RESEARCH

Insights

The 2025 C&L Annual Seminar Debrief

Perspectives & Key Themes from Compliance and Legal Professionals

Published: March 2025

We hosted our C&L Annual Seminar, with insights into top-of-mind topics for compliance and legal professionals. Inside this note, we recap just some of what was seen and heard, including:

- **Regulations:** SEC Acting Chairman Uyeda discussed his blueprint for rulemaking: rigorous economic analysis, longer comment periods, and utilizing roundtables and request for comments. FINRA President and CEO Cook discussed the SRO's review of its own rules (and other initiatives), taking a fresh look at which rules could be modernized with a focus on capital formation and the modern workplace.
- **Markets:** Equities – a review of the legacy adopted and proposed rules (Rule 605/606, Reg NMS amendments, market data, CAT, Reg SCI, and more); plus today's hot topics, 24 hour trading and low priced stocks. Fixed income – discussing solutions in search of problems with the need for more industry engagement; Rule 15c2-11, Treasury clearing, and more. Equity Research – the AI debate continues, potential benefits (gaining efficiencies through enhanced web searches and language translations) versus risks (intellectual property concerns). Private Markets – with companies staying private for longer, the secondary market provides liquidity for startups, now ~$130B.
- **Cybersecurity:** Cybersecurity risk can be thought of as threats and vulnerabilities. Firms which have secured their own systems are still exposed to vulnerabilities from third-party and fourth party vendor risks. Understanding this supply chain risk should be a priority for firms and the industry.

Note: This report represents SIFMA Insights' interpretation of speakers' and panelists' commentary.

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Executive Summary

Regulations: SEC Acting Chairman Uyeda implied that essentially the SEC had lost its way (our interpretation). The agency took regulatory shortcuts, and their processes failed to meet appropriate standards for rulemaking, ending up with court challenges. He discussed his blueprint for rulemaking, which includes: rigorous economic analysis, longer comment periods, and utilizing roundtables and request for comments. In general, he indicated that, going forward, the agency needs to perform comprehensive advanced work before putting out rules. Also discussed in this section are crypto, the alternative trading systems (ATS) rule, Treasury clearing, and the Consolidated Audit Trail (CAT).

On the FINRA side, President and CEO Cook discussed the organization's review of its own rules and oversight. He noted that FINRA has been on a continuous mission of improvement since he started at the SRO. Currently, FINRA is launching three initiatives to aid member firms and investors by undertaking a broad review of its rules and oversight, enhancing how FINRA supports member firm compliance, and expanding its cybersecurity and fraud prevention services. In particular, as part of its rule review, Cook noted that FINRA identified capital formation and the modern workplace as two initial areas of focus. Also discussed in this section are CAT, crypto, cyber, extended trading hours, securities lending and reporting, and artificial intelligence (AI).

Markets: In equity markets, panelists first reviewed the status of finalized rules – expect Rule 605/606 implementation deadline to be pushed, tick sizes/access fees still in court, and securities information processors (SIP) problems not solved (expensive and still need to buy prop feeds). We are moving in the right direction to fix the CAT, but personally identifiable information (PII) needs deleted, and it is still too expensive. Panelists also suggested a better cost/benefit analysis is needed for Reg SCI. Panelists went on to discuss the rules they do not believe will move forward: order competition rule, best ex, volume-based price tiers, predictive data analytics (PDA), definition of exchange, and definition of dealer. Panelists finished by discussing today's hot topics: 24-hour trading, four exchanges announcing plans but still no SIPs approval (crucial to making overnight trading on exchange happen); and low priced stocks, over 500 of these risky, more volatile stocks listed today.

Next, in fixed income markets, as panelists looked back at the last SEC administration's rules/proposals, the discussion was on solutions in search of problems. Panelists noted that fixed income markets are not equities. Even within fixed income many different segments exist. There is not – and should not be – a one size fits all for regulations. There should be an assessment of value relative to the costs, as well as flexibility for different types of trading models. Further, panelists discussed the need for industry input into rule proposals, noting that the old Fixed Income Market Structure Advisory Committee (FIMSAC) was a useful way to share feedback with the SEC. Also discussed in this section are Rule 15c2-11, Treasury clearing, and more.

Moving to equity research, the AI debate continues – potential benefits versus risks. Currently, firms are comfortable using AI in low risk use cases, such as enhanced web searches and language translations. As firms expand use cases higher up the risk scale, panelists noted that firms need to understand and evaluate all risks. On the risk side, intellectual property concerns remain. Some sell side firms have updated contractual agreements with clients to specify use cases, limitations of liability, and prohibitions (no training of models, attribution requirements, etc.). However, some clients have told firms that since they already pay for the research, they do not need permission for other uses.

Finally, private markets have grown to over $11 trillion assets under management (AUM, in 2022), up from under $1 trillion in 2000. The private credit market is now over $1 trillion AUM, three times its size a decade ago. Since companies are staying private for longer – now averaging eleven years when going public, up from five years historically – startups need ways to find liquidity for employees. Enter the secondary market for private companies, where transaction volumes were estimated at around $130 billion as of June 2024.

