

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 4525 / September 8, 2016

ADMINISTRATIVE PROCEEDING
File No. 3-17531

In the Matter of

**RAYMOND JAMES &
ASSOCIATES, INC.,**

Respondent.

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 203(k) OF THE INVESTMENT
ADVISERS ACT OF 1940, MAKING
FINDINGS, AND IMPOSING A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”), against Raymond James & Associates, Inc. (“Raymond James” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds that:

Summary

1. This matter arises from Raymond James's failure to adopt and implement policies and procedures reasonably designed to prevent violations of the Advisers Act relating to trading commissions charged to advisory clients in the Raymond James Consulting Services ("RJCS") program. Under RJCS, Raymond James's advisory clients select a participating sub-adviser to develop a model portfolio in the client's separately managed account. Raymond James charges RJCS clients a negotiable "wrap fee." A "wrap fee" is a single fee that covers investment advisory services, trade execution, custody, and other standard brokerage services. In addition to the wrap fee, advisory clients also paid commissions on equity transactions executed by broker-dealers unaffiliated with Raymond James. Although Raymond James's Form ADV Part 2A brochures disclose that a sub-adviser may direct its trading to firms unaffiliated with Raymond James (or "trade away") and that the commissions associated with such transactions will be in addition to the wrap fee, Raymond James did not obtain information regarding the amount of commissions charged for these transactions or whether that amount was material. Instead, Raymond James received information regarding these securities transactions on a net basis with the equity commission cost included in the price of the security. RJCS clients also were unaware of the actual commissions incurred for trading away because their account statements disclosed only net prices charged per equity trade and they did not receive information about commissions from any other source.

2. Raymond James failed to adopt and implement policies and procedures reasonably designed to allow Raymond James to determine whether RJCS or particular sub-advisers were suitable for its prospective and existing advisory clients, such as collecting, tracking and disclosing information regarding commissions associated with trading away. In addition, Raymond James had no policies and procedures to communicate to RJCS clients the sub-advisers' trading away practices and associated costs, and therefore those clients did not necessarily have adequate information: (i) to negotiate meaningfully the wrap fee with Raymond James; (ii) to assess the total costs of RJCS; and (iii) to determine which RJCS sub-advisers to select.

Respondent

3. **Raymond James & Associates, Inc.**, a Florida corporation based in St. Petersburg, Florida, has branch offices throughout the United States. Raymond James has been registered with the Commission as an investment adviser since 1974 and as a broker-dealer since 1962. As of September 30, 2015, Raymond James managed approximately \$63.5 billion in discretionary assets and \$18.9 billion in non-discretionary assets. Among its advisory services, Raymond James sponsors the RJCS program.

The RJCS Program

4. Raymond James established RJCS in 1986 to provide advisory clients with access to third-party managers through separately managed accounts. Raymond James enters into agreements with these managers pursuant to which the managers act as sub-advisers to Raymond James. The sub-advisers focus primarily on trading and portfolio management, and Raymond James – which interacts with its advisory clients through a financial advisor – monitors sub-adviser performance, performs administrative services, and may execute sub-advisers’ transactions on behalf of the client.

5. Raymond James charges RJCS clients a wrap fee. Under this arrangement, the client pays Raymond James an advisory fee that is based on a percentage of the value of the client’s assets in RJCS. The percentage declines as the value of the assets in the client’s account increases. The percentage also varies depending on whether the RJCS sub-adviser’s strategy is classified as a fixed income or equity investment strategy. Raymond James discloses its wrap fees to clients in a standard fee schedule. One of the benefits of a wrap fee arrangement is that clients do not pay commissions on trades executed by Raymond James.

6. An RJCS client can negotiate with Raymond James to obtain a wrap fee percentage below the standard fee schedule. Raymond James’s Form ADV Part 2A wrap fee brochure dated December 15, 2014, identifies a variety of factors relevant to a possible reduction in the wrap fee, including “the nature and size of the overall client relationship with the financial advisor, the level and type of advisory or other financial services being or expected to be provided, and Raymond James’ or its affiliates’ policies with respect to discounts.”

RJCS Clients Incurred Additional Costs

7. Raymond James also disclosed in its Form ADV Part 2A wrap fee brochure dated November 29, 2013, that sub-advisers “have discretion to select brokers or dealers other than Raymond James when necessary to fulfill their duty to seek best execution of transactions.” The RJCS client agreement similarly states that sub-advisers should execute trades with Raymond James, but “subject to the . . . obligation to seek best execution” may execute trades with other broker-dealers. In its sub-advisory agreements with the sub-advisers, the obligation to seek best execution on behalf of the client lies with the sub-adviser. A sub-adviser may trade with a broker-dealer other than Raymond James only if it determines that the transaction meets its best execution obligation.

