

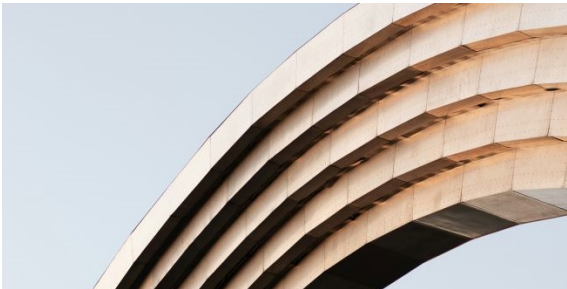
U.S. Financial Regulation Group 2026 Year Ahead: Navigating Disruption, Leveraging Innovation and Building Long- Term Resiliency

January 2026

In 2025, the U.S. financial regulatory landscape witnessed one of the most dramatic transformations in a decade, with a flurry of White House executive orders focusing on the financial services sector and a range of deregulation initiatives undertaken by the federal financial regulatory agencies. With the change of administration came a fundamental pivot from expansive rulemaking to targeted deregulation, along with a substantial reduction in federal enforcement activity.

2026 promises to be a year of both challenge and opportunity for financial institutions, which we anticipate will be shaped by three key themes:

- > **Disruption:** In a period marked by domestic and global political volatility, dramatic shifts in regulatory and supervisory policies and priorities, new markets and rapidly expanding technologies, firms must be equipped to navigate disruption and uncertainty by adapting strategies, policies and compliance measures to address new regulatory risks—as well as the attendant competitive challenges and opportunities—in a landscape that evolves by the hour.
- > **Innovation:** Greater regulatory clarity and a more relaxed supervisory environment in areas such as digital assets, payments, and AI integration present a unique opportunity for firms to leverage innovation, while at the same time portending potentially dramatic shifts in financial markets, new challenges to established industry participants, and fundamental changes to the manner in which financial products and services are delivered.
- > **Long-Term Resiliency:** Dramatic shifts in the U.S. regulatory environment have occurred before and surely will occur again. A key challenge for many firms will be to ensure long-term resiliency, appropriately balancing the opportunities presented by the current environment against the fact that regulatory frameworks and agency priorities—including areas of supervisory and enforcement focus—can and do change. Despite deregulatory momentum, robust anti-fraud controls and well-resourced compliance functions in key risk areas will remain as important as ever.



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In each of these areas, 2026 also presents a unique opportunity for proactive engagement, as the U.S. federal regulators in various areas have demonstrated an increased receptivity to industry input on proposed rules that in many cases are likely to apply for years to come. As comprehensive digital asset legislation moves through Congress, SEC-CFTC harmonization is underway, the federal bank regulators seek to expand access to innovative charter options and the U.S. payments infrastructure, and regulators both encourage and probe AI implementation across the industry, firms may want to consider whether medium- and long-term strategic objectives would be served by an increased focus on agency rulemaking processes and the development of supervisory policies and priorities.

Deregulation and Disruption

Right from the start of 2025, the administration's Executive Order 14192, **"Unleashing Prosperity Through Deregulation,"** signaled an immediate policy turn "to promote prudent financial management and alleviate unnecessary regulatory burdens." Federal financial regulatory agencies quickly embraced the directive to scale back regulations. Under the new leadership of Chairman Atkins, in June 2025 the Securities and Exchange Commission (the **"SEC"**) withdrew 14 pending rule proposals initiated during the prior administration, including the controversial safeguarding of client assets rule, the AI conflicts of interest rule, the cybersecurity risk management rules, and the ESG strategy disclosure rule, among many others. In September 2025, then Acting Commodity Futures Trading Commission (**"CFTC"**) Chairman Pham similarly **announced** a "back to basics" agenda, promising to "right-size and fix" "unworkable Dodd-Frank rules and broad overreach." The federal banking regulators – the Office of the Comptroller of the Currency (the **"OCC"**), the Federal Reserve Board (the **"FRB"**), and the Federal Deposit Insurance Corporation (**"FDIC"**) – also took steps toward deregulation, including through relaxation of certain stress testing and regulatory capital requirements, the withdrawal of supervisory non-objection requirements around most digital assets activities, abandonment of guidance on climate-related financial risk, and the elimination of "reputational risk" as a component of bank examination processes.