Cybersecurity: Cybersecurity risk can be thought of as threats and vulnerabilities. Firms which have secured their own systems are still exposed to vulnerabilities from third-party and fourth party vendor risk . Understanding this supply chain risk should be a priority for firms and the industry. What are the cybersecurity protocols of your vendors? What data of yours do they have and is it sensitive data? After all, your cybersecurity plan is only as strong as the weakest link. Vendor dependency is not simple to unwind in the case of a cyber event. An impacted vendor could be out of commission not days but weeks or months so firms need to prepare for these types of outages and ensure this is included in their business continuity plans.

Additionally, ransomware attacks are still prevalent, and the threats continue to grow in sophistication. Firms need to remain vigilant, which includes basic hygiene. There have been cases where firms have have cyber breaches and those breaches could have been prevented by patches already available but not deployed to the impacted firms systems.

Regulatory Environment

SEC

SEC Acting Chairman Uyeda discussed his blueprint for rulemaking. Back in 2006, after losing several court challenges, the SEC underwent a deep dive review of their procedures. The result was an overhaul of the economic analysis process. Uyeda acknowledged that this rigorous process was lost over the last four years. They took regulatory shortcuts, and their processes failed to meet appropriate standards for rulemaking, ending up with court challenges.

He indicated that the agency needs to get back to a gold standard rulemaking process. It needs to write rules that will not be challenged in court because they lack a rigorous economic analysis with supporting data for the proposal or fail to assess the impact on the industry. He discussed the importance of the comment period to gather insights from industry, noting that while the law says the comment period may be thirty days, the process needs to be thoughtful, not piece of theater. Uyeda also noted that when a reproposed rule was changed substantially, a new economic analysis should be performed.

Thoughtful analysis also includes utilizing roundtables and request for comments to gain industry input, such as they are currently doing around crypto. The SEC recently held a round table on crypto to discuss which products should be in or out of the SEC's jurisdiction (there are four more roundtables scheduled on this topic). The agency also recently hosted a roundtable on AI. As to request for comments, the SEC's crypto task force put out a detailed one to garner feedback from the industry on the regulatory path forward in this space. This is an example of the agency's desire to gather feedback before rulemaking – no more regulation by enforcement – and the importance of public input.

Uyeda indicated that, going forward, the agency needs to perform comprehensive advanced work before putting out rules. For example, the definition of dealer as originally written would have required the Federal Reserve, Bank of England, and the World Bank to register as dealers. This was not the intent of the rule. Uyeda also suggested – or at least we inferred – that the days of thirty-day comment period are over. He noted that regulations need to be thoughtful – not piece of theater – and this thoughtful analysis includes assessing potential operational issues before finalizing a rule.

Uyeda also discussed the Presidential executive orders, in particular the charge that for every new rule created an agency must remove ten rules, as well as the general call for regulators to review existing rules. As already discussed here, the agency has been reviewing its rules. He also noted the need for the agency to share rulemakings across departments to ensure there are no impacts on other market areas. After all, the left hand cannot be doing something the right hand does not know about.

ATS rule: The rule proposing amendments to regulations for alternative trading systems is still pending (along with about two dozen other rules). The original intent of the proposal was to address changes in the market and technology since the Reg ATS was first established. However, the proposal morphed into capturing crypto exchanges and protocol platforms. Crypto and Treasuries are very distinct markets and should not be comingled in a rule proposal. In other words, the proposal strayed far from its original intent.

Treasury clearing: On this rule, Uyeda noted that we need to ask, “Did we get that right”. There are many unresolved issues, such as treatment of foreign affiliates. The design of a rule often differs from practice, as the economic analysis does not always capture practicalities. He further noted that this rule highlighted an interesting situation for the agency. Even if the rulemaking process was thorough, operational issues can still appear once the industry implements the rule. A rule does not end when published to the federal register but when it goes all the way through to the operational end once executing on it. There could be easier ways to do things operations wise.

CAT: Uyeda commented that while the SEC exemptive relief and the self regulatory organizations’ (SRO) ban on submitting PII, many questions exist around the customer database (and the funding lawsuit remains open). Concerns remain over the need for and protection of PII.

The original intent of the CAT was to be able to better monitor markets to capture unanticipated market events. Uyeda gave an example. Instead of having individual cameras on each player in a football game, you have an overhead shot of the whole field. This allows you to see the play develop. Regulators did not have this during the 2014 flash crash. However, we know what road is paved with good intentions. A regulator’s appetite for data is always more, more, more. As such, the agency added bells and whistles, adding to both costs and risks. While the intent was good, the costs grew too much. Uyeda acknowledged that these are costs on the industry, which will be passed through to investors – there is no free lunch.

Uyeda noted that the agency needs to go back and assess what is needed and what can be done in a cost effective manner. For example, the agency originally estimated that cloud storage would be inexpensive, but then costs increased substantially. The agency needs to reassess.

