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# Broker-dealer strategic expansion: Drive growth in a competitive market

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Center for  
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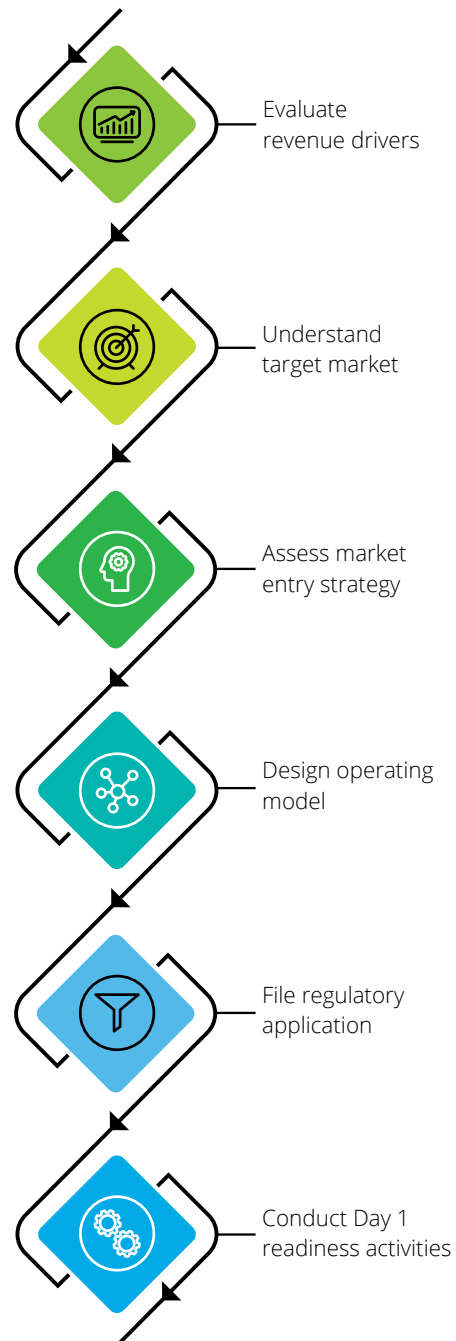
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# The expansion road map

In today's evolving financial landscape, the pursuit of new revenue streams has become a strategic imperative for both broker-dealers and non-broker-dealers alike. As regulatory rulemaking in the financial services industry has eased, a growing number of firms are seizing the opportunity to diversify their offerings. This trend is particularly evident among organizations that have traditionally focused on core business offerings and now see the potential to capture additional revenue and enhance profitability through new securities product offerings.

As firms evaluate opportunities to expand, they may encounter a variety of strategic, regulatory, and operational challenges. This paper outlines considerations for financial services firms as they contemplate business expansion.



# Evaluation of new securities products and offerings

## Evaluating revenue drivers

Before expanding into new securities products offerings, firms should undertake a comprehensive evaluation to ensure the initiative aligns with their strategic goals and risk appetite. One of the first considerations is the assessment of potential revenue sources. Firms should analyze the expected profitability of each new product, considering both direct revenues such as commissions, spreads, and fees, as well as indirect revenues that may arise from cross-selling opportunities or increased asset gathering. It is also important to distinguish between recurring revenue streams, such as asset-based fees or subscription models, and one-time transactional revenues. Additionally, firms should consider the potential for ancillary services, including advisory, custody, clearing, or technology platform offerings, which can further enhance overall client experience and profitability.

Accurate revenue forecasting is another foundational element of a successful expansion strategy. Firms should develop a range of revenue projections, including best-case, base-case, and worst-case scenarios based on anticipated market penetration, pricing strategies, and potential competitive responses. Estimating the time required to achieve profitability, including the initial investment, ongoing operational costs, and expected client adoption rates, can provide a realistic view of the financial commitment involved.

## Understanding target market segments

Understanding the target market segments is equally critical. Firms need to identify which client profiles—whether retail investors, high-net-worth individuals, institutional clients, or small businesses—are most likely to demand the new securities products and offerings. Analyzing the size and growth rate of these segments, as well as the competitive landscape, can help firms prioritize their efforts and allocate resources effectively. Furthermore, evaluating the cost and feasibility of acquiring new clients and retaining existing ones through expanded offerings is essential for long-term success.

