## SEC Risk Alert
## Investment Adviser Obligations Related to Economic Conflicts of Interest

On June 9, 2026, the Securities and Exchange Commission (***SEC***) published a Risk Alert focused on investment advisers' compliance with their fiduciary obligations in the context of economic conflicts of interest. As fiduciaries, investment advisers are required to either eliminate conflicts of interest or disclose them fully and fairly, clearly enough for clients to provide informed consent. The Division of Examinations (***Division***) has flagged adviser compensation practices as an examination priority since 2021 (see Division Examination Priorities, fiscal years 2021-2026), and this Risk Alert documents what examiners continued to find.

The risk alert identified several areas of concern. The most significant involved advisers directing client cash into sweep accounts, sometimes held at affiliated custodians, while collecting revenue from those arrangements without adequate disclosure. Specific deficiencies in this area included:

- Advisers receiving payments from custodians based on client cash balances without disclosing that arrangement, or using "may receive" language in disclosures when they were already receiving the revenue. The SEC has made clear that describing an existing conflict as one that "may" exist is not adequate disclosure;
- Charging asset-based advisory fees on client cash balances without disclosing it, in some cases resulting in clients generating negative net returns on their cash; and
- Recommending only higher-cost money market fund share classes that paid the adviser revenue sharing, without disclosing that lower-cost share classes of the same funds were available.

The risk alert also identified conflicts arising from other revenue sources, including:

- Recommending mutual fund share classes that paid the adviser (or an affiliated broker-dealer) 12b-1 fees, without disclosing that cheaper share classes were available to the client;
- Failing to disclose interest rate markups on margin loans that benefited affiliated broker-dealers; and
- Not disclosing custodial credits received for client assets held at certain firms, markups on clearing broker fees passed through to clients, or termination fees associated with clearing relationships.

The risk alert further identified deficiencies in advisers' Form ADV brochures (Part 2A). Under Item 10, advisers are required to disclose financial industry affiliations and related conflicts, yet examiners found advisers omitting conflicts arising from compensation arrangements with affiliated entities. Under Item 12, disclosures about broker-dealer selection practices were in some cases inconsistent with actual practice, particularly where revenue sharing with clearing firms was involved.

A separate category of findings involved fee billing that did not match the advisers' own agreements and disclosures. Examples included:

- Prorating fees in ways not permitted by client agreements; charging fees on asset classes specifically excluded from billing (such as fixed income holdings or initial cash deposits); failing to apply fee breakpoints when householding client accounts; and failing to rebate transaction fees (such as mutual fund transaction fees) that advisory agreements specifically stated clients would not incur;
- Charging advisory fees after account managers departed and accounts went unassigned; billing inactive, cash-only accounts for services that were not being provided; and duplicative billing following internal asset transfers; and

- Failing to refund prepaid fees to clients who terminated advisory agreements before the end of a billing period, despite the advisory agreement requiring it.

Finally, the risk alert noted that many of these errors persisted because compliance programs were not designed to catch them. Policies and procedures failed to address the full range of billing arrangements in use, and in a number of cases the compliance manual, client agreements, and Form ADV contained contradictory information about fees. Most firms also lacked controls to test whether fees were calculated correctly, verify that rebates were issued, or confirm that terminated clients were no longer being billed.

In light of this risk alert, we recommend that advisers review their compensation arrangements and revenue-sharing relationships to confirm that all material conflicts of interest are disclosed to clients in a clear and complete manner. Advisers should audit their fee billing processes against the terms of their advisory agreements and Form ADV disclosures, and implement controls to periodically test for calculation errors and verify refund and rebate practices. CCOs may also want to use this as an opportunity to review their compliance policies and procedures to ensure they accurately reflect current billing practices and are sufficient to detect and prevent the types of errors the SEC identified.

**See SEC Risk Alert:** https://www.sec.gov/compliance/risk-alerts/exams-observations-ia-obligations-related-economic-conflicts-interest-060926