The shift in priorities under new agency leadership is reflected in the federal financial regulatory agencies' recent regulatory initiatives and agendas. Changes in regulation mean changes to practices and to compliance – financial institutions should be thinking about the impact that proposed changes and rulemakings would have on their business, operations and compliance policies and procedures.

Investment Advisers and Broker-Dealers

The **SEC's most recent regulatory flexibility agenda** (the **"SEC Reg Flex Agenda"**) follows the deregulation tune. Industry-sensitive contemplated reforms focus on expanding access to both public and private capital markets by issuers, investors and intermediaries, modernizing outdated regulatory frameworks and addressing gaps and grey areas in previous regulations.

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Some of the up-and-coming regulatory initiatives investment advisers should focus on include:

- > Proposed amendments to the custody rules under the Investment Advisers Act of 1940 (the “**Advisers Act**”) and the Investment Company Act of 1940 (the “**1940 Act**”) to “improve and modernize the regulations around the custody of advisory client and fund assets.” Although the scope of proposed amendments is still unclear, changes could potentially include clarification regarding the treatment of digital assets and the eligibility of certain state-chartered trusts to be recognized as qualified custodians (consistent with a recent no-action letter allowing registered investment advisers (“**RIAs**”) and regulated funds to maintain crypto assets and related cash and cash equivalents with state-chartered trust companies).
- > Proposed amendments to update exempt offering pathways designed to “facilitate capital formation and simplify the pathways for raising capital for, and investor access to, private businesses.” Although the ultimate scope of changes is unclear, it could encompass amendments to Regulation D, including to reflect the SEC’s March 2025 no-action guidance providing additional flexibility for private fund managers to satisfy the accredited investor verification requirements under Rule 506(c).
- > Proposed Customer Identification Program (“**CIP**”) rule for RIAs and exempt reporting advisers (“**ERAs**”); this proposal remains on the agenda at the final rule stage, with an expected final action date of April 2026 (although it could be postponed, like the investment adviser AML Rule).
- > Proposed amendments to the 1940 Act affecting fund operations and cross-trading capabilities, including proposed amendments to Rule 17a-7, the “cross-trading rule.” It is still uncertain whether amendments to Rule 17a-7 will include long-awaited reforms to facilitate fixed-income cross trading.
- > Proposed initiative to “rationalize disclosure practices to facilitate material disclosure by companies and shareholders’ access to that information.” This initiative echoes statements by SEC Chair Atkins on December 2, 2025, that the SEC must root its disclosure requirements in the concept of materiality. Although the primary focus of this initiative seems to be reducing burdens for public companies, new guidance on materiality could also have a ripple effect for investment advisers, including with respect to registered investment company (“**RIC**”) disclosure obligations.
- > Proposed amendments to Form N-PORT for RICs.

In the broker-dealer regulatory space, the SEC has also signaled that it intends to modify existing frameworks to account for crypto-related activities, and potentially scale back proposals taken by the prior Commission:

- > Further to recent no-action relief and guidance provided to industry members who seek to transact in crypto assets, the SEC has indicated it seeks to amend rules relating to the national securities exchanges and alternative trading systems (“**ATS**”) to account for the trading of crypto

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assets on regulated securities markets, as well as broker-dealer financial responsibility rules.

- > Following recent court actions which vacated and/or called into question key procedural aspects of actions taken by the prior Commission—and related announcements by the Atkins Commission that it would be reviewing these rules—the SEC has indicated further changes to the rules regarding the scope of, and exceptions from, the term “dealer” and “exchange,” which were each viewed as having potentially dramatic expansive effect in which industry participants could be brought within the broker-dealer and exchange registration regimes.
- > After an effort by the prior Commission to bring fixed income trading within the scope of Rule 15c2-11 information reporting requirements, and the recent no-action reversal of this position, the SEC has indicated it will seek to amend the rule to exclude specific kinds of securities.
- > Opening of a public comment process and “comprehensive rethink” of the Consolidated Audit Trail (“**CAT**”), which is run by FINRA and has been described as the world’s largest database and has been the subject of longstanding industry concerns regarding cost and data security.

Aside from the SEC Reg Flex Agenda, other public statements from Commissioners may be read to indicate a revisitation of long-dormant proposals from prior Commissions. For example, in a [statement](#) to the SEC’s Small Business Capital Formation Advisory Committee, SEC Commissioner Peirce discussed that Committee’s reconsideration of the “finders exemption” to broker-dealer registration. Formal exemptive relief to so-called “finders” would provide clarity to a longstanding ambiguity of who may act as a compensated intermediary in securities transactions and capital formation activities.

