

Chapman Client Alert

December 14, 2016

Current Issues Relevant to Our Clients

MSRB Guidance on Broker-Dealer Obligations for RIA Customer Account Transactions

The Municipal Securities Rulemaking Board (the “MSRB”) recently published guidance on broker-dealer obligations when executing transactions involving a registered investment adviser (“RIA”) that is authorized to exercise full discretion to buy and sell municipal securities on behalf of an account holder. The guidance provides that when an independent RIA with full discretion over client accounts purchases securities from a broker-dealer and instructs that broker-dealer to deliver the securities to other dealers where the RIA’s clients have accounts and the client identities are not given to the broker-dealer:

- the RIA itself is the broker-dealer’s customer for recordkeeping and other regulatory purposes under MSRB rules, and
- the broker-dealer does not have any customer obligations to the underlying investors.

In addition, when an investor has granted an RIA full discretion over the investor’s account and the RIA itself is a “sophisticated municipal market professional” (“SMMP”) under MSRB Rule G-48, then the broker-dealer is generally relieved of key customer obligations. These obligations include time of trade disclosure obligations under Rule G-47, certain pricing obligations under Rule G-30, customer-specific suitability obligations under Rule G-19, certain quotation dissemination obligations under Rule G-13 and best-execution obligations under Rule G-18.

All RIAs are SMMPs if they make certain required affirmations to the broker-dealer and the broker-dealer has a reasonable basis to believe that the RIA is capable of evaluating investment risks and market value independently, both in general and with regard to particular transactions and investment strategies in municipal securities. Broker-dealers can typically satisfy these requirements by having RIAs complete SMMP certificates that contain the affirmations required under MSRB Rule G-48. These certificates are similar to “Institutional Account” suitability certificates obtained by broker-dealers under Financial Industry Regulatory Authority rules. Broker-dealers might consider reviewing their SMMP and institutional account certificates in light of the MSRB guidance.

Where a broker-dealer executes transactions for an RIA that does not have full discretion over a client account or where the identity of the RIA client is made known to the broker-dealer, a broker-dealer should assess whether the underlying investor should be treated as the broker-dealer’s customer for recordkeeping and other regulatory purposes under MSRB rules.

The full text of the MSRB guidance is available [here](#).

For More Information

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