

# Chapman Client Alert

December 18, 2018

Current Issues Relevant to Our Clients

## SEC Extends AML No-Action Letter Allowing Broker-Dealers to Rely on Investment Advisers

The Securities and Exchange Commission (“SEC”) recently issued a no-action letter which allows broker-dealers to rely on investment advisers to perform some or all of their Customer Identification Program (“CIP”) obligations under federal anti-money laundering (“AML”) legislation. This letter extends existing relief granted in 2016 that was set to expire in December of 2018. The 2018 no-action letter, which is the latest in a line of letters dating back to 2004, will expire in December of 2020 or earlier if the AML program rule for investment advisers becomes effective.

Under the no-action letter, a broker-dealer may rely on an SEC-registered investment adviser to perform its CIP obligations and/or beneficial ownership requirements for legal entity customers if the broker-dealer is able to determine that its reliance on the investment adviser is reasonable under the circumstances and it enters into a contract with the investment adviser including provisions that the investment adviser:

- has implemented its own AML program consistent with federal AML requirements and will continually update such program;
- will perform the specified requirements of the broker-dealer's CIP and/or the broker-dealer's beneficial ownership procedures in a manner consistent with the PATRIOT Act and the beneficial ownership requirements, respectively;
- will promptly disclose to the broker-dealer potentially suspicious or unusual activity detected as part of the CIP and/or beneficial ownership procedures being performed on the broker-dealer's behalf in order to enable the broker-dealer to file a Suspicious Activity Report;
- will certify annually that its representations remain accurate and that it is in compliance with such representations; and
- will promptly provide its books and records relating to its performance of the CIP and/or beneficial ownership procedures to the SEC, a self-regulatory organization or authorized law enforcement agencies at the request of the broker-dealer, the SEC, a law enforcement agency or a self-regulatory organization.

A broker-dealer that chooses not to rely on the relief in the no-action letter may still contractually delegate its obligations under the CIP rule and/or beneficial ownership requirements to an investment adviser. However, the broker-dealer will remain solely responsible for assuring compliance with the CIP rule and/or beneficial ownership requirements and therefore, must actively monitor the operation of its CIP and/or beneficial ownership procedures and assess their effectiveness.

### For More Information

If you would like to discuss any topic covered in this Client Alert, please contact a member of the Investment Management Group or visit us online at [chapman.com](http://chapman.com).

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