

What Every Investor Should Know About the Duties of Securities Brokerage Firms

Brokerage firms and their stockbrokers, by virtue of the nature of their relationship with their customers, owe certain legal duties to those customers. These duties arise under federal and state laws as well as agreements between the firm and the customer. A customer has the right to recover any loss caused by the breach of such a duty.

The duties of brokerage firms and stockbrokers include:

- Securities brokerage firms (and their representatives) have the duty to adhere to applicable law and professional standards of conduct when dealing with investors.
- Securities brokerage firms (and their representatives) have the duty to “observe high standards of commercial honor and just and equitable principles of trade” (stated differently, the duty to act in good faith and to deal fairly with investors).
- Securities brokerage firms (and their representatives) have the duty to use reasonable diligence to know the essential facts concerning every customer. At a minimum, the firm should know the customer’s investment experience, investment objectives, time horizon, risk tolerance, and other factors pertaining to the customer’s age, employment, and financial situation and needs (referred to below as the “Customer’s Investment Profile”).
- Securities brokerage firms (and their representatives) have the duty to recommend an investment only after studying it sufficiently to become informed as to its nature, risks, price and financial prognosis.
- Securities brokerage firms (and their representatives) have the duty not to recommend an investment or a strategy that is unsuitable for a customer based upon the Customer’s Investment Profile.
- Securities brokerage firms (and their representatives) have the duty to disclose and not misrepresent important facts and risks regarding an investment recommended to the investor.
- Securities brokerage firms (and their representatives) have the duty to refrain from self-dealing.
- Securities brokerage firms (and their representatives) have the duty to disclose any personal interest the broker may have in a particular recommended investment.
- Securities brokerage firms (and their representatives) have the duty to transact business only after receiving specific authorization from the customer (or one with authority to act for the customer).
- Securities brokerage firms (and their representatives) have the duty to know any limitations on the authority of each person acting on behalf of a customer.
- Securities brokerage firms (and their representatives) have the duty to promptly carry out the customer’s orders in a manner that best serves the customer’s interests.
- Securities brokerage firms (and their representatives) have the duty to manage and monitor every discretionary account in accordance with the customer’s investment objectives and risk tolerance.
- Securities brokerage firms (and their representatives) have the duty to train every representative so that the representative understands the risks as well as the potential benefits of every investment sold or recommended, and to supervise every representative, customer account and transaction.



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