Derivatives Firms

On December 19, 2025, the CFTC’s Market Participants Division (“**MPD**”) issued a no-action letter stating that, subject to certain conditions, the MPD will not recommend enforcement action against RIAs who operate commodity pools that are privately offered solely to sophisticated investors known as qualified eligible persons (“**QEPs**”) for failing to register with the CFTC as a commodity pool operator (“**CPO**”). The CFTC’s no-action position was adopted as an interim measure to reduce the burdens on certain private fund managers to institutional and high net worth individuals until the CFTC promulgates rules, or publicly determines not to promulgate rules, addressing the contemplated reinstatement of the exemption from registration formerly set forth in CFTC regulation 4.13(a)(4) (the “**QEP Exemption**”), which was rescinded in 2012. It is worth noting that the definition of QEP includes both “Qualified Purchasers” and “Knowledgeable Employees, as those terms are defined in the 1940 Act.

The CFTC’s Spring 2025 Regulatory Flexibility Agenda (the “**CFTC Reg Flex Agenda**”) lists a flurry of contemplated rulemaking initiatives, including the following topics (among others):

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- > Registration and reporting requirements for private funds, including a CFTC staff recommendation for the CFTC to “rescind and/or amend [CFTC] regulation 4.13(a)(3)-(4) as it relates to registration, monitoring, and reporting requirements by private equity funds.”
- > CPO exemptions for mutual funds, to “rescind certain registration requirements for mutual funds required to be registered with the [CFTC].”
- > Cross border application of swap dealer and security-based swap dealer requirements, including the CFTC Staff’s potential recommendation to the CFTC to amend swap dealer registration requirements. Notably, in advance of this contemplated formal rulemaking, on December 9, 2025, the CFTC issued no-action relief to harmonize three separate definitions of “U.S. person,” which dictate how the regulatory requirements for swaps are applied to trades involving some non-U.S. persons (a long-awaited development in the industry).
- > A notice of proposed rulemaking (“**NPRM**”) aimed at revising business conduct and swap documentation requirements for swap dealers and major swap participants. As stated in the NPRM, this proposal would seek to codify relief from the pre-trade mid-market mark disclosure requirement and propose exceptions to compliance with certain business conduct and documentation requirements when executing certain types of swaps. The NPRM could also seek to modernize outdated record retention requirements.
- > A proposal regarding the operational resilience framework for certain CFTC registrants, which would require them to establish and maintain an operational resilience framework that includes a cybersecurity program, third-party relationship program, and business continuity program.

Banks

The initiatives undertaken by the federal bank regulators in 2025 as well as their respective rulemaking agendas going forward reflect a similar focus on deregulatory measures and rescission of some of the perceived excesses of rulemaking under the prior administration. In addition to rulemaking aimed at scaling back certain regulations, we also anticipate a continued interagency focus on changes to supervisory standards and practices aimed at greater transparency, reduced subjectivity in the examination process, and relaxation of certain ratings-based restraints.

- > **Basel III Endgame.** FRB Vice Chair for Supervision Bowman has indicated that the federal bank regulators are working toward a revised NPRM to implement the Basel III endgame capital regime early in 2026. Building on several of the agencies’ 2025 initiatives, including revisions to the enhanced supplementary leverage ratio for U.S. G-SIBs, the revised proposal is expected to be more industry-friendly than the agencies’ original proposal from 2023—and potentially capital neutral—as result of recalibration of

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certain risk weights, the easing of certain capital floors and metrics, and adjustments to certain G-SIB surcharge multipliers, among other elements.

