



Compliance Alert – 2022-01

To: All PCS Registered Representatives, Support Staff, Home Office Personnel
Date: January 28, 2022
Re: **FINRA Rule 2090 Guidance – PCS Customer Account Form**

On July 9, 2012, FINRA adopted a new rule, FINRA Rule 2090 known as the Know Your Customer Rule. The rule simply states:

Every member shall use reasonable diligence, in regard to the opening and maintenance of every account, to know (and retain) the essential facts concerning every customer and concerning the authority of each person acting on behalf of such customer.

Most broker/dealers utilize their customer account form/new account form to capture information used to comply with the “essential facts” portion of the rule. This has been interpreted by the industry as knowledge of a client’s other investments, which is then used to assist with investment decisions, suitability considerations, and most recently Best Interest determinations.

The PCS Customer Account Form (CAF) utilizes the “Investments” section located below the Investment Objective/Risk Tolerance section to collect information related to investments currently held by the