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Regulatory Update

US, October 2026

Issued November 2, 2026



SEC Releases New Examination Handbook: What Advisers Need to Know

On October 1, 2026, the SEC's Division of Examinations released *The SEC Exam Handbook: A Practical Guide on Process and Engagement*, replacing the Division's prior examination brochure and providing registrants with significantly greater transparency regarding the SEC examination process. According to the SEC, the handbook is intended to create a more consistent and predictable examination experience by outlining each stage of an examination, from the initial risk assessment through the issuance of a disposition letter. The handbook also includes practical guidance for registrants, resources to help firms prepare for examinations, and information regarding avenues for raising questions or providing feedback during the examination process. The SEC emphasized that examinations are designed not only to identify deficiencies, but also to improve industry practices and compliance, monitor risk, and prevent fraud.

Firms should note several enhancements reflected in the new handbook. Unlike the prior brochure, the handbook provides a more detailed roadmap of the examination lifecycle, greater insight into the examination process, and expanded discussion of communications between registrants and examination staff. The handbook also offers practical preparation tips and describes resources available to assist firms in preparing for and navigating an SEC examination. While the handbook does not create new legal requirements, it provides advisers, exempt reporting advisers, and other registrants with a clearer understanding of how examinations are conducted and what to expect throughout the examination process. As a result, firms may wish to review their examination readiness procedures, document retention practices, and compliance testing programs to ensure they are well-positioned for future SEC examinations.

The new handbook does not change substantive regulatory obligations; however, it provides valuable insight into the SEC's examination process and should be incorporated into firms' examination preparedness and compliance review efforts. Advisers may find it worthwhile to compare their existing examination response procedures against the handbook's outlined process to identify opportunities for enhanced readiness and efficiency during future examinations.

Read the press release here: https://www.sec.gov/newsroom/press-releases/2026-99-secs-division-examinations-announces-new-exam-handbook?utm_medium=email&utm_source=govdelivery

SEC Proposes Modernized Custody Framework for Traditional and Digital Assets

On October 1, 2026, the SEC proposed amendments to the custody rules designed to modernize the regulatory framework for safeguarding client assets in response to technological developments and the continued growth of digital assets. In a statement supporting the proposal, SEC Commissioner Mark Uyeda emphasized that while the fundamental principles of custody, including asset segregation and effective controls, remain unchanged, the existing regulatory framework was largely developed for a market centered on paper certificates and does not fully reflect modern custody practices. Uyeda noted that the proposal seeks to preserve strong investor protections while providing advisers and custodians with a more practical and operationally workable compliance framework.

The proposal would establish a clearer compliance pathway for advisers holding crypto assets by permitting self-custody in limited circumstances where no qualified custodian is available, subject to safeguards such as cybersecurity controls, annual reviews, internal reporting, client disclosures, and account statement requirements. The proposal would also recognize certain state-chartered trust companies as eligible custodians for crypto assets and implement several broader custody rule updates, including expanded flexibility for regulated funds to use broker-dealers as custodians, an exclusion for certain discretionary trading arrangements, and relief from independent verification requirements in limited standing letter of authorization

situations. According to Uyeda, the October 1, 2026 proposal reflects an effort to balance robust client asset protection with the practical realities faced by advisers, funds, and custodians in today's evolving financial markets.

Read the statement here: SEC.gov | Statement on Proposed Amendments to the Custody Rules

SEC Proposes Modernization of Investment Company Cross-Trading Rule

October 9, 2026 – The U.S. Securities and Exchange Commission ("SEC") proposed amendments to Rule 17a-7 under the Investment Company Act of 1940 governing cross trades between registered investment companies and certain affiliates. The proposal would expand the types of securities eligible for cross trading to include securities valued using directly or indirectly observable inputs consistent with Level 2 of the fair value hierarchy, potentially allowing most fixed-income securities to again qualify for cross trading. It would also modernize pricing requirements, permit certain de minimis transaction fees, require advisers to determine before a cross trade that the transaction is in the best interest of each participating registered fund, and impose enhanced reporting and recordkeeping requirements.

