

Corporate & Financial Weekly Digest

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SEC Approves Consolidated Know-Your-Customer and Suitability Rules

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The Securities and Exchange Commission has approved the Financial Industry Regulatory Authority's proposal to adopt consolidated rules governing know-your-customer and suitability obligations. The effective date for the new rules is October 7. The new know-your-customer rule, FINRA Rule 2090, will replace New York Stock Exchange Rule 405(1) and will require member firms to use reasonable diligence, in regard to the opening and maintenance of every account, to know the essential facts concerning every customer. The know-your-customer obligation arises at the beginning of the customer-broker relationship and does not depend on whether the broker has made a recommendation. Unlike NYSE Rule 405, FINRA Rule 2090 does not specifically address account opening, supervision or orders.

The new suitability rule, FINRA Rule 2111, will replace NASD Rule 2310 and will require a member firm or associated person to have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the member or associated person to ascertain the customer's investment profile. The triggering event for the new rule will continue to be a broker-dealer's recommendation. Additionally, the new rule applies to recommended investment strategies or securities regardless of whether the recommendation results in a transaction or generates transaction-based compensation. The rule also clarifies the types of information that brokers must attempt to obtain and analyze as part of their suitability analysis, condenses the sections relating to the three main suitability obligations and harmonizes the institutional-investor exemption with the more common definition of institutional account in NASD Rule 3110(c)(4).

Click [here](#) to read FINRA Regulatory Notice 11-02.

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