FINRA

FINRA President and CEO Cook noted that FINRA has been committed to continuous improvement since he started at the SRO. He discussed three new initiatives the organization is launching, including: undertaking a broad review of its rules to modernize requirements and eliminate unnecessary burdens; enhancing how it supports member firm compliance to better protect investors and safeguard markets; and expanding its cybersecurity and fraud prevention services to enhance member firms' risk management capabilities and resilience against emerging threats and to better protect them and their investors from harm. As part of the broad rule review, Cook noted that FINRA is focused on capital formation and the modern workplace – which includes a number of aspects including changing processes and communications for today’s world – and invited feedback on all the initiatives.

Separately, while the Presidential Executive Orders do not directly apply to FINRA (the SRO is not a part of or funded by the federal government), they are top of mind in the industry. As such, Cook acknowledged this topic by applauding the sentiment to modernize rules, reduce unnecessary regulatory burdens, and streamline processes across all regulatory agencies.

CAT: Finally, while most cats do not like attention, Cook noted that this CAT needs attention. He is – and has been – supportive of the SEC’s recent exemption from the requirement to report certain PII to the CAT. However, he does not believe the agency went far enough, i.e. eliminate all PII and delete PII already reported.

Crypto: Cook reminded the audience that crypto policies will be driven by the federal government and the SEC. That said, FINRA is already working with the SEC’s crypto task force. Cook noted that he is looking forward to being

a constructive participant in a long-term regulatory pathway for firms, with an eye on standards for investor protections.

Cyber: Cook acknowledged the importance of cybersecurity for the whole industry. The industry needs to work together to protect firms and investors, and FINRA is doing its part. FINRA is coordinating with other agencies such as the FBI and is developing tabletop exercises for its members. FINRA also produces cyber threat intelligence products. For example, given the importance of monitoring third-party risk such as that from vendors, FINRA performed a third-party vendor survey. In line with FINRA's support of member firm compliance, it is monitoring vendor complaints. If the agency hears about a vendor issue from one firm, it can share this information with all other member firms. Cook noted that there were around 600 issuances last year where FINRA was able to reach out to firms with warnings about a vendor.

Extended trading hours: FINRA representatives noted that extended trading hours may carry additional risks which differ from those during regular exchange hours, such as lower liquidity and wider spreads. The SIP is not open during extended trading hours, meaning there is no consolidated tape to assist in price transparency. FINRA indicated the importance of educating investors on these differences. A sentiment market participants have been discussing as well.

Securities lending and TRACE: The securities lending rule is in the books, and firms are to begin reporting to FINRA on January 2, 2026. Cook noted that the implementation timeline is too short, not to mention that January 2 is after a market holiday. FINRA has requested that the SEC push the deadline back nine months, as many reporting requirements still need adjustments. As to FINRA's Trade Reporting and Compliance Engine, electronic trade reporting will move from fifteen minutes to one minute. For trades with some manual functionality, the rule proposed to phase down from fifteen minutes to ten minutes and then to five minutes. Given concerns over the last five minutes, FINRA's next step is to propose to the SEC that the rule not go down to five minutes.

AI: FINRA is seeing use cases ranging from coding assistance to translation services (languages, voice to text), mostly focusing on summarizing information for analysts, compliance officers, and risk officers. Firms are proceeding cautiously as they explore client facing uses, noting the importance of strong governance policies and processes. FINRA rules remain technology neutral, and FINRA representatives indicated that there is no plan at this time for specific AI rules. FINRA itself has used AI as a surveillance tool for years, and it is exploring generative AI (Gen AI) for exams and risk monitoring, such as for a recommendation engine for investor complaints.

Market Updates

Equities

Rule 605/606 (adopted March 6, 2024; compliance date December 2025): Form 605 is the essence of the SEC's view of trading in Regulation National Market System (NMS) stocks, synonymous with transparency, a panelist noted. This form can be considered the equity market version of a 10K or 10Q for a corporation, providing transparency on how equity orders were handled and executed. Filed monthly on a stock-by-stock basis, it was designed for market centers – wholesalers, exchanges, single dealer platforms (SDP), alternative trading systems (ATS) – that execute trades. It includes fill rates, price improvement statistics, execution quality, quoted and realized spreads, and more. The industry had long thought that more granular information and information from additional sources should be included in the 605 statistics. Some of that data is now included. For example, there will now be execution quality data from large retail brokers, which will have to file a 605. Form 606 complements the 605, providing order routing information from broker dealers. This form was updated six years ago, yet it was still missing a lot of information, according to panelists. The industry had been working on right sizing 606, wanting it to tie to the 605.

Implementation of the Rule 605 amendments has not started because there are outstanding interpretive questions for certain aspects of the updated rule. The SROs that operate the Rule 605 NMS Plan will need to provide technological specifications. Given these issues, panelists expect the December 2025 compliance date to slip.