- > **Charter and Payment System Access.** Consistent with the administration's deregulatory agenda as well as its goal of fostering innovation in the financial sector, we are likely to see several significant developments in 2026 related to the ability of certain crypto-focused firms, payments companies, and other fintechs to access federal "bank" charters and/or special purpose accounts with the Federal Reserve (sometimes referred to as "skinny" master accounts) providing access to the Federal Reserve's payment rails without requiring an account holder to have a Reserve Bank master account. The OCC in December 2025 issued an interpretive letter confirming that national banks may engage in riskless principal crypto transactions while also approving five limited purpose trust bank charter applications that had been filed by firms seeking to provide trust and other fiduciary services to crypto- and digital asset-focused clients, a trend we expect will continue into the new year. Also in December, the FRB issued a request for information and comment on its proposed prototype for a new limited purpose "payment account" that would afford eligible financial institutions the ability to clear and settle payments through the Federal Reserve's payments rails, which to date have primarily been available only to traditional banks.
- > **Supervisory Ratings and Exam Reform.** The bank regulators took several initial steps toward supervisory reform in 2025, including multiple proposals intended to narrow the focus of supervisory and examination processes to material financial risks as opposed to more technical or administrative compliance matters, as well as revisions to the large financial institution ("LFI") rating framework relaxing certain restrictions and reducing enforcement risk for firms identified as having limited or isolated supervisory issues. This is expected to be a continued area of focus for the federal bank regulators in 2026, likely to include finalization of the joint proposal from the OCC and FDIC to establish a uniform definition for "unsafe or unsound practices" and limit examiner authority to issue matters requiring attention ("MRAs") by requiring that an MRA be tied directly to material financial risk or an actual violation of law—a potentially significant reduction of the regulatory compliance burden facing affected institutions.

Innovation

The regulatory agenda for 2026 centers on three transformative developments: comprehensive digital asset market structure legislation moving through Congress, joint SEC-CFTC regulatory harmonization initiatives **announced in September 2025**, and evolving AI governance expectations embedded in the **SEC's examination priorities**. This transition offers more than mere compliance relief, and firms that view it as a strategic opportunity will find themselves at an advantage when regulatory frameworks crystallize.

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Digital / Crypto Assets

The U.S. regulatory framework for digital assets is undergoing some of the most significant changes in the industry's history. The administration's January 2025 executive order, Strengthening American Leadership in Digital Financial Technology (the "**DFT Order**"), set the direction by encouraging lawful use of digital assets and blockchain technologies. Its key objectives include developing dollar-backed stablecoins, promoting fair and unrestricted access to banking services, and prohibiting U.S. federal agencies from establishing, issuing or promoting central bank digital currencies ("**CBDCs**").

Legislative and policy developments

In July 2025, the Guiding and Establishing National Innovation for U.S. Stablecoins Act (the "**GENIUS Act**") became law, introducing the first U.S. federal regime for payment stablecoins. The GENIUS Act envisions extensive follow-on rulemaking, including regulations for permitted payment stablecoin issuers. Among other things, the GENIUS Act: (i) treats permitted payment stablecoins – fully backed and issued by "permitted payment stablecoin issuers" – as neither "securities" nor "commodities", instead supervising them as banking products subject to licensing, reserve, capital, disclosure and audit requirements, under both federal and state oversight, and (ii) imposes specific custody, safekeeping and disclosure obligations in relation to reserves and limits the use of consumer nonpublic personal information.

In 2025, the House also passed the Anti-CBDC Surveillance State Act (H.R. 1919), which would bar a Federal Reserve Bank from issuing a CBDC directly to individuals without specific Congressional authorization or using a CBDC to implement monetary policy. In January 2025, the House also passed the Digital Asset Market Structure Clarity Act of 2025 (the "**CLARITY Act**"), which would create a market structure framework for digital assets by drawing clearer lines between digital commodities (subject to CFTC oversight) and digital asset securities (regulated by the SEC). As with the GENIUS Act, substantive implementing rules would still be required. As of the date of this publication, Congress has not adopted comprehensive digital asset market structure legislation.

In the Senate, digital asset market structure legislation remains the subject of debate. A key Senate Banking Committee vote is targeted for mid-January, but disagreements on topics remain such as decentralized finance ("**DeFi**"), conflicts of interest and stablecoin yield (including in light of a recent People's Bank of China policy change permitting interest on e-CNY wallet balances). As of the date of this publication, there remains uncertainty as to whether Congress will pass digital asset market structure legislation this year. Even if Congress does not act further, U.S. federal agencies are expected to continue to drive digital asset regulation in 2026.

SEC, CFTC and banking regulators

In 2025, the SEC shifted away from a predominantly enforcement-driven approach and launched an agency-wide Crypto Task Force led by

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Commissioner Hester Peirce. In September 2025, the SEC and CFTC issued a joint statement on regulatory harmonization and held a joint roundtable, signaling a move from jurisdictional competition to collaboration.

