA is actively "identifying and implementing opportunities to use GenAI to strengthen [its] regulatory program" by, for example, "more quickly generating valuable insights from data, performing or streamlining certain work processes, and freeing up employees' time. . . ."⁸¹ For instance, FINRA staff have made use of an internal large language model-based chat capability "to assist in a variety of regulatory tasks," including "conducting member firm risk reviews and analyzing data on mutual funds and ETFs to facilitate examinations of related sales activities."⁸²

Additionally, FINRA has used "GenAI-enabled tools" to analyze and summarize investor complaints, firm disclosures, and eFOCUS reports.⁸³ In his post, Cook stated, "[l]ike FINRA, member firms are exploring the new opportunities and risks presented by recent advancements in GenAI," and emphasized FINRA's commitment to the "constructive feedback loop" between FINRA and member firms regarding AI's challenges and benefits.⁸⁴

THE ANNUAL REGULATORY OVERSIGHT REPORT⁸⁵

In December 2025, FINRA published its 2026 Annual Regulatory Oversight Report (2026 Report), which is intended to provide broker-dealers with insight into findings from FINRA's regulatory operations programs. Although the 2026 Report includes a number of topics from the prior year, it highlights several completely new topics and, in a handful of perennial areas, contains new content. For each topic, the 2026 Report describes the relevant regulatory obligations, highlights select effective practices, and cites additional materials like FINRA regulatory notices, reports, tools, and online resources.

For select topics, the 2026 Report also includes (1) findings from recent reviews, examinations, market surveillance, or investigations; (2) observations about weaknesses in firm compliance programs; and (3) emerging and continuing trends and risks. Below is a summary of several key items highlighted by FINRA in the 2026 Report.

Generative AI⁸⁶

The 2026 Report includes as a new area of focus firms' use of generative AI (Gen AI) (and similar technologies) and the need for firms to comply with FINRA rules in doing so. The 2026 Report provides the ways that FINRA typically sees firms using GenAI, including: (1) summarization and data extraction; (2) sentiment analysis; (3) content generation and drafting; (4) workflow automation and process intelligence; (5) query; (6) personalization and recommendation; (7) data transformation;

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(8) conversational AI and question answering; (9) translation; (10) classification and categorization; (11) coding; (12) synthetic data generation; (13) analysis and pattern recognition; and (14) modeling simulation. The most common usage among firms was summarization and information extraction, which allows the condensing of large volumes of text to extract specific information.

The 2026 Report suggests that firms using GenAI should consider (1) supervisory processes for development and use of GenAI “at an enterprise level,” (2) identifying and mitigating accuracy and bias risks, and (3) cybersecurity. The 2026 Report also recommends the following practices with respect to the use of GenAI: (1) “implementing formal review and approval processes” to assess GenAI opportunities and the necessary controls to help manage the risks; (2) “establishing a supervision, governance or model risk management framework” with respect to the development, implementation and use of GenAI; (3) robust testing on the use of GenAI to understand its capabilities, limitations, and performance, with respect to “privacy, integrity, reliability and accuracy”; and (4) monitoring on an ongoing basis the prompts, responses, and outputs to confirm the GenAI performs as expected and is compliant with FINRA rules.

Cybersecurity and Cyber-Enabled Fraud⁸⁷

The 2026 Report noted a number of cybersecurity threats that FINRA has seen affect member firms, including (1) ransomware and extortion events; (2) data breaches; (3) deceptive social engineering attacks, including phishing, smishing, and quishing; (4) new account fraud; (5) account takeovers; (6) account impersonations; (7) imposter sites; (8) relationship investment scams; (9) insider threats; and (10) GenAI-enabled fraud.

Although cybersecurity is a frequent topic in FINRA’s annual reports, the 2026 Report added several new effective practices that it recommends firms consider. The 2026 Report suggests firms monitor for customer account takeovers and review for unusual or suspicious activity, including wire requests to third-party accounts and suspicious login activities from unidentified browsers or locations. It also recommends that firms establish reasonable supervision for secure use of bring-your-own-device (BYOD) programs and conduct training on security awareness, including how to identify and report phishing or social engineering attacks. Additionally, the 2026 Report notes that firms should encourage cyber and information technology staff to coordinate with AML staff about cybersecurity concerns, report suspicious activity, and monitor risks arising from relationships with vendors.