## Operational and compliance readiness

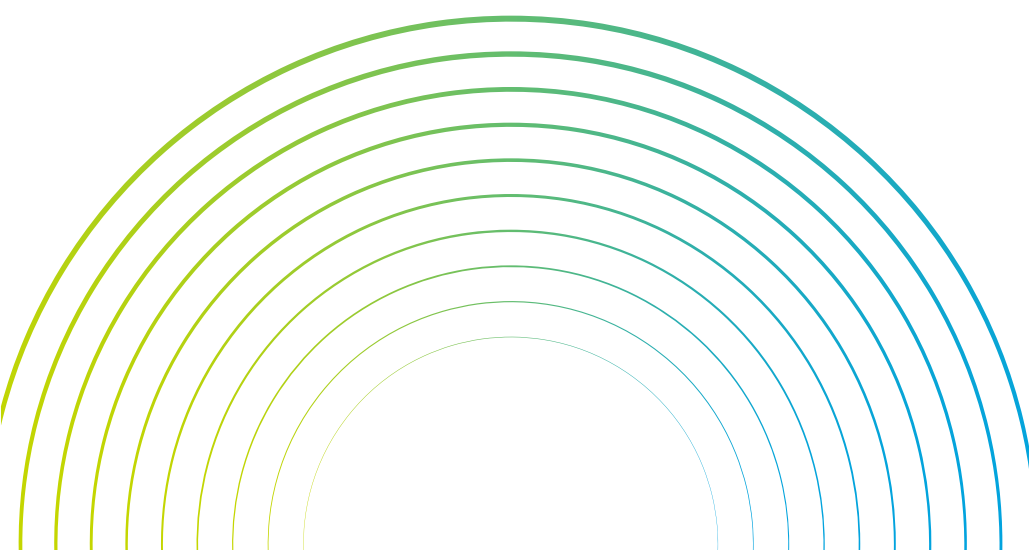
Operational and compliance readiness should not be overlooked. Firms should assess whether their current technology, operations, and compliance systems are capable of supporting the new products, or if significant upgrades are necessary. Ensuring access to the requisite talent and expertise in areas such as product structuring, sales, and regulatory compliance is also vital. Additionally, firms will need to identify and prepare for new risks—including market, credit, operational, and reputational risks—by implementing robust risk management controls.

### Market entry strategy

After a firm has conducted its assessment of a new product or offering, it should assess the costs to build the required capabilities versus the cost to acquire an existing broker-dealer that is approved to conduct business in the products and offerings in line with the proposed expansion areas. As part of this assessment, firms may consider a market assessment to identify potential acquisition targets that could offer a more efficient path to market entry. Acquisitions can provide immediate access to licenses, established client bases, and operational infrastructure. The ideal target will strategically align with the acquiring firm's client, revenue, and operational goals.

However, the diligence process for such transactions is complex and should include a thorough review of the target's regulatory history, licenses, compliance practices, financial health, contractual obligations, and cultural fit. Special attention should be paid to any outstanding regulatory issues, pending investigations, or legacy risks that could impact the acquiring firm post-transaction. Integration planning is also essential to ensure a smooth transition and realization of anticipated synergies. Ultimately, the decision to acquire an existing broker-dealer versus build internal capabilities comes down to the firm's strategy and target market as well as the availability of an attractive acquisition target.

In summation, it is important to ensure that the expansion into new securities products and offerings is a strategic fit for the organization. The initiative should align with the firm's broader objectives and brand positioning, and the firm should have a clear understanding of how its offering will stand out in the marketplace. Differentiation may come from unique product features, superior client service, or the integration of innovative technology. By carefully considering these factors—including regulatory applications and the potential for acquisitions—firms can position themselves to maximize revenue potential while effectively managing risks associated with entering new securities markets.