Reg NMS amendments (adopted September 18, 2024): This rule updates Reg NMS by changing the minimum pricing increment or "tick size" from $0.01 to $0.005 for stocks that are determined to be "tick constrained" because they have an average spread below $0.015 over an evaluation period. Approximately 74% of stocks will move to a half penny (the rest will stay at $0.01), based on the SEC's estimate using 2023 data. This will necessitate operational changes for broker dealers' systems to account for the periodic recalculation of average spreads. Access fees will move from $0.03 per 100 shares to $0.01 per 100 shares for all stocks priced above $1.00. On order price transparency – part of the Market Data Infrastructure (MDI) rules, which have been delayed – rules are being accelerated via the Reg NMS amendments. Specifically, Reg NMS adopted (1) the definition of the term "round-lot," which is scheduled to be included in the SIPs by November 2025, and (2) the definition of the term "odd-lot information," which will add odd-lot quotations priced better than the NBBO to consolidated market data and is scheduled to be included in the SIPs by May 2026.

On December 20, 2024, some exchanges sued the SEC over the tick size and access fee changes. On December 12, 2024, the SEC granted a partial stay of the implementation of the updated tick sizes/access fees pending the resolution of the ongoing legal challenge.

Market data (approved November 20, 2024): For five years, the SEC sought to reform the SIPs, after court challenges by the exchanges on the governance structure. The SEC ordered a new consolidated tape (CT) plan. Market participants' concerns remain, as the SIPs still do not include proprietary exchange feeds which traders need; they have to buy these feeds separately. The SIPs may cost less than the prop feeds, but panelists noted that it is still expensive, particularly for retail brokers who pay by customer. Further, the two SIPs do not compete with each other, nor do they have other competitors.

CAT: The CAT has two parts: the transaction database and the customer database. Regulators are not supposed to turn to the customer database unless they identify an issue in the transaction database requiring additional investigation. Many concerns exist around the CAT, despite the changes already made (discussed in the regulatory environment section).

Both databases are extremely large. Panelists estimated that peak records in the transaction database alone was one trillion per day. Panelists also estimated that there could be 100 million trading accounts in the U.S. The size of the databases creates issues. First, the significant amount of PII in one place creates a huge target for cybercrime. As discussed above, the SEC and SROs have prevented any new additions to the customer database. However, the data already collected continues to be stored here, remaining at risk.

The size of the databases creates significant costs as well. The original annual cost estimate was $50 million, which has grown to $250 million (panelists noted that deleting the existing PII could save around $12 million per annum). The CAT needs to be rightsized. Panelists are hopeful that since the PII concerns were heard, perhaps costs are next.

Reg SCI: The SEC adopted Regulation Systems Compliance and Integrity in 2014, given concerns around market technology after several issues in 2013: Hurricane Sandy and the Facebook (now Meta) IPO. The rule ordered entities to establish comprehensive policies and procedures for system integrity, provide notifications regarding system events, and report material system changes to the SEC, as well as requiring industry wide business continuity testing. The rule also required the designation of a dedicated SCI person and an annual review of systems.

In 2023, the SEC proposed to expand the rule to include all broker dealers, even those without an ATS. The proposal did not clarify benefits or define issues as to why all broker dealers need to be included. Broker dealers are largely fungible. They can route orders to over twenty other firms, which differs from exchanges.

Additionally, the SEC estimated a few million dollars for fixed and variable costs, but panelists believe this figure needs increased by a factor of ten. Panelists indicated that a better cost/benefit analysis is needed before proceeding under the SEC's 2023 proposal.

Rules unlikely to move forward:

- Order competition rule: The intent of the proposed rule was about order exposure, having retail client orders executed with other orders in markets. The SEC's concern was that there was a concentration of retail flow executed by wholesalers who internalize the orders (trade bilaterally as principal against such orders). The SEC's solution was to send these orders to an auction, where they would remain for 100 to 300 milliseconds. Market participant concerns around this rule – in addition to the fact that 300 mils is considered a lifetime in trading – included that the SEC should not be picking winners and losers.
- Best ex: The SEC's proposed best execution rule would have set a standard for all securities, not just equities. The rule was prescriptive, requiring policies and procedures addressing how they achieve best ex for customer orders. The rule included a quarterly analysis and an annual assessment of best ex. Market participant concerns around this rule included that there are already long-standing FINRA and MSRB best ex rules.