Manipulative Trading: Increase in Small-Cap Fraud Involving Exchange-Listed Equities⁸⁸

The 2026 Report notes an evolution in suspected manipulative trading in small-cap exchange-listed equities. Previously, FINRA noticed “pump-and-dump” schemes in connection with IPOs, but in 2024 and 2025, FINRA observed that the “pump-and-dump” schemes were occurring more frequently in the months following the IPOs by using account takeovers, social media, or text messaging scams.

To mitigate these risks, FINRA recommends (1) tailoring surveillance control parameters and thresholds based on product class; (2) monitoring red flags associated with customer accounts that may have a relationship with the issuer; (3) monitoring for red flags indicating “conflicts of interest in private capital raises in advance of IPOs”; (4) supervising for efforts by the firm or customers to “artificially support or suppress the price, or prevent or reduce natural price falls, of securities”; (5) “monitoring activity occurring across multiple platforms, including platforms that support trading in related financial instruments or correlated products, as well as cross-border activity in the same or related products”; and (6) monitoring for wash sales.

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Before the release of the 2026 Report, FINRA focused on small-cap offerings in a targeted exam letter. The letter sought information on member firm practices concerning public and private offerings of small-cap exchange-listed issuers with business operations in foreign jurisdictions, including China.⁸⁹ In particular, the exam focuses on certain firms that have been involved in multiple small-cap offerings in a variety of roles, such as underwriter, bookrunner, syndicate member, selling group member, and/or placement agent. It also focuses on firms that have participated in initial and/or secondary market trading related to small-cap offerings, including firms with omnibus accounts trading in these securities.

The exam covers initial public offerings of \$25 million or less priced between \$4 and \$8 per share and follow-on and private placements of those issuers. FINRA requested detailed information related to small-cap offerings from select firms covering the period from January 1, 2023 to September 30, 2025, including written supervisory procedures and compliance policies relating to due diligence processes and the review, approval, and oversight of such offerings, as well as a list of small-cap offerings that fit the sweep criteria. This was the only targeted exam that FINRA announced in 2025.

Third-Party Risk Landscape⁹⁰

For the second year in a row, the 2026 Report includes as an area of focus the risks associated with firms' reliance on third parties. FINRA cites an increase in cyberattacks and outages at third-party vendors as a key vulnerability and includes several new observations about practices that firms should consider when developing and managing third-party vendor risk management programs, including (1) "maintaining an inventory of firm data types accessed or stored by the firm's vendors," (2) "monitor[ing] third-party vendor services for vulnerabilities or data breaches," and (3) "incorporat[ing] procedures to return or destroy firm data at the termination or conclusion of a vendor contract."

FINRA also announced that it launched FINRA Cyber & Operational Resistance (CORE) to recognize, evaluate, and share information about cyber and technology threats with firms that were either impacted or may have been impacted, allowing for early detection of "vendor-related threats, systemic technology failures and emerging cyber-attack patterns."

CONCLUSION

It is safe to say that the regulatory landscape for broker-dealers began a significant transformation effort in 2025. We expect 2026 to be a mix of moving these efforts forward while at the same time getting back to basics as the new leadership continues to settle in. Of note, we are watching to see how the reductions in personnel are mitigated by the adoption of new technology and AI. To follow along with our team, read our monthly [Securities Enforcement Roundups](#).

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⁴² *See, e.g.*, Commissioner Mark Uyeda, Statement Regarding GHS Investments, LLC (Aug. 19, 2024).

⁴³ Litigation Releases, [Adam R. Long, et al.; Tri-Bridge Ventures, LLC et al.; LG Capital Funding, LLC, et al.; River North Equity LLC, et al.](#) (May 23, 2025).

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⁴⁴ Carolyn Welshhans, Ali Rivett, and Emily Renshaw, Despite Fraud Focus, SEC Still Targeting Technical Violations, *Law360* (Oct. 3, 2025); Morgan Lewis Report, [SEC Enforcement Trends for Investment Advisers: 2025–2026](#) (Feb. 2026).

⁴⁵ *In the Matter of Tony Barouti*, US Securities and Exchange Commission, Administrative Proceeding File No. 3-22508; *In the Matter of Emerson Equity, LLC*, US Securities and Exchange Commission, Administrative Proceeding File No. 3-22507.

⁴⁶ *Id.*

⁴⁷ *Id.*

⁴⁸ *Id.*

⁴⁹ Press Release, [SEC Announces Cyber and Emerging Technologies Unit to Protect Retail Investors](#) (Feb. 20, 2025); *see also* Morgan Lewis, [Securities Enforcement Roundup – February 2025](#) for additional discussion.