## Navigating the regulatory application process

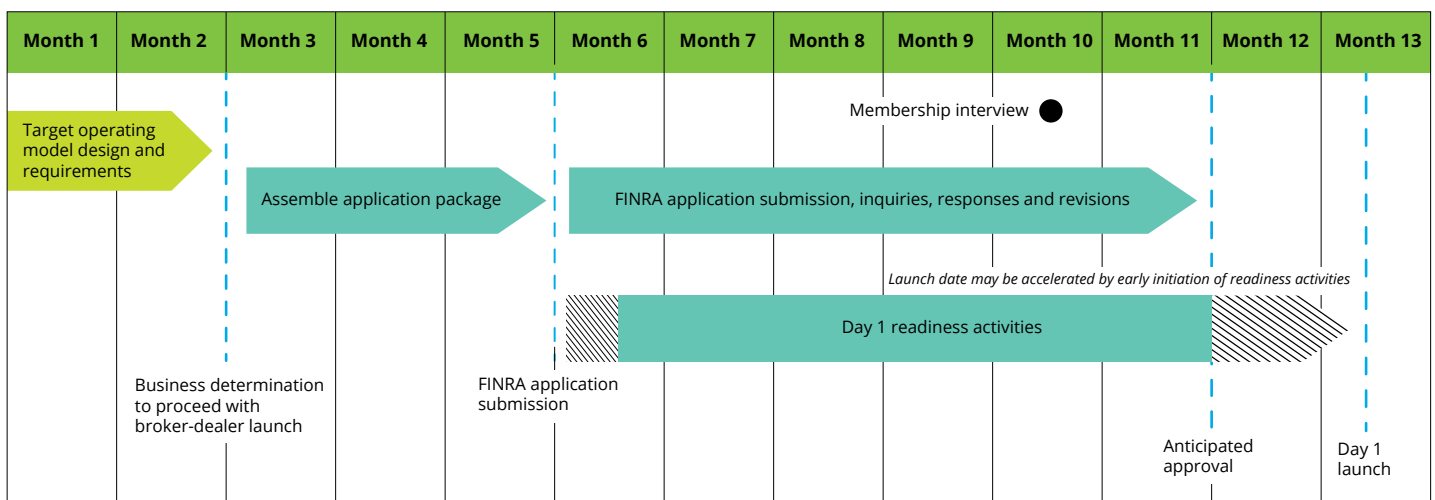
A critical aspect of expanding into new securities products and offerings is navigating the regulatory application process. Firms need to assess whether their planned activities require a Materiality Consultation with the Financial Industry Regulatory Authority (FINRA) to determine if regulatory approval is needed. Non-broker-dealers will need to submit a new membership application (NMA) to FINRA, while existing broker-dealers may need a continuing membership application (CMA) if the expansion is deemed material. Both the NMA and CMA processes typically take up to 180 days, including reviews, inquiries, and any required revisions to the initial application.

Prior to submitting an application, firms should develop an operating model for the new business by:

- Conducting a gap analysis between current capabilities and new requirements across people, processes, technology, and data within each of the following functional areas:
  - Business
  - Compliance
  - Supervision
  - Operations
  - Technology
  - Finance and accounting

- Evaluating affiliate offerings to leverage existing resources or infrastructure where appropriate.
- Creating an operational readiness roadmap that outlines key milestones, technology upgrades, personnel needs, and enhancements to compliance and risk management.

Firms should be prepared to clearly describe their operating model, gap analysis, and readiness plans within their regulatory applications. Early engagement with legal and compliance advisers is essential to ensure timely, complete submissions and to help align regulatory, operational, and strategic planning for a successful launch.



## Day 1 readiness activity

Achieving Day 1 readiness for a new business launch or expansion requires a robust project plan that establishes clear milestones, deliverables, and timelines. Firms should organize cross-functional working groups spanning business, compliance, supervision, operations, technology, and finance—all overseen by a leadership steering committee to provide strategic guidance and resolve escalated issues.

A critical component of readiness is ensuring sufficient resourcing for technology enhancements, such as upgrading or integrating systems to support new products and regulatory requirements. Firms must also update and implement policies and procedures that reflect new business activities—while coordinating closely with third parties, including custodians, clearing firms, and technology vendors—to ensure seamless integration and operational preparedness.

Additionally, attention should be given to talent and training needs, ensuring personnel are equipped with the necessary expertise and knowledge of new processes and compliance obligations. Risk management frameworks and compliance controls should be enhanced to address any new or heightened risks, and clear client communications must be prepared to inform stakeholders of new offerings or changes. Finally, comprehensive end-to-end testing and contingency planning are essential to mitigate potential Day 1 issues and ensure a smooth and compliant launch.

