Registered Investment Advisors vs. Broker-Dealers: Choosing the Right Partner for Corporate Cash Management

How CFOs and Treasury Teams Evaluate Relationship Models

Table of Contents

If you're looking to establish a **separately managed account (SMA)** for institutional cash, you'll typically work with either a **registered investment advisor (RIA)** or a **broker-dealer (B-D)**. Each operates under a different regulatory framework and service model, which may influence how your cash portfolio is managed.

Understanding these differences is important when selecting a partner to support your cash strategy.

Understanding Registered Investment Advisor (RIA) vs. Broker-Dealer (B-D) Models

Registered Investment Advisors (RIAs)

- Regulated by the U.S. Securities and Exchange Commission (SEC)
- Held to a high fiduciary standard, requiring them always to act in the client's best interest
- Typically provide ongoing portfolio management and investment advice

Broker-Dealers (B-Ds)

- Regulated by the U.S. Securities and Exchange Commission and overseen by the Financial Regulatory Authority (FINRA)
- Held to a suitability standard when dealing with institutional clients, meaning recommendations must be "appropriate" for the client
- Typically provide transaction execution and related investment services

Why It Matters for Institutional Cash

For CFOs and treasury teams, the difference often comes down to how services are delivered, how decisions are made, and the level of ongoing oversight.

- Fiduciary model – Generally prioritizes ongoing advice, portfolio alignment, and mandates acting in the client's best interest.
- Suitability model – Typically focuses on providing investment recommendations and executing transactions that are appropriate for the client's needs and objectives, with services typically structured around transaction-based needs.

Both models can play a role depending on an organization's cash management strategy, internal resources, and investment goals.

Key Considerations When Selecting a Partner

- Level of support and client alignment
- Fee transparency and conflicts of interest
- Investment process and risk management approach
- Experience managing institutional cash portfolios

Registered Investment Advisors (RIAs): A Fiduciary Approach to Cash Management

RIAs, like Capital Advisors Group, are regulated by the U.S. Securities and Exchange Commission (SEC) and held to a fiduciary standard—meaning they are legally required to act in the best interest of their clients.

For CFOs and treasury teams managing institutional cash, this structure may provide a higher level of alignment, transparency, and oversight.

Key Characteristics of Working with an RIA

1. **Asset Protection and Custody:**
    - Client assets are generally held in segregated custodial accounts, typically at third-party banks
    - RIAs do not typically take possession of client funds
    - Custodied assets customarily remain the property of the client—even in the event of a bank failure
    - Assets are generally kept off of the bank's balance sheet and are generally protected from creditor claims
2. **Transparent Fee Structure:**
    - Fees should be clearly defined and may include:
        - A percentage of assets under management (AUM)
        - Flat advisory fees
        - Performance-based fees (where applicable)

    Additional considerations:

    - Total costs may include bundled services like custody
    - Fiduciary duty requires advice to be provided in the client's best interest—regardless of fee structure

3. **Disciplined Portfolio Management**:
    - Investment strategy is often guided by the client's Investment Policy Statement (IPS)
    - Independent, objective selection across securities and strategies
    - Focus on best execution, which may include sourcing multiple bids to help achieve favorable pricing
    - Emphasis typically on capital preservation, liquidity, and risk-adjusted returns

Broker-Dealers (B-Ds): Understanding the Suitability Model for Cash Management

Broker-dealers (B-Ds) are regulated by the SEC and overseen by FINRA. They operate under a suitability standard when providing services to institutional clients, meaning investment recommendations must be appropriate—but may not necessarily be required to meet a fiduciary best interest standard.

For CFOs and treasury teams, this distinction may impact transparency, risk management, and overall cash strategy outcomes.

Key Characteristics When Working With a Broker-Dealer (B-D):

1. **Asset Custody and Structure:**
    - Client assets may be held in "street name" on the broker-dealer's balance sheet
    - Assets may be commingled, reducing transparency compared to segregated custody accounts
    - Clients typically retain beneficial ownership, but assets may be exposed to creditor claims in the event of broker-dealer default
    - "Brokerage custody" may not provide the same protections as third-party bank custody
2. **Fee Structure and Compensation:**
    Fees may be transaction-based, including:

    - Spreads or commissions on trades
    - Sales-based (flat fee) or blended fee arrangements

    Additional considerations:

    - "No-fee" offerings may include embedded transaction costs
    - Additional revenue sources may include:
        - Trading activity within client accounts
        - Securities lending when assets are held on balance sheet
    - Compensation structures may vary by product and activity
3. **Portfolio Management Approach:**
    In providing advice to institutional clients:

    - Recommendations must meet appropriateness standards, but are not required to meet a fiduciary best interest obligation
    - No fiduciary requirement tied to best execution
    - May sell securities from internal inventory, which may create potential conflicts

- May have limited access to dedicated credit research or other departments focused on cash management

Key Questions to Consider Before You Invest

To better understand how broker-dealers and registered investment advisers operate, treasury teams may consider asking:

1. **Asset Custody and Protection**
   - How is my investment account structured?
   - Are my assets commingled with other client assets?
   - Are assets held in a third-party "street name," or in a segregated bank custody account in my company's name?
   - Are my assets held on your balance sheet—and if so, are they subject to creditor claims?
2. **Fees and Compensation**
   - How are you compensated for managing my company's assets?
   - Do you earn spreads or commissions on trades?
   - If you earn commissions and spreads on trades, can you provide per-security cost transparency for those fees?
   - Will I be notified if fees or pricing structures change?
3. **Investment Process and Execution**
   - Do you sell securities from your own inventory or source them through the open market?
   - Do you seek competitive bids to ensure best pricing?
   - How many broker-dealers do you work with to source securities?
4. **Conflicts of Interest and Expertise**
   - Are there any conflicts of interest that may influence investment decisions or pricing?
   - Are incentives aligned with my investment strategy—or transaction volume?
   - Do you have a dedicated credit research team focused on cash investments?
   - Will I have access to a dedicated portfolio manager?