Key Takeaway: The proposal would also shift significant day-to-day oversight responsibility for cross trading from fund boards to registered fund CCOs. The board would no longer be required under Rule 17a-7 to adopt and approve changes to cross-trading procedures or make quarterly determinations that cross trades complied with those procedures. Instead, the fund's CCO would be required to review all cross trades at least quarterly for compliance with the rule, including eligibility of the affiliate and security, pricing, permissible fees, consistency with fund policies and strategies, and documentation of the adviser's best-interest determination, and report the results to the board. The CCO would also conduct annual back-testing, including reviewing the timing and price realized when securities acquired through cross trades are subsequently sold and assessing patterns that could indicate the fund was disadvantaged relative to affiliates. The board would retain an oversight role, including approving the fund's cross-trading policies and procedures under Rule 38a-1 and reviewing the CCO's reporting. If adopted, advisers and registered funds should therefore consider whether their CCOs have the systems, data access, policies, and reporting processes necessary to perform these expanded oversight responsibilities.

Read the proposed rule here: https://www.sec.gov/files/rules/proposed/2026/ic-36358.pdf

SEC's 2027 Examination Priorities

On October 23, 2026, the SEC's Division of Examinations issued its Fiscal Year 2027 Examination Priorities, outlining the areas expected to receive heightened attention during the coming examination cycle. For investment advisers, the Division continues to focus on fiduciary standards of conduct, compliance programs, and never-examined and recently registered advisers. Investment companies also remain an examination priority, reinforcing the importance of maintaining consistency among compliance programs, disclosures, filings, governance, and actual fund operations.

For broker-dealers, the 2027 priorities include several notable changes from 2026. Financial Responsibility Rules, Trading-Related Practices and Services, and Retail Sales Practice, including Regulation Best Interest, remain priorities, while Anti-Money Laundering ("AML") and Supervision are now separately identified as standalone Broker-Dealer priorities. The priorities also continue to highlight risk areas impacting various market participants, including cybersecurity, Regulation S-ID and Regulation S-P, and Emerging Financial Technology, which has been repositioned within Information Security and Operational Resiliency. The Division also discusses registrants' increasing incorporation of super intelligence ("SI") and other emerging financial

technology into areas such as research, drafting, client communications, advisory and portfolio-management functions, and compliance monitoring and surveillance.

Although AML is not separately identified as a 2027 Investment Adviser priority, RIAs and ERAs should continue monitoring FinCEN's Investment Adviser AML Rule, for which FinCEN has extended the effective date to January 1, 2028 for covered investment advisers. More broadly, firms should not interpret the absence of a topic from the annual priorities as an indication that the SEC will not examine it. The Division emphasizes that its published priorities are not exhaustive and that it may devote examination resources to other areas. Accordingly, firms should continue maintaining and testing compliance with all requirements applicable to their businesses, while using the 2027 priorities as an important guide for examination readiness.

Please read the 2027 SEC Priorities here: https://www.sec.gov/files/2027-exam-priorities.pdf

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In the United States, Waystone brings over 20 years of experience supporting investment advisers and funds regulated by the SEC, CFTC, and FINRA. Our US-based team delivers tailored, risk-focused, and cost-effective compliance solutions. With deep regulatory expertise, we help enhance your firm's governance framework while adding measurable value to your compliance program.

If you would like to discuss the themes raised in this guide with one of our US Compliance Solutions team members and learn how we can assist you, please contact us using the details below.

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This Regulatory Update provides information about the consultative documents and publications issued by various regulators which are still current, proposed changes to the Rules and Guidance set out in Handbooks, actual changes to Rules and Guidance that have occurred in the months leading up to the update and other matters of relevance to regulated firms. This Regulatory Update is intended to provide general summarized guidance only, and no action should be taken in reliance on it without specific reference to the regulators' document referred to therein.