Supervision of Client Accounts

• When signing the new account form, a principal certifies that the opening of the account is suitable for the customer.
  – Know your customer before making recommendations.

• SEC law and FINRA rules and regulations must be followed when opening each new account.
  – Individual
  – Joint
  – Corporate
  – Partnership
  – Trust
  – IRA

• USA Patriot Act of 2001
  – Requires verification of identity of customers
  – Determine whether the person appears on any list of known or suspected terrorists or terrorist organizations (maintained by the OFAC)

• FINRA required information includes the following:
  – Name
  – Date of birth
  – Occupation, address, and phone number
  – Tax ID number
  – Citizenship
  – Annual income and net worth
  – Bank and brokerage references
  – How the account was acquired
  – Signature of a registered principal

• Discussions with the client
  – Cash or margin account
  – What to do with cash in the account
  – Payment and delivery instructions
    • Transfer and ship
    • Safekeeping
    • Street name
  – Discretionary authority (or not)
Supervision of Client Accounts

• Goals, objectives, and risk

Supervision of Client Accounts

• Updating client information
  – Copy to customer within 30 days of any change

Supervision of Client Accounts

• Re-verify the account every 36 months

Supervision of Client Accounts

• On November 13, 2000, the SEC adopted Regulation SP covering privacy rules promulgated under the Gramm-Leach-Bliley Act.
  – Requiring notice requirements and restrictions on the disclosure of nonpublic personal information (NPI)

Supervision of Client Accounts

• Firms must have procedures in place to protect customer information and inform customers of the sharing of this information with nonaffiliated third parties.
  • A corporate privacy officer is responsible for establishing systems, procedures, and training to ensure compliance with privacy regulations.
  • Privacy procedures are subject to review during routine FINRA examinations.

Supervision of Client Accounts

• Regulation SP
  – Requires a “clear and conspicuous” notice regarding the firm’s privacy practices at the time of establishing a customer relationship and annually thereafter.

Supervision of Client Accounts

• Customers must have a “clear and conspicuous” way to opt out of the sharing of nonpublic personal information with nonaffiliated third parties.
  – Checkmark on a postage paid reply card
  – Calling a toll free number
  – On website, if customer agrees to internet delivery
Supervision of Client Accounts

• Deceased persons
  – General guidelines
    • Cancel open orders
    • Mark account deceased
    • Freeze assets until receiving proper papers

Supervision of Client Accounts

• Death/incompetence of JTWROS
  – Survivor may continue to trade the account

• Death/incompetence of tenant-in-common
  – Total freeze—need instructions from survivor(s) and legal
  – Deceased’s assets valued at current market for estate tax purposes

Supervision of Client Accounts

• Order tickets
  – Time order is received
  – Identity of each associated person responsible for the account
  – Person who entered or accepted the order on behalf of the customer

Supervision of Client Accounts

• Principals must review execution reports
  – Check against order ticket
  – Report execution to client
  – Report any errors immediately
  – Check client’s confirmation for accuracy