The Bottom Line: Selecting the Right Partner for Your Institutional Cash Strategy

The decision between a registered investment advisor (RIA) and a broker-dealer ultimately depends on your organization's investment objectives, liquidity needs, and level of desired oversight.

- An RIA may be better aligned for those seeking ongoing portfolio management and advisory support
- A broker-dealer may be suitable for those focused on market access and transaction execution

Key Differences to Keep in Mind

Registered Investment Advisors

- Regulated by the SEC
- Operate under a fiduciary standard

- Typically provide ongoing advisory and portfolio management services

Broker-Dealers (B-Ds)

- Regulated by the SEC and overseen by FINRA
- Must meet a suitability standard when providing advice to institutional clients
- Typically focus on trade execution and access to investment products and markets

Core Considerations

- How and where your assets are custodied and protected
- The transparency and structure of fees
- The level of portfolio management, oversight, and alignment

Why It Matters

For CFOs and treasury teams, selecting the right partner is critical to building a resilient institutional cash strategy.

Understanding how each model operates—along with evaluating fees, transparency, and level of support—can help ensure your cash portfolio is aligned with your organization's goals for capital preservation, liquidity, and long-term performance.

Key Insight for CFOs and Treasurers

The structure of your investment management relationship may impact transparency, alignment, and risk oversight—making partner selection a critical component of an effective institutional cash strategy.

Next Step for Finance Teams

Assess your current or prospective investment partners by evaluating fiduciary alignment, fee transparency, custody structure, and level of advisory support to ensure your cash strategy is supported by the right model.

About Us

Capital Advisors Group, Inc. is an independent SEC-registered investment advisor specializing in institutional cash investments, risk management, and debt finance consulting. Our clients range from venture capital-funded startups and emerging growth companies to Fortune 100 companies.

Drawing upon more than a quarter of a century of experience through varied interest rate cycles, the firm has built its reputation upon deep, research-driven investment strategies and solutions for its clientele.

Capital Advisors Group manages customized separately managed accounts (SMAs) that seek to protect principal and maximize risk-adjusted returns within the context of each client's investment guidelines and specific liquidity needs. Capital Advisors Group also provides FundIQ® money market fund research; CounterpartyIQ® aggregation and credit analysis of counterparty exposures; risk assessment on short-term fixed income securities and portfolios; and independent debt finance consulting services.

Headquartered in metropolitan Boston, Capital Advisors Group maintains multiple U.S. regional offices.

IMPORTANT INFORMATION

This report is intended for informational purposes only. Nothing contained in this report is a guarantee of actual results, outcomes, or future performance. Past performance is no guarantee of future results. Nothing in this report constitutes an offer to sell, a solicitation to buy, or a recommendation of any security.

The information in this report is, or is based on, information that has been made publicly available by third parties, and it is subject to change without notice. All information in this report is accurate only as of the date of this report, unless otherwise noted. Capital Advisors Group, Inc. has no obligation to update this report, or to provide you with a copy of any update of this report if one is prepared. Capital Advisors Group, Inc. does not independently verify or guarantee the accuracy of such information, and any inaccuracies in such information likely will affect Capital Advisors Group, Inc. analysis and conclusions included in this report.

This report may include forward looking statements. Capital Advisors Group, Inc. is not undertaking to update or revise any forward-looking statements in this report, whether resulting from new information, future events or otherwise. You should not take any statements regarding past trends as a representation that trends or activities will continue in the future. Accordingly, you should not put undue reliance on this report.

Capital Advisors Group, Inc. is registered with the U.S. Securities and Exchange Commission as an investment adviser. Additional information regarding Capital Advisors Group, Inc., including its investment strategies and their risks, is available in Capital Advisors Group, Inc.'s disclosure document (Form ADV, Parts 2A and 2B), which is available by calling 617-630-8100. You may also find a copy of the disclosure document at the SEC's website www.sec.gov. This presentation is not a complete description of Capital Advisors Group, Inc.'s investment strategy, the strategy's investment risks, or tax or other important considerations. Prospective clients should read all disclosure documents provided by Capital Advisors Group, Inc. relating to its products or services before engaging Capital Advisors Group, Inc. to perform for it investment management or advisory services.

Photocopying and/or redistributing this report in any form is strictly prohibited. This report is a confidential document and it may not be provided or disclosed to any persons other than the intended recipients without Capital Advisors Group, Inc.'s written consent.

CAPITAL ADVISORS GROUP

Capital Advisors Group, Inc.
One Federal Street, Suite 2200
Boston, MA 02110
Tel: 617.630.8100 ~ Fax: 617.630.0023
www.capitaladvisors.com
info@capitaladvisors.com