On November 12, 2025, SEC Chair Atkins stated in a “Project Crypto” speech that “most crypto tokens trading today are not themselves securities,” although some may have been sold as part of an investment contract. He expressed the view that “digital commodities,” “network tokens,” “digital collectibles” and “digital tools” are generally not securities under the Howey test, while “tokenized securities” remain securities. On December 17, 2025, SEC Staff issued an interpretative statement and updated FAQs on broker-dealer financial responsibility rules for crypto assets, including how broker-dealers can maintain “physical possession” or “control” of customer crypto assets. This followed no-action relief granted to The Depository Trust Company (“**DTC**”) to offer securities tokenization services, further opening the SEC framework to new technologies.

On the commodities and derivatives side, then-Acting CFTC Chair Caroline Pham launched “Crypto Sprint” and tokenized collateral workstreams. On December 8, 2025, the CFTC issued three coordinated letters that modernize the use of digital and tokenized assets as collateral in derivatives markets. For additional information regarding these developments, please see our related client alert titled “[The CFTC Modernizes its Approach to Digital Assets as Collateral](#).”

Banking regulators are also increasingly central to the digital asset and stablecoin ecosystem. Under the GENIUS Act, banking regulators are expected to develop a prudential regime for permitted payment stablecoin issuers. As part of this effort, the FDIC has published proposed rules for insured depository institutions and their subsidiaries that wish to issue or support stablecoins. Firms engaging with digital or tokenized assets should view 2026 as a critical period to align investment strategies, documentation, policies and procedures, disclosures and risk management with fast-moving statutory and regulatory frameworks, to capture new opportunities while managing risk.

Artificial Intelligence (“AI”)

Federal policy developments

The current administration has adopted the position that the U.S. is “in a race to achieve global dominance in [AI].” In January 2025, the administration issued Executive Order 14179 (“Removing Barriers to American Leadership in Artificial Intelligence”), and in July 2025, the administration announced the America’s AI Action Plan, which seeks to accelerate AI innovation, among other related objectives.

On December 11, 2025, the administration issued another executive order titled “Ensuring a National Policy Framework for Artificial Intelligence” aimed at blocking states from crafting their own regulations for artificial intelligence, and ordering the Attorney General to establish an AI Litigation Task Force to challenge U.S. state-level AI laws inconsistent with the policy set forth in the

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federal administration's Executive Order. The goal of the Executive Order is "to ensure that there is a minimally burdensome national standard."

Regulatory oversight

However, as shown in the multiple regulatory agencies' priorities for 2026, AI related fraud, including misrepresentations with respect to use of AI, and related cybersecurity and privacy considerations remain focus areas, and firms should not assume that regulators are withdrawing from the field. Additionally, the use of AI (and generative AI in particular) raises important questions when applying existing regulatory frameworks. One clear example is the application of the recordkeeping rules applicable to investment advisers and broker dealers, which were written at a time when AI was a science fiction concept at most.

Against this backdrop, perhaps steady yet cautious progress will pay off in the long run. Firms should ensure that policies and procedures for AI use include appropriate approval processes, testing and validation requirements, ongoing monitoring and escalation procedures for identified issues. AI policies should consider both firm-developed AI tools and third-party AI solutions. Firms should also ensure that AI training for employees is appropriately tailored to limitations and risks and periodically reassessed and updated in accordance with the firm's policies regarding AI use. Of course, it becomes crucial that all statements about AI use are accurate, not misleading, and appropriately describe the limitations and risks inherent with the use of AI.

Lastly, firms should expect to be asked questions about AI use, governance, and oversight, and should be prepared to articulate the firm's approach, including how AI tools are selected, tested, monitored, and supervised. Gray areas remain regarding the application of existing regulatory frameworks to novel AI uses, and firms should consider having a documented rationale for their position in areas of ambiguity.

Long-Term Resilience

Investment Advisers and Broker-Dealers

On November 17, 2025, the SEC's Division of Examinations (the "**Division**") released its **Examination Priorities for 2026** (the "**2026 Exam Priorities**"), focused on transparency and on enabling firms to "prepare to have a constructive dialogue with SEC examiners." In turn, FINRA also issued its 2026 Annual Regulatory Oversight Report (the "**2026 FINRA Report**") outlining its views of key risks and best practices for FINRA-member firms.

Investment Advisers

In 2026, the Division will continue to focus on core areas such as fiduciary duty, standards of conduct, the custody rule, and fee disclosures, and will also examine for compliance with new rules, particularly the 2024 amendments to Regulation S-P. The Division will continue to prioritize examinations of newly registered advisers and investment companies and encourage robust compliance programs. The 2026 Exam Priorities show a targeted interest in aspects of advisory businesses serving retail investors.