- Volume-based price tiers: This proposed rule addressed incentives from exchanges to attract liquidity. The SEC wanted to prohibit these incentives because the agency thought they unduly enticed broker dealers. However, panelists noted that the existing FINRA best ex rule already covers customer interest when routing orders. There was also concern that the rule could harm smaller broker dealers.
- PDA: This proposed rule was meant to address conflicts of interest when using predictive data analytics and similar technologies when interacting with investors to prevent firms from placing their interests ahead of investors' interests. Market participant concerns around this rule include that the definition of covered technology was too broad. Additionally, the rule said that conflicts of interest had to be eliminated or neutralized, as opposed to a disclosure requirement as under Regulation Best Interest.
- Definition of exchange: In this proposed Reg ATS reform, the SEC included communication protocol platforms and captured crypto exchanges. Market participant concerns around this rule include that it extended too far past its intent (which is also what SEC Acting Chairman Uyeda discussed).
- Definition of dealer: This proposed rule defined a dealer as a firm that buys/sells securities for its own account on a regular basis as part of its regular business. The rule set two qualitative standards to determine dealer activity as a part of regular business. Market participant concerns around this rule included that it would turn traders – the customers of dealers – into dealers, thereby eliminating the distinction between dealers and customers.

24-hour trading:

Extended hour trading was already occurring over-the-counter and on ATSs like Blue Ocean. The volumes have predominantly been driven by Asian retail investors. Twenty-four hour trading does not yet exist for trading on exchanges. In November 2024, the SEC approved the application of 24X National Exchange as a national securities exchange. However, the exchange is not yet approved for trading twenty-four hours a day, as it needs to submit a rule change for this activity, certifying that the SIPs are operable during overnight hours. In October 2024, NYSE announced its plans to extend weekday trading on its NYSE Arca equities exchange to twenty-two hours a day, five days a week. In February 2025, Cboe announced plans to offer twenty-four, five days a week trading on its Cboe EDGX exchange. In March 2025, Nasdaq discussed plans to offer twenty-four, five days a week trading.

However, twenty-four hour trading is dependent on expansion of the operating hours of the SIPs. In March 2025, the SIP committees[1] did not reach a unanimous decision to approve any of the four proposals for extending trading hours. Unanimous consensus is required to expand SIP hours. As such, there is more work to be done before moving forward with extended trading hours on exchanges.

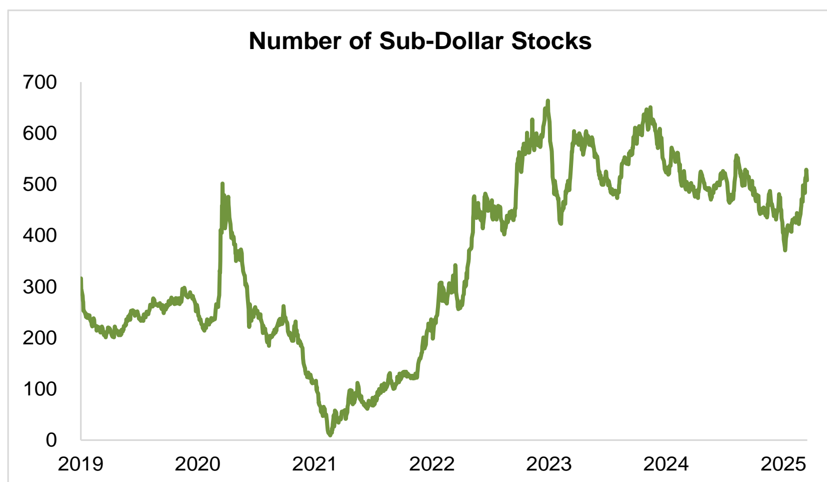
That said, panelists do expect extended trading hours to happen eventually, and this move will have market structure ramifications. Firms need the SIPs to operate overnight in order to know the National Best Bid and Offer (NBBO). Firms need the Trade Reporting Facilities (TRF) to be open in order to report trades. On the clearing and settlement side, in March 2025, the Depository Trust & Clearing Corporation (DTCC) announced plans to increase its clearing hours to twenty-four hours, five days a week by the second quarter of 2026. On price transparency, most ATS orders are considered not held, meaning they are not covered in Rule 605 reporting, whether during day or night trading hours. ATSs represent a smaller portion of regular trading hours, however, they currently represent a significant portion of overnight hours. This hinders price transparency in extended trading hours. There are

[1] Includes the Consolidated Tape Association (CTA) and Unlisted Trading Privileges (UTP) Plan.

regulatory issues as well. Reg NMS applies to regular market hours, meaning there will be no order protection rule overnight.

Finally, there are operational issues and questions with twenty-four hour trading. Firms are thinking through how to support this trading model: run a graveyard shift in New York twenty-two hours a day, five days a week; follow the sun – operational staff responsibilities shift from New York to Asia to London. Panelists noted that the follow the sun model could have regulatory issues if the firm does not have a FINRA Series 24 supervisor in each office. Also, if a trade breaks, a firm needs full front, middle, and back office support available.

Low priced securities: The number of low priced stocks has grown significantly since 2019. As of mid-March, there were 508 low priced stocks, +61% from the start of 2019.



Source: NYSE Research

To protect investors, the SEC has penny stock rules for these risky, more volatile stocks. The exemption from this rule is for stocks listed on an exchange. The growth in these stocks has concerned market participants, calling into question the appropriateness of listing standards. There are also concerns around corporate actions such as reverse stock splits, which listed companies use to continue to meet listing requirements. This calls into concern the integrity of markets. There are also market resiliency issues, as volume spikes could cause operational risk.

