SEC Enforcement Case Summary
Compliance Failures Related to Cash Sweep Programs

On January 17, 2025, the Securities and Exchange Commission (***SEC***) announced settled charges against registered investment advisers Wells Fargo Clearing Services LLC and Wells Fargo Advisors Financial Network LLC (together ***Wells Fargo Advisors***) and against Merrill Lynch, Pierce, Fenner & Smith Incorporated (***Merrill Lynch***) for failures relating to the firms' cash sweep programs. The firms agreed to settle the SEC's charges and pay $60 million in total civil penalties.

According to the SEC's orders, Wells Fargo Advisors and Merrill Lynch offered bank deposit sweep programs (***BDSPs***) as the only cash sweep option for most advisory clients and received a significant financial benefit from advisory client cash in the BDSPs. The orders find that these firms or their affiliates set the interest rates offered in the BDSPs and that, during periods of rising interest rates, the yield differential between the BDSPs and other cash sweep alternatives at times grew to almost 4 percent. According to the orders, Wells Fargo Advisors and Merrill Lynch failed to adopt and implement reasonably designed policies and procedures (1) to consider the best interests of clients when evaluating and selecting which cash sweep program options to make available to clients, including during periods of rising interest rates, and (2) concerning the duties of financial advisors in managing client cash in advisory accounts.

Private fund managers are generally not affiliated with banks that structure and offer sweep programs as was the case in these enforcement actions. However, they may be responsible for selecting sweep accounts and/or may utilize treasury management products or software solutions in connection with managing cash balances and diversifying such balances among multiple money market funds. In some cases, private fund managers may be in a position to receive discounts or rebates based on balances maintained with money market fund partners. In such case, managers should ensure that their policies and procedures (1) include appropriate controls for managing potential conflicts of interest related to such programs, including ensuring that allocations to specific money markets funds or the utilization of such programs is in the best interest of their private funds, and (2) provide for robust disclosures regarding any economic benefit received by the firm or any affiliate in connection with such programs.

See SEC Summary – https://www.sec.gov/newsroom/press-releases/2025-16