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These priorities correlate with the SEC's ongoing efforts to expand retail access to private markets, as shown by the SEC's abandonment of the requirement that retail closed-end funds limit their investments in private funds to 15% of their net assets, and the administration directive to regulators, and specifically to the SEC, to consider ways to facilitate access to alternative investments by participants in 401(k) and other participant-directed defined-contribution retirement savings plans (including consideration of revisions to existing SEC regulations and guidance relating to accredited investor and qualified purchaser status). They also signal that the focus on private funds continues through focus on emerging areas that often serve as the grounds for private fund enforcement actions.

Emerging and key focus areas include:

- > Favoritism in investment allocations and interfund transfers for advisers to private funds that are also advising SMAs or newly registered funds, newly launched private funds, and differential treatment of investors, including use of side letters, among other areas.
- > Advisers that are dually registered as broker-dealers, and particularly on "dual-hatting" arrangements where representatives receive compensation that may create conflicts of interest, and advisers utilizing third parties to access clients' accounts.
- > Advisers' merger activities, given the resulting operational and/or compliance complexities or new conflicts of interest that tend to arise in adviser merger, consolidations or acquisitions.
- > Effectiveness of compliance programs (a fundamental part of the examination process), including core areas such as marketing, valuation, trading, portfolio management, disclosure and filings, and custody, as well as an analysis of advisers' annual compliance reviews.
- > Activist engagement practices, in particular late or inaccurate filings on Schedules 13D and 13G, Form 13F; Forms 3, 4, and 5, and Form N-PX.
- > Advisers who change their business models or are new to advising with respect to particular types of assets, clients, or services.
- > Investment products including (i) alternative investment products (e.g., private credit and private funds with investment lock-up for extended periods), (ii) complex investments (e.g., ETF wrappers on less liquid underlying strategies, option-based ETFs, and leveraged and/or inverse ETFs), and (iii) products that have higher costs associated with investing (e.g., high commissions and higher investment expenses than similar products/investments).

The Division will also continue to prioritize examinations of RICs, including mutual funds and ETFs, consistent with the SEC's focus on retail investors, particularly those investors saving for retirement.

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Examinations of RICs will generally include their compliance programs, disclosures, filings and governance practices. Key focus areas include fund fees and expenses, portfolio management practices and disclosures, and the amended fund “Names Rule” (following the June 11, 2026, compliance date for larger fund groups and the December 11, 2026, compliance date for smaller fund groups).

On December 16, 2025, the Division released a new Marketing Rule risk alert focused on the use of (i) testimonials and endorsements and (ii) third-party ratings. While the focus areas listed in the risk alert seem generally consistent with those identified in previous risk alerts and SEC enforcement actions for Marketing Rule violations, the recent risk alert shows that the Division continues to focus on advisers' compliance with and implementation of the Marketing Rule, including its more technical aspects. The alert also signals that the SEC will test compliance with all prongs of the requirements pertaining to testimonials and endorsements and third-party ratings. Advertisements on advisers' websites (or “d/b/a” websites) and social media profiles or accounts seem to be a key focus area.

The Marketing Rule risk alert provides concrete examples of practices that the Division found to be deficient, including, among other practices:

- > Failing to provide required disclosures at the time a testimonial or endorsement is disseminated, and failing to include required “clear and prominent” disclosures in a sufficiently prominent manner (e.g., by using hyperlinked disclosures or smaller/lighter fonts than the testimonials or endorsements themselves).
- > Using lead-generation firms, influencers, referral networks, or “refer-a-friend” programs and not disclosing material terms of the compensation arrangement or material conflicts of interest.
- > Using third-party ratings without complying with all the applicable Marketing Rule requirements, including the “reasonable basis” and the “clear and prominent” disclosure requirements.

Broker-Dealers

In 2026, the Division will continue to focus on core broker-dealer obligations like financial responsibilities and will also look at how broker-dealers continue adapt to ongoing modern threats (e.g., cybersecurity), as well as more recent regulatory standards like Regulation Best Interest (“**Reg BI**”).