Virtu Financial submitted a proposal for SEC rulemaking on low priced stocks, asking for a tightening of listing standards. Both Nasdaq and NYSE have proposed rule changes for listing standards. There is a broad consensus that something needs to be done. Further, given the SEC's focus on capital formation, panelists expect there could be more of these stocks coming to market.

Fixed Income

As we look back at the last SEC administration's rules/proposals, we continue to discuss solutions in search of problems. Panelists noted that fixed income markets are not equities. Within fixed income, many different segments exist. There is not – and should not be – a one size fits all for regulations. There should be an assessment of a regulation's benefits relative to the costs, as well as flexibility for different types of trading models. Further, panelists discussed the need for industry input into rule proposals, noting that the old Fixed Income Market Structure Advisory Committee (FIMSAC) was a useful way to share feedback with the SEC.

Rule 15c2-11: The original rule was meant for small cap equity securities but the SEC took the position that the rule included fixed income. Some significant positive changes, through a series of no-action letters, have been made, including carveouts for: registered fixed income securities, fixed income securities where another class from the same issuer is listed on an exchange, foreign sovereign government securities, etc., as well as carveouts for 144A securities (private placements with public disclosures). However, panelists noted that the industry continues to review to understand if important product areas have not been carved out.

Treasury clearing: The recent extension of the implementation timeline for Treasury clearing was welcomed by market participants, but there remain multiple unresolved issues. Market participants have been working on these with the regulators, and the SEC acknowledged the importance of getting these right when granting the extension. Market participants need clarity on major issues, such as the treatment of mixed multiple CUSIP triparty, the usability of the interaffiliate exemption, extraterritoriality, etc. While progress has been made on a done with model, there is more work to go on developing documentation and the processes for the done away model. This is the model many participants prefer. Additionally, market participants welcome competition on the clearing house side. While currently FICC is the only approved clearing house for Treasuries, several other clearing houses have indicated that they will participate in this market. Time is needed to see and review applications for these new competitors. Additionally, margin issues remain. The outstanding issues in Treasury clearing are a real life example of what SEC Acting Chairman Uyeda discussed – the operational component of new regulations is often lost.

Finally, we highlight notes from other topics discussed:

- Dealer definition: The objective was to bring under regulation dealers in the Treasury market. The rule became too broad and is under litigation. A court has tossed the final rule, and the SEC has recently announced that it does not plan to appeal.
- Trade reporting: As a reminder, reporting of automated trades will go from fifteen minutes to one minute under FINRA's recently approved rule Manual trades will go from fifteen minutes to ten minutes and then to five minutes over three years. FINRA has delayed implementation of this rule and has indicated that it will seek to work with the SEC to address some of the industry concerns.
- Reg SCI: Panelists discussed the lack of need for this rule. There are already rules that cover this, as broker dealers already report system issues to FINRA. Most notably, the SCI rule was not meant to cover broker/dealers and was an awkward fit, at best, for broker/dealers.
- ATS: This was another rule that became too broad, scoping in communication protocol platforms. Panelists suggested a return to basics, i.e. the 2020 proposal whereby only certain government securities ATSs were added to the scope of the rule.
- Best ex: Panelists also discussed the lack of need for a SEC best execution rule. As there are already rules from FINRA and the MSRB, why add a third layer?

Equity Research

Panelists reminded us that Gen AI is not a search retrieval tool. It is predictive, providing a logical answer to a query based on its training. This can create issues depending on how it was trained. For example, there is a really smart person in a room, but they have been locked in that room since 2004. They use their knowledge to answer a question, but their knowledge is old. This hallucination is actually a feature of the technology, not a bug. The answers provided are predictive answers based on the model's training materials.

The next phase is agentic AI. Panelists compared this to having a very smart research assistant. They answer the original question but also think ahead by asking about what is next or how to present results. This phase has the potential to substantially increase efficiency. For example, AI could generate a summary and analysis of a corporate earnings report and regulatory filings and then identify questions for the earnings call.

Currently, firms are comfortable using AI in low risk use cases, such as enhanced web searches and language translations. As firms expand use cases higher up the risk scale, panelists noted that firms need to understand and evaluate all risks. Firms should have users show you exactly how they are incorporating AI into research. Firms are under pressure to use the tools. Senior management wants the efficiencies AI provides. Engineers are excited about the technology itself, encouraging firms to use it.