# Industry expansion trends

While the specific business rationale for expanding into new securities products and offerings will vary based on each firm's unique strategy, client base, and market position, there are several common expansion pathways or archetypes that have emerged across the industry. Below, we outline a few common areas of expansion, highlighting the strategic motivations and considerations that often drive firms to pursue them.

## RIAs considering brokerage offerings

Case summary	Scenario drivers
<ul style="list-style-type: none"> <li>Registered investment advisers (RIAs) assessing whether to add brokerage services to their platforms typically to expand offerings and capture revenue from accounts and securities products and offerings held at competing broker-dealers</li> </ul>	<ul style="list-style-type: none"> <li>Additional revenue opportunities for retirement and non-advisory products being offered or transferred</li> </ul>
Opportunities	Challenges
<ul style="list-style-type: none"> <li>Ability to leverage new brokerage and retirement offerings to attract new clients</li> <li>Increase profitability of existing offerings and clients</li> <li>New service offerings and/or trading strategies</li> </ul>	<ul style="list-style-type: none"> <li>Additional regulatory oversight and compliance overhead</li> <li>Lack of domain expertise in brokerage business</li> </ul>

## Crypto firms considering offering securities products and offerings

Case summary	Scenario drivers
<ul style="list-style-type: none"> <li>Crypto firms exploring the addition of tokenized securities or traditional equities to broaden product offerings and expand their client base by integrating digital asset and securities trading</li> </ul>	<ul style="list-style-type: none"> <li>Single platform competition at other fintech firms</li> <li>New federal regulatory approach to digital assets and distributed ledger technology</li> </ul>
Opportunities	Challenges
<ul style="list-style-type: none"> <li>By offering more products on a single platform, firms drive enhanced customer experience and loyalty</li> <li>Firms are well-positioned to leverage their leading technology as changes to the regulatory framework for securities enable increased adoption of tokenized securities</li> </ul>	<ul style="list-style-type: none"> <li>Compliance with federal and state securities frameworks</li> <li>Existing customer base may not fit the typical investor profile for traditional securities</li> </ul>

### Insurance or fund companies considering securities distribution

Case summary	Scenario drivers
<ul style="list-style-type: none"> <li>Insurance or fund companies creating distribution companies to distribute securities products and offerings directly</li> </ul>	<ul style="list-style-type: none"> <li>Capture additional revenue and have additional control over distribution channels</li> </ul>
Opportunities	Challenges
<ul style="list-style-type: none"> <li>Reduce distribution costs</li> <li>Have greater control over distribution channels and processes</li> </ul>	<ul style="list-style-type: none"> <li>Additional regulatory oversight and compliance overhead</li> <li>Lack of domain expertise in brokerage business</li> </ul>

### Global capital markets firms considering new businesses and business lines

Case summary	Scenario drivers
<ul style="list-style-type: none"> <li>Capital markets firms assessing entry into areas like prime brokerage, wealth management, proprietary trading, research, execution services, and expanded fixed and equity trading</li> </ul>	<ul style="list-style-type: none"> <li>Revenue captured from additional business lines or new product or service offerings</li> <li>Providing more robust global offerings through expanded US business lines</li> </ul>
Opportunities	Challenges
<ul style="list-style-type: none"> <li>Offer more robust products and services to their institutional clients</li> <li>Economies of scale</li> </ul>	<ul style="list-style-type: none"> <li>Lack of domain expertise in new business line</li> </ul>

### Non-US firms considering entry into the US market

Case summary	Scenario drivers
<ul style="list-style-type: none"> <li>Non-US financial services entities (with or without existing US presence) seeking to facilitate US brokerage activity for US and non-US clients</li> </ul>	<ul style="list-style-type: none"> <li>Capitalize on new US product classes and opportunities to new and existing clients</li> </ul>
Opportunities	Challenges
<ul style="list-style-type: none"> <li>Expand offerings to existing non-US clients</li> <li>Expanded US client base</li> </ul>	<ul style="list-style-type: none"> <li>Additional regulatory oversight and compliance overhead</li> <li>Lack of domain expertise in US brokerage business</li> </ul>