8. When a sub-adviser selects Raymond James to execute a trade, RJCS clients do not pay commissions for the transaction. However, when a sub-adviser selects another broker-dealer to execute a trade, the Form ADV Part 2A wrap fee brochure states “the client should be aware the executing broker or dealer will assess a commission or other charges to the transaction and such costs will be in addition to the wrap fee assessed by Raymond James.” The client agreement also states that the client “acknowledges that the asset based fee . . . does not include transaction charges for securities transactions effected through firms other than [Raymond James].”

9. Raymond James was aware that some sub-advisers executed nearly all RJCS client “program trades” with broker-dealer firms other than Raymond James. A “program trade” is a portfolio transaction that affects all clients that selected the sub-adviser’s strategy, such as liquidating a particular security. The Form ADV Part 2A wrap fee brochure that Raymond James distributed to RJCS clients stated that some sub-advisers “have historically directed most, if not all, of their program trades to outside broker-dealers”

10. Raymond James does not disclose trading away costs to its RJCS clients. The additional costs that RJCS clients incur as a result of the sub-advisers trading away are embedded in the security price reported for each purchase or sale on the periodic account statements that Raymond James provides to RJCS clients.

11. Although Raymond James disclosed that sub-advisers may trade away to achieve best execution, Raymond James does not collect any information from the sub-advisers regarding the specific amount of the embedded equity commission costs. Consequently, Raymond James does not, and could not, utilize equity commission information to determine whether the amounts paid were material and whether the RJCS program—or the particular sub-adviser—was a suitable investment recommendation for the client. In addition, RJCS clients have no way to take these added expenses into consideration when negotiating the wrap fee with Raymond James.

12. Despite knowing that some sub-advisers were placing program trades with other broker-dealers, Raymond James did not adopt and implement written policies and procedures to receive the embedded equity commission costs from the sub-advisers, such that Raymond James could make initial and ongoing suitability determinations for RJCS clients.

13. In addition, Raymond James failed to adopt and implement written policies and procedures to make this cost information available to RJCS clients.

Violation

14. As a result of the conduct described above, Raymond James violated Section 206(4) of the Advisers Act, which prohibits investment advisers from engaging in any act, practice, or course of business which is fraudulent, deceptive, or manipulative, and Rule 206(4)-7 thereunder, which requires investment advisers to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder.

Raymond James’s Remedial Efforts

15. In determining to accept Raymond James’s Offer, the Commission considered remedial acts undertaken by Respondent.

Undertakings

16. Respondent has undertaken to:
 - a. Create a publicly available website that discloses trading away practices of sub-advisers participating in RJCS with information identifying the impact trading away has on the sub-adviser's performance.
 - b. Identify for RJCS clients on their periodic statements any transaction that was traded away and disclose (i) that a commission may have been charged by the executing broker-dealer and (ii) direct the advisory client to the website described above in Paragraph 16.a.
 - c. Ensure that its financial advisors receive adequate information concerning trade away practices and commission costs, and conduct related training regarding the use and consideration of this information for determining whether a particular sub-adviser would be or continues to be suitable for a particular advisory client.
 - d. Periodically review on at least an annual basis, and, as necessary, update its policies and procedures regarding these undertakings.
 - e. Complete the undertakings identified in Paragraph 16.a. to d. by January 6, 2017.
 - f. By no later than June 2, 2017, create a report, which will be included with RJCS client statements on at least an annual basis, for each RJCS client and financial advisor that shows the aggregate amount of commissions embedded in trades executed away from Raymond James placed by the client's sub-adviser(s).
 - g. Certify, in writing, compliance with the undertaking(s) set forth above. The certification shall identify the undertaking(s), provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence. The certification and supporting material shall be submitted to Anthony S. Kelly, Co-Chief, Asset Management Unit, Enforcement Division, with a copy to the Office of Chief Counsel of the Enforcement Division, no later than sixty (60) days from the date of the completion of all of the undertakings.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent's Offer.

Accordingly, it is hereby ORDERED that:

A. Pursuant to Section 203(k) of the Advisers Act, Respondent shall cease and desist from committing or causing any violations and any future violations of Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder.

B. Respondent shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of \$600,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury in accordance with Securities Exchange Act of 1934 Section 21F(g)(3). If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717. Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Raymond James & Associates, Inc. as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Anthony S. Kelly, Co-Chief, Asset Management Unit, Division of Enforcement, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549.

C. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a

private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

D. Respondent shall comply with the undertakings enumerated in Paragraph 16 of this Order.

By the Commission.

Brent J. Fields
Secretary