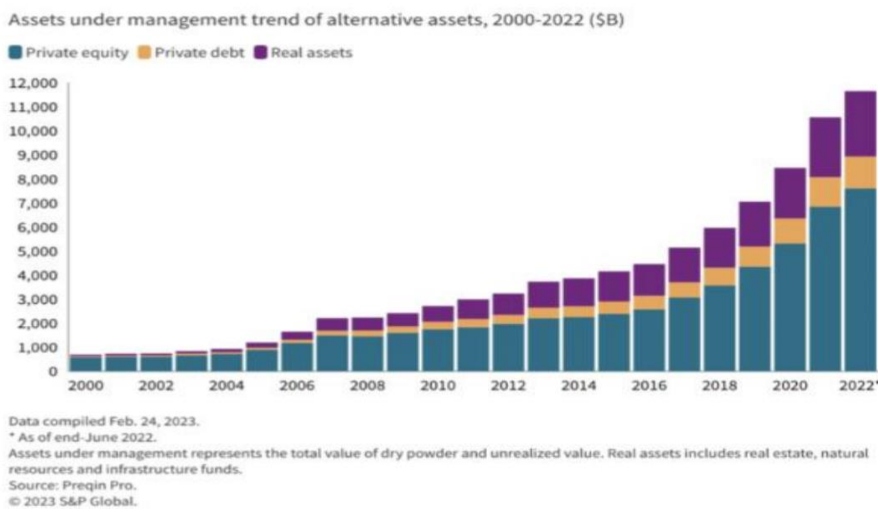
On the risk side, intellectual property concerns remain. Some sell side firms have updated contractual agreements with clients to specify use cases, limitations of liability, and prohibitions (no training of models, attribution requirements, etc.). However, some clients have told firms that since they already pay for the research, they do not need permission for other uses.

Another concern remains around Regulation Analyst Certifications (Reg AC) and disclosures. In case a client uses research to generate new content, a firm should have disclosures noting that the firm producing the original research has no liability for how the client uses it. Additionally, firms should note that they are not giving clients permission to use the third party data in the research reports. Research firms are not concerned if a client gathers research reports and puts them in a large language model (LLM) to compile and read them. Problems exist when clients use the research to train their own LLMs and generate new content. If the client produces a new research report, could there be regulatory issues down the line for the research firm?

Private Markets

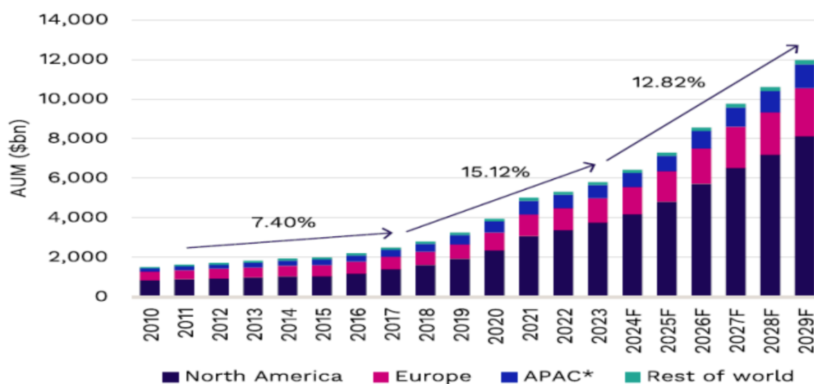
The phrase private securities markets is broad, but is commonly broken out into equity, debt/credit, and real assets, such as infrastructure. Total private markets have grown to over $11 trillion assets under management (AUM, in 2022), up from under $1 trillion in 2000. The private credit market is now over $1 trillion AUM, three times its size a decade ago. Panelists estimated that private companies represent 90% of total companies today. The numbers are expected to grow, with private equity alone estimated to reach $12 trillion by 2029, which would be an almost doubling of AUM from last year.

Private Markets Have Gradually Grown in the Past 20 Years



Private Equity Projected To Reach $12T by 2029

Private equity AUM by primary region focus



*AUM figures exclude funds denominated in yuan renminbi
Values relate to end of year
To avoid double-counting, totals exclude secondaries and funds of funds

Source: Preqin

Source: SIFMA C&L Annual Seminar breakout session slides
Note: The data in the slides is from the funds side. As many startups issue privately, the numbers could be understated.

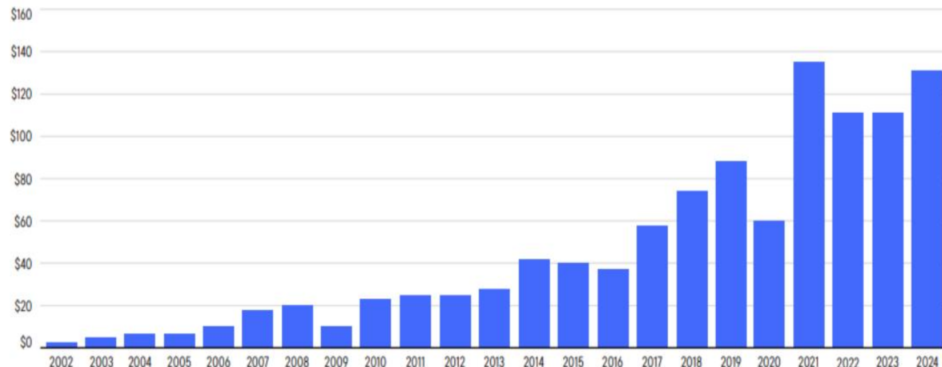
Companies are staying private for longer. From 2001 to 2023, the average company age when going public was eleven years, up from five years historically. As such, startups need ways to find liquidity for employees in the near term, not eleven years later. Enter the secondary market for private companies. Secondary market transaction volumes were estimated at around $130 billion as of June 2024.

