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Three New Cash Sweep Suits Target Schwab, RayJay

The firms were hit with three separate complaints alleging maximized profits at the expense of clients.

By Sabrina Kharrazi | August 29, 2024

Charles Schwab was sued late Wednesday night over its management of the firm's cash sweep program, in which the firm acted as "an agent serving two masters," according to the complaint filed in the District Court of Central California.

The suit, which was filed by three Schwab account holders, alleged that the company aimed to serve the interest of both its customers and its affiliated companies and banks, to which Schwab swept clients' cash balances, the filing showed.

"Suffering from this conflict, defendants shortchanged their customers for the benefit of themselves and their affiliates by negotiating with its affiliated banks one-sided transactions related to the [cash sweep] program," according to the complaint.

A Schwab spokesperson didn't immediately respond to requests for comment.

Michael Dell'Angelo and **Radha Nagamani Raghavan**, attorneys at **Berger Montague**, and **Alan Rosca** and **Paul Scarlato**, partners at **Rosca Scarlato**, represent proposed class members in the suit against Schwab.

Earlier this week, two more proposed class actions were brought over low-yielding cash sweep rates against **Raymond James,** both filed in the District Court of Middle Florida.

The lawsuits claimed that Raymond James violated the **Securities and Exchange Commission**'s Regulation Best Interest by prioritizing the firm's profits over its clients' interests, the filings stated.

In the first suit, **Raymond** and **Julie Schmidlin**, two Ohio residents with cash accounts at the firm, claimed that the firm acted as a "double agent" by misleading clients regarding interest rates on cash that was automatically swept to its affiliated banks, according to the complaint filed Tuesday.

That suit also alleged violations of the Florida Deceptive and Unfair Trade Practices Act, a state statute that prevents many of the omissions in Raymond James' program agreement for its bank deposit program, the filing stated.

Jonathan Stein, partner at **Steinlaw Florida**, represents the Schmidlins, and he didn't respond to requests for comment.

Dell'Angelo of Berger Montague and Rosca of Rosca Scarlato, who filed the Wednesday suit against Schwab, represent the Schmidlins in their suit against Raymond James as well.

"The question is, is this a socially useful service? Are these firms providing the valuable service to clients?" Rosca said in an interview.

Berger Montague and Rosca Scarlato represent account holders in sweep programs against numerous firms.

Raymond James is their latest target, following an Aug. 23 suit they filed against **JPMorgan**, two against **Ameriprise** in early August and two against **LPL** and **Wells Fargo** in July.

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The second suit against Raymond James was filed Monday by **Toni Conran** as a class action on behalf of the Conran family trust and other Raymond James clients with balances in sweep programs.

The complaint alleged that as of Aug. 1, clients with between $1 million and $10 million in cash deposits in Raymond James' sweep program received an annual percentage yield of 2.25%.

Matthew Dameron, partner at **Williams Dirks Dameron**, and **Thomas Sheridan III**, partner at **Simmons Hanly Conroy**, represent Conran. **Bruce Oakes**, partner at **Oakes & Fosher**, also represents the proposed class members in that suit.

They argued that for customers with accounts in that range, **Vanguard** offered a 4.6% return rate for its sweep program and **Fidelity** offered a 4.98% sweep rate, the complaint alleged.

Conran's suit uses similar benchmarks in a suit that those law firms previously filed against **UBS** on Aug. 22.

Simmons Hanly Conroy and **Williams Dirks Dameron** also previously filed suit on behalf of clients against Ameriprise, Wells Fargo and LPL in July.

"Raymond James is one of many wealth management firms taking advantage of clients and their money. Individuals trust that these companies will act in their best interest, but this trust has been broken with companies failing to pay clients reasonable interest rates," Dameron wrote in an email.

"The fed funds rate is at 5.33%, and Raymond James is paying only a fraction of 1% for the vast majority of accounts; this is clearly a breach of its fiduciary duty," he wrote.

"We intend to vigorously pursue claims against Raymond James and other companies that violate duties to their clients and will work to hold them accountable for their actions," Dameron wrote.

A Raymond James spokesperson declined to comment.

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