

**NICE**  
Actimize



White Paper

# FINRA 2090/2111 Solutions & Expertise



# Overview

FINRA Rule 2090 (Know Your Customer) and Rule 2111 (Suitability) went into effect in July 2012 and expand the scope of know your customer and suitability due diligence obligations for financial institutions recommending investment strategies and transactions to clients.

FINRA 2090 mandates that firms conduct “reasonable diligence” to gather and retain “essential facts” about investors, including information that reflects their investment ability and strategy, throughout the relationship. FINRA 2111 requires that firms have a “reasonable basis” to recommend, sell, or hold products that are suitable for an investor based on the investment profile established in FINRA 2090.

The obligation to comply with these regulations, combined with the diversity and complexity of investment strategies, poses a challenge for financial institutions. The rules have a material impact on existing compliance and supervisory processes and data needs, and increased pressure on organizational resources and internal systems. Firms must evaluate whether existing systems can meet these obligations or implement new technologies that will ensure their ability to remain compliant.

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# Requirements for Institutions

FINRA Rules 2090 and 2111 took effect in July 2012, establishing more stringent requirements for firms opening accounts with and recommending products to investors. These rules represent more explicit due diligence and suitability requirements for firms in order to prevent ambiguity and protect investors.

## Key Facts About FINRA 2090 & 2111 Compliance

FINRA 2090 (Know Your Customer) mandates that firms collect and retain relevant information about a customer (“essential facts”) at the opening of the account and throughout the customer relationship. The rule states that “essential facts” are those required to:

- effectively service the customer’s account
- act in accordance with any special handling instructions for the account
- understand the authority of each person acting on behalf of the customer
- comply with applicable laws, regulations, and rules

FINRA 2111 (Suitability) requires that explicit recommendations for an investor to buy, sell, or hold securities, either individually or as part of an investment strategy, are suitable based on the customer’s investment profile - built using “reasonable diligence” in gathering and retaining the information required in FINRA 2090.

The three tests of suitability for investors are:

- Reasonable-basis suitability: requires a broker to have a reasonable basis to believe that the recommendation is suitable for at least some investors
- Customer-specific suitability: requires that a broker have a reasonable basis to believe that the recommendation is suitable for a particular customer based on that customer’s investment profile
- Quantitative suitability: requires a broker who has actual or de facto control over a customer account to have a reasonable basis to believe that a series of recommended transactions are suitable and not excessive based on the customer’s investment profile

# Recommended Approach

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NICE Actimize provides solutions and expertise to help firms implement a comprehensive FINRA 2090 & 2111 compliance program – from establishing and maintaining investor profiles to ensuring suitability of investments and proper sales practices.

Leveraging Actimize technology and experience, financial institutions can comply with FINRA rules without disrupting day-to-day business operations, overburdening compliance departments, or impacting the investor experience.

## Key Facts About FINRA 2090 & 2111 Compliance

- Build a project team – appoint a FINRA 2090 & 2111 Responsible Officer; raise business awareness, from projected cost and customer impact to potential legal and process requirements; and define plan and timeline for FINRA 2090 & 2111 implementation
- Evaluate existing customer information against requirements – identify gaps in client data; assess and enhance current processes to acquire and maintain customer information during on-boarding and throughout the relationship
- Perform a system and process assessment – evaluate and modify current processes to meet requirements and streamline trade review, sign-off, and supervision; estimate operational workload of both technology and resources to meet FINRA rules
- Recognize synergies among know your customer, suitability, and sales practices requirements and processes – determine if client data exists across disparate systems, correlate customer information to build complete profiles, and develop a unified information gathering process to improve efficiency
- Maximize resources and cost savings by implementing updated FINRA 2090 & 2111 requirements in conjunction with customer due diligence (CDD) and sales practices programs and systems
- Future-proof compliance program by ensuring systems can be extended for additional requirements



# Actimize Solutions for FINRA Know Your Customer & Suitability Requirements

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Actimize enables institutions to establish an effective and efficient program for FINRA 2090 & 2111, allowing firms to not only ensure compliance, but also minimize business and customer impact. Key suitability and know your customer capabilities, delivered as part of the Actimize Customer Due Diligence and Actimize Sales Practices & Suitability solutions, automate and streamline the complex processes associated with these rules to help institutions maximize resources, save costs, and simplify compliance.

## Streamlined applicant due diligence

Interactive and dynamic forms and questionnaires streamline applicant due diligence processes with guided workflows, enabling rapid and complete data collection and management of required investor information and documentation.

## Comprehensive investor profile

The solution creates and maintains a comprehensive investor risk profile composed of the due diligence attributes required to both open and effectively service the account, including mandated attributes such as investment experience, time horizon, liquidity needs, and risk tolerance. This profile is maintained throughout the customer lifecycle as an investor's needs and objectives change.

## Ongoing assessment of investor profile

The solution monitors both individual transactions and the overall customer portfolios to identify inappropriate investment strategies and/or account activity for that specific client. Guided workflows ensure proper procedures are applied for compliance processes such as risk-based periodic reviews, document/certification tracking, and identification of activity inconsistent with the customer profile.

## Portfolio strategy and risk monitoring

Different risk tolerance levels are set for each client based on the investor risk profile. The solution analyzes the appropriateness of the client's investment activity over time, each individual holding, and the overall portfolio, and compares each of these to the client's risk profile. Any unsuitable or high-risk transactions are flagged for analyst attention.

## Proven analytical models for sales practices & suitability

The solution includes analytical models to detect sales practices irregularities across multiple asset classes. Intelligent risk scoring and fine-tuned thresholds ensure a manageable volume of alerts and efficient use of analyst resources. Analytical models cover issues such as suitability, account activity, broker activity, commission alternative accounts, high-risk trades, registrations, mutual fund/UCITS activity, and annuities.

## Simplified transaction supervision

Actimize Trade Blotter allows authorized supervisors to electronically review and sign-off on individual trades. With access to trade data, alerts, account and suitability information, notes, and more, supervisors can complete a full investigation, which is then captured and available as an audit trail.

## Powerful, integrated case management capabilities

Predefined investigation workflows and on-the-fly querying ensure investigations are resolved quickly and according to internal compliance protocols. Comprehensive dashboards enable managers to proactively monitor trends and assess overall program effectiveness, while a comprehensive audit trail allows firms to easily identify improper practices, satisfy regulatory inquiries, and ensure transparency.

## Enterprise wide platform

Actimize solutions are built upon, and leverage, the core capabilities of the Actimize platform, providing organizations with a flexible environment and cost savings in data infrastructure, deployment, training, and support. Additional Actimize solutions for transaction monitoring and institutional, retail, and employee surveillance can be seamlessly deployed on the same platform, ensuring comprehensive



## Know more. Risk less

[info@niceactimize.com](mailto:info@niceactimize.com)

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### About NICE Actimize

NICE Actimize is the largest and broadest provider of financial crime, risk and compliance solutions for regional and global financial institutions, as well as government regulators. Consistently ranked as number one in the space, NICE Actimize experts apply innovative technology to protect institutions and safeguard consumers' and investors' assets by identifying financial crime, preventing fraud and providing regulatory compliance.

The company provides real-time, cross-channel fraud prevention, anti-money laundering detection, and trading surveillance solutions that address such concerns as payment fraud, cybercrime, sanctions monitoring, market abuse, customer due diligence and insider trading.

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