Private market securities are traded on platforms such as the Nasdaq Private Market, a registered ATS. Securities are also traded off platform among market participants by phone to access liquidity. Trades can take time, given fragmentation, limited price transparency, and long settlement times. That said, market participants have worked to address these issues, and 2023 marked a record year for secondary private markets, according to panelists. Panelists expect secondary markets to continue to grow, after all, liquidity begets liquidity. Friction creates opportunity and there are more opportunities to find efficiencies.

Individual firms are in different positions depending on their business models. An active firm might be able to build scalable processes. A firm that is rarely involved might have higher risk because trading in private markets is more of an exception for the firm.

Additionally, broker dealers continue to work through legal and regulatory challenges. For example, trading private instruments requires attention to potential material non-public information risks and suitability assessments

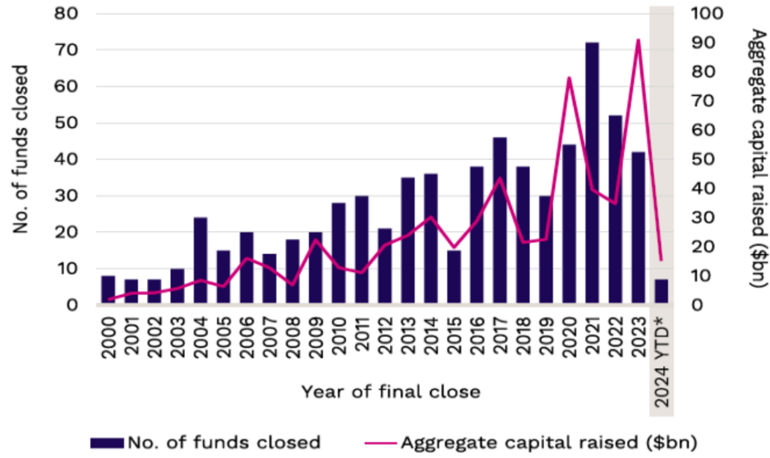
The Secondary Market Has Grown Rapidly



Source: SIFMA C&L Annual Seminar breakout session slides

2023 Was a Record Year For Secondary Transactions

Global private equity secondaries market fundraising



*YTD to end-May 2024

Source: Preqin Pro. Data as of May 2024

Source: SIFMA C&L Annual Seminar breakout session slides

Cybersecurity Viewpoints

“Reports of my death have been greatly exaggerated." – Signed, Ransomware[2]. Ransomware attacks are still prevalent, and the threats continue to grow in sophistication. Multi-factor authentication (MFA) does not always work. Hackers develop well-designed fake websites and use middle men to intercept calls of employees trying to verify links or communications. Account takeovers are becoming more prevalent and, unfortunately appear to be here to stay. Firms need to remain vigilant, which includes basic hygiene and ensuring available patches are deployed in a timely manner to their systems.

Cybersecurity risk can be thought of as the management of threats and vulnerabilities. Firms that have secured their own systems are still exposed to vulnerabilities from third- and fourth-party vendor risk. Understanding the supply chain risk should be a priority for firms and the industry. What are the cybersecurity controls your vendors are implementing? What data of yours do they have and is it sensitive data? After all, your cybersecurity plan is only as strong as the weakest link. Vendor dependency is not simple to unwind in the case of a cyber event. An impacted vendor could be out of commission not days but weeks or months so firms need to prepare for these types of outages and ensure this is included in their business continuity plans.

To stress the importance of assessing your vulnerabilities, such as vendor risk, new this year to the annual FINRA risk report was third-party risk. The report noted the importance of performing due diligence on data controls in vendor contracts and knowing your vendors policies and procedures. The report also included Gen AI as a third-party risk to be considered and quantum computing as an emerging threat.

Not to be confused with cybersecurity, the FINRA report also discussed cyber-enabled fraud. New account fraud, insider trading, and Generative AI-enabled fraud were all included in the report. Panelists noted that FINRA recommended tabletop exercises as an effective tool to help firms to prepare for these issues.

Finally, as to what the change in administration means for cybersecurity, three areas were called out, firstly the potential opportunity to simplify and harmonize cybersecurity rules across agencies in particularly around incident reporting. Secondly the impact that any potential change could have on public-private information sharing industry groups, such as the Department of Homeland’s Cybersecurity and Infrastructure Security Agency (CISA) and U.S. Treasury’s Project Fortress. Thirdly, the new administration has emphasized decreasing regulatory burdens at the federal level which may lead to local states and jurisdictions stepping into the space and creating a patchwork of unmanageable regulatory frameworks.

[2] A paraphrasing of a Mark Twain quote.

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