⁵⁰ *Id.*

⁵¹ *Id.*

⁵² Administrative Proceedings, [SEC Charges Oregon Firm for its Deficient Cybersecurity and Identity Theft Prevention Programs](#) (Nov. 25, 2025).

⁵³ *Id.*

⁵⁴ *Id.*

⁵⁵ *Id.*

⁵⁶ Litigation Releases, [SEC Charges Russian National in Account Takeover Scheme Involving U.S. Brokerage Accounts](#) (Sept. 24, 2025).

⁵⁷ Litigation Releases, [SEC Charges California Resident for Engaging in a Manipulative Options Spoofing Scheme](#), (Aug. 11, 2025); Litigation Releases, [SEC Files Settled Action as to Southern California Resident in Alleged Manipulative Spoofing Scheme](#) (Dec. 16, 2025); *see also* Morgan Lewis, [Securities Enforcement Roundup – August 2025](#) for additional discussion.

⁵⁸ News Release, FINRA Announces New “FINRA Forward” Initiatives to Support Members, Markets and Investors (Apr. 21, 2025).

⁵⁹ News Blog, Robert Cook, New FINRA Initiatives to Support Members, Markets, and the Investors They Serve (Apr. 21, 2025).

⁶⁰ *See* Governance, [FINRA Executives](#).

⁶¹ *Id.*

⁶² *Id.*

⁶³ *Id.*

⁶⁴ News Blog, Robert Cook, New FINRA Initiatives to Support Members, Markets, and the Investors They Serve (Apr. 21, 2025).

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⁶⁵ See Regulatory Notice 25-04, FINRA Launches Broad Review to Modernize Rules Regarding Member Firms and Associated Persons (Mar. 12, 2025).

⁶⁶ See Regulatory Notice 25-06, FINRA Requests Comment on Modernizing FINRA Rules, Guidance and Processes to Facilitate Capital Formation (Mar. 20, 2025).

⁶⁷ See Regulatory Notice 25-07, FINRA, FINRA Requests Comment on Modernizing FINRA Rules, Guidance, and Processes for the Organization and Operation of Member Workplaces (Apr. 14, 2025).

⁶⁸ FINRA Rulemaking Process, [Retrospective Rule Review](#).

⁶⁹ News Blog, Robert Colby, FINRA Forward's Rule Modernization – An Update (Sept, 29, 2025).

⁷⁰ *Id.*

⁷¹ *Id.*

⁷² News Blog, Robert Cook, FINRA Forward in Enforcement (July 25, 2025).

⁷³ *Id.*

⁷⁴ *Id.*

⁷⁵ See Regulatory Notice 08-70, FINRA Provides Guidance Regarding Credit for Extraordinary Cooperation (Nov. 28, 2008); Regulatory Notice 19-23, FINRA Supplements Prior Guidance on Credit for Extraordinary Cooperation (July 11, 2019).

⁷⁶ *Id.*

⁷⁷ *Id.*

⁷⁸ News Blog, Robert Cook, Advancing FINRA's Mission with AI (Oct. 28, 2025).

⁷⁹ Podcast, FINRA Unscripted, Navigating the 2026 Regulatory Oversight Report: Key Insights from FINRA Leaders (Dec. 9 2025) (comments of Bill St. Louis).

⁸⁰ News Blog, Robert Cook, Advancing FINRA's Mission with AI (Oct. 28, 2025).

⁸¹ *Id.*

⁸² *Id.*

⁸³ See FINRA, 2026 FINRA Annual Oversight Report (Dec. 9, 2025).

⁸⁴ *Id.*

⁸⁵ *Id.*

⁸⁶ See FINRA, 2026 FINRA Annual Oversight Report, GenAI: Continuing and Emerging Trends (Dec. 2025).

⁸⁷ See FINRA, 2026 FINRA Annual Oversight Report, Cybersecurity and Cyber-Enabled Fraud (Dec. 2025).

⁸⁸ See FINRA, 2026 FINRA Annual Oversight Report, Manipulative Trading (Dec. 2025).

⁸⁹ Targeted Exam Letters, FINRA, Small-Capitalization Offerings (Oct. 2025).

⁹⁰ See FINRA, 2026 FINRA Annual Oversight Report, Third-Party Risk Landscape (Dec. 2025).

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