Reviews will also focus on areas including:

- > Trading practices, including best execution, fair pricing, and Regulation SHO order marking.
- > Retail sales practices, including the standard of care and conflicts of interest requirements under Reg BI—with a particular focus on “complex products” like private placements, alternative investments, structured products, and other investments that are “based on exotics benchmarks, are illiquid, or

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represent a growth area for retail investments”—as well as a firm’s disclosures via Form CRS.

- > Operational resiliency programs, including supervision of third-party/vendor-provided services, and credit, market and liquidity risk management controls.
- > Liquidity risk management controls, as well as cash sweep programs and prime brokerage activities (e.g., issues of concentration, liquidity, and counterparty credit risks).
- > Practices associated with extended hours trading, and municipal securities, including the rates reset process on variable rate demand obligations, priority of orders, and mark-ups disclosure.

On December 9, 2025, **FINRA published its 2026 Annual Regulatory Oversight Report**. Topics covered in the report include, among other areas:

- > Private placements, including conducting proper due diligence on an issuer’s business and reasonable investigations of a person’s Regulation D “bad actor” status.
- > Focus on modern technological risks including the use of generative artificial intelligence (“**GenAI**”), as well as cybersecurity protections and management of risks associated with cyber-enabled fraud.
- > Anti-money laundering controls and the prevention and detection of manipulative trading activities, including specifically in small-cap exchange listed equities.
- > Third-party vendor management, including due diligence practices and ongoing supervision of outsourced regulated functions.
- > Crypto and digital assets, including staying abreast of regulatory developments in the space, and maintaining effective due diligence over unregistered offerings.
- > Managing risks associated with firm communications in various formats, including maintaining awareness and controls over all communication channels.
- > Compliance with trade reporting requirements (e.g., CAT) and best execution obligations, including ongoing “regular and rigorous” reviews.

Derivatives Firms

In 2026, the CFTC is likely to continue focusing enforcement efforts and resources on compliance violations involving customer harm (especially with respect to retail investors), fraud and market manipulation. The “enforcement sprint initiative” announced by CFTC Acting Chair Pham back in March 2025 culminated in **six orders** simultaneously filing and settling material compliance-related violations against 10 firms (with a combined \$8,325,000 in civil monetary penalties). Applying a mitigation credit matrix as provided in the February 2025

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CFTC Enforcement “[Advisory on Self-Reporting, Cooperation, and Remediation](#),” all respondent firms except for one received significant credit for self-reporting or cooperation. Although the CFTC is less likely to refer non-material compliance violations with no customer harm to the enforcement division, CFTC registrants should continue to monitor compliance with their regulatory obligations. Lack of progress in remediating violations for extended periods of time will be a likely factor in assessing materiality of CFTC violations.

Banks

Deregulatory trends and supervisory reform should reduce compliance burdens on banking groups and give rise to new commercial opportunities—not limited to digital assets, but also in terms of general M&A activity and other activities requiring regulatory or supervisory approval. As industry participants navigate this new landscape, they will need to (i) adapt to new areas of supervisory focus where regulatory risk may actually increase under the current administration and (ii) remain vigilant about the manner in which conduct over the coming months and years may be viewed by regulators and supervisors if there is a similarly drastic shift in regulatory policy with the next administration (i.e., the pendulum swinging back).

Debanking

“Debanking” emerged as a focus area for the U.S. federal bank regulators following the administration’s Executive Order “Guaranteeing Fair Banking For All Americans” (the “**Debanking Order**”), which seeks to uproot “politicized or unlawful debanking” including acts by financial services providers “directly or indirectly adversely restrict[ing] access to, or adversely modify[ing] the conditions of, accounts, loans, or other banking products or financial services of any customer or potential customer on the basis of the customer’s or potential customer’s political or religious beliefs, or on the basis of the customer’s or potential customer’s lawful business activities that the financial service provider disagrees with or disfavors for political reasons.” The Debanning Order (and the subsequent activities of the federal bank regulators) make clear that any consideration of potential reputational risks or related factors associated with servicing such clients is likely to generate substantial supervisory scrutiny.

In the wake of the December 2025 publication of [Congressional staff reports](#), the OCC published [preliminary findings](#) from its supervisory review of the nine largest national banks’ alleged “debanking” activities. We do not anticipate that the federal bank regulators’ focus on this issue will stop with just this initial group of large national banks, and heading into 2026 other firms will need to position themselves to contend with similar scrutiny—including large non-U.S. banking groups the U.S. operations of which may be subject to global policies or regulatory requirements in direct conflict with the Debanning Order.