### Firms considering internalizing brokerage services

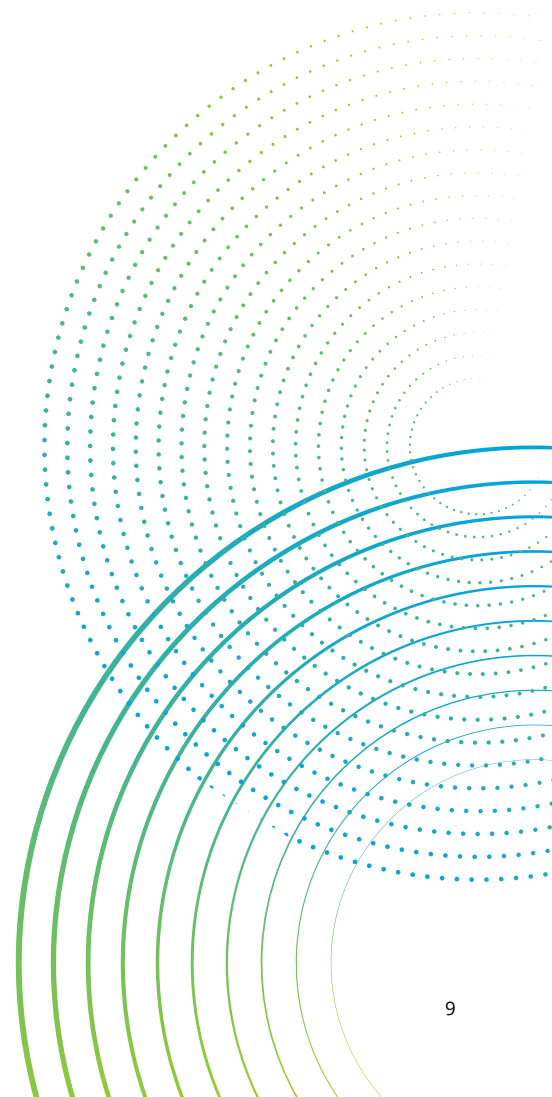
Case summary	Scenario drivers
<ul style="list-style-type: none"> <li>Asset managers, broker-dealers, or other financial firms contemplating internalizing previously outsourced services, such as clearing, fund marketplaces, or alternatives marketplaces, to reduce reliance on third parties, reduce costs, improve operational control, and increase client offerings</li> </ul>	<ul style="list-style-type: none"> <li>Existing third-party clearing firms or marketplaces are costly and/or leverage outdated technology</li> <li>Desire to increase customer experience by providing unified platform or enhanced customer services through internal firm offerings</li> </ul>
Opportunities	Challenges
<ul style="list-style-type: none"> <li>Expanding new business line and/or offerings to existing clients while reducing costs</li> <li>Control over products and services that were previously offered through a third party</li> </ul>	<ul style="list-style-type: none"> <li>The cost structure associated with setting up a broker-dealer may not be justified based on the size of the business</li> <li>May increase regulatory costs depending on the expansion</li> </ul>

# Key takeaways

In summary, the expansion into new securities products and offerings presents both significant opportunities and complex challenges for broker-dealers and non-broker-dealers alike. To position themselves for sustainable growth in a dynamic and competitive environment, firms can focus on the following key takeaways:

- **Thoroughly evaluate potential revenue sources**, including direct, indirect, recurring, and ancillary revenue streams, and develop robust forecasts under various scenarios.
- **Identify and assess target market segments**, estimating the cost and feasibility of acquiring and retaining clients.
- **Ensure operational and compliance readiness** by investing in technology, talent, and risk management controls to support new business lines.
- **Navigate the regulatory landscape proactively**, engaging with legal and compliance advisers early to address requirements such as FINRA Materiality Consultations and membership applications.
- **Consider acquisitions as a pathway to accelerated market entry** and conduct comprehensive due diligence and integration planning.
- **Align expansion initiatives with broader strategic objectives and brand positioning** and develop clear differentiation in the marketplace.
- **Leverage deep industry expertise** to balance innovative growth with effective risk management and regulatory compliance.

Ultimately, it is the depth of a firm's industry expertise and experience that will be a decisive factor in successfully navigating expansion—ensuring that new ventures generate revenue and enhance the firm's long-term reputation and resilience.



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