



SEC ‘no-action’ relief conditions and how Schwab helps you satisfy them

On February 21, 2017, the SEC issued a no-action letter clarifying that standing authority (also known as a standing letter of authorization or “SLOA”) to move money from a client’s account to a third party account is “custody” within the meaning of Investment Advisers Act Rule 206(4)-4 (the “Custody Rule”). The SEC also stated that any accounts that meet the following seven conditions (the SEC refers to them as “representations”) will not be subject to the “independent verification” requirement under Rule 206(4)-2(a)(4), also known as the annual surprise accountant’s examination. For many advisors, this is the main burden and expense of complying with the Custody Rule.

Because six of the seven conditions necessitate an advisor’s reliance on a qualified custodian, Schwab has updated the majority of our processes and procedures to help advisors comply with these conditions so they can benefit from the ‘no-action’ relief. The one exception is the MoneyLink® process, which we are currently updating. Once complete, advisors who use MoneyLink® for third-party money movement will also be able to comply with these conditions.

Seven Conditions	Schwab processes and procedures to meet the conditions
<p>1. The client provides an instruction to the qualified custodian, in writing, that includes the client’s signature, the third party’s name, and either the third party’s address or the third party’s account number at a custodian to which the transfer should be directed.</p>	<p>The paper and electronic forms that Schwab uses to establish a standing letter of authorization (SLOA) must be signed by the client and includes the third party’s name and address or account number.</p>
<p>2. The client authorizes the investment adviser, in writing, either on the qualified custodian’s form or separately, to direct transfers to the third party either on a specified schedule or from time to time.</p>	<p>Schwab’s SLOA forms (whether paper or electronic) require a client’s signature to indicate in writing that the client has authorized the advisor to direct transfers to identified third party(s) by giving instructions to Schwab regarding those transfers.</p>
<p>3. The client’s qualified custodian performs appropriate verification of the instruction, such as a signature review or other method to verify the client’s authorization, and provides a transfer of funds notice to the client promptly after each transfer.</p>	<p>Schwab uses signature verification or similar means as a qualified custodian to verify the client’s authorization reflected on the SLOA form.</p> <p>Schwab provides a transfer of funds notice to the client within one to two business days after each transfer.</p>
<p>4. The client has the ability to terminate or change the instruction to the client’s qualified custodian.</p>	<p>The client has the ability to contact Schwab directly to terminate or change instructions, either in writing or verbally.</p>
<p>5. The investment adviser has no authority or ability to designate or change the identity of the third party, the address, or any other information about the third party contained in the client’s instruction.</p>	<p>Other than a request by the advisor to terminate its authority on an SLOA, Schwab does not allow an advisor on its own to make any changes to the SLOA. Any change relating to the third party - including identity, address, or account number - requires that the client submit a new form.</p>
<p>6. The investment adviser maintains records showing that the third party is not a related party of the investment adviser or located at the same address as the investment adviser.</p>	<p>The investment adviser is responsible for meeting this condition.</p>
<p>7. The client’s qualified custodian sends the client, in writing, an initial notice confirming the instruction and an annual notice reconfirming the instruction.</p>	<p>As of March 2017, Schwab will send the client a notification in writing, confirming the instruction, within one to two business days of the SLOA being established.</p> <p>As of June of 2017, Schwab will send the client an annual notice reconfirming the SLOA instruction. This notice will be sent every year while an SLOA is in effect.</p>

To help advisors document that Schwab's processes and procedures help meet these conditions, Schwab's current plan is to provide a downloadable certification on our website so that advisors can keep it for their records.

For more information, please see the [SEC's 'no-action letter](#) and read our [FAQs](#).

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