Emerging Technologies

While the administration’s deregulatory push has manifested perhaps most aggressively with respect to crypto, digital assets, AI and other tech-focused areas, industry participants should proceed with appropriate caution, ensuring

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that risk management frameworks, internal controls and other compliance infrastructure are, in fact, commensurate with the types and magnitude of risks presented by these rapidly evolving technologies. Increased exposure to crypto and digital assets (whether directly or through the provision of banking services to clients in these industries), as well as the rapidly expanding deployment of AI into banks' internal processes and systems, still must be carefully assessed from a risk perspective. Recent shifts in regulatory policy and supervisory posture do not relieve banks of general risk management, safety and soundness or other compliance obligations. Given the inherent nature of some of the underlying products and technologies—including issues related to counterparty anonymity, automation of decision-making processes, the potential for significant and instantaneous (but potentially untraceable) cross-border transactions, and uneven global regulation as technology outpaces oversight—the potential risks in these areas are not insignificant. Each institution's management of these risks today is always subject to the possibility of being scrutinized in the future (with the benefit of hindsight).

Banks should take note that the Financial Crimes Enforcement Network (“**FinCEN**”) has continued to emphasize vigilance with respect to the potential use of crypto in the financial crimes context. In August 2025, FinCEN issued a notice urging banks and financial institutions to remain alert in identifying and reporting suspicious activity involving convertible virtual currency kiosks (crypto ATMs), highlighting red flags around fraud and cybercrime activity. Banks should carefully assess the robustness of their anti-money laundering and countering the financing of terrorism (AML/CFT) programs and suspicious activity monitoring systems in the digital assets context.

Drug Trafficking, Shadow Banking, and Other Financial Crimes

FinCEN issued orders on June 25, 2025, pursuant to the Fentanyl Sanctions Act and the FEND Off Fentanyl Act, designating three Mexico-based financial institutions as being of primary money laundering concern in connection with illicit opioid trafficking and prohibiting certain transmittals of funds involving these institutions. These orders represent the first actions under this new enforcement regime that specifically targets money laundering associated with fentanyl and other illicit drug trafficking by cartels. FinCEN also has been focused on counter-terrorism financing, **identifying** potential Iranian shadow banking activity occurring in U.S. correspondent bank accounts. FinCEN issued an **advisory** focused on aiding financial institutions to identify suspicious activity related to financing ISIS. FinCEN also issued a **notice** to aid financial institutions in identifying suspicious activity related to oil smuggling, “shadow banking” and weapons procurement for Iran.

As banks pursue new opportunities in this evolving regulatory environment, it remains critical to maintain robust compliance programs, internal controls, and risk management frameworks. Strong compliance infrastructure not only mitigates immediate regulatory risk but also provides critical protection if enforcement priorities shift in the future.

Key Contacts



Brad Caswell

Head of U.S. Financial Regulation Group,
Financial Regulation and Investment Funds
Partner

Tel: +1 212 903 9362

brad.caswell@linklaters.com



Don Waack

Partner, Financial Regulation

Tel: +1 202 654 9245

don.waack@linklaters.com



Maria Vaz Ferreira

Associate, Financial Regulation

Tel: +1 212 903 9244

maria.vazferreira@linklaters.com



Patrick Canavan

Associate, Financial Regulation

Tel: +1 212 903 9349

patrick.canavan@linklaters.com

Contributors



David Lucking

Partner, Structured Finance

Tel: +1 212 903 9130

david.lucking@linklaters.com



Joshua Ashley Klayman

U.S. Head of FinTech and Head of
Blockchain and Digital Assets

Tel: +1 212 903 9047

joshua.klayman@linklaters.com



Zila Acosta-Grimes

Counsel, Financial Regulation

Tel: +1 212 903 9396

zila.acostagrimes@linklaters.com



Tim Foley

Counsel, Financial Regulation and
Broker Dealer

Tel: +1 202 654 9275

tim.foley@linklaters.com



Tanin Kazemi

Associate, Financial Regulation

Tel: +1 202 654 9201

tanin.kazemi@linklaters.com



Nina Zegarra-Schmidt

Associate, Financial Regulation

Tel: +1 202 654 9294

nina.zegarraschmidt@linklaters.com

For general enquiries please contact

Linklaters LLP

1290 Avenue of the Americas

New York, NY 10104

Tel: +1 212 903 9000

Fax: +1 212 903 9100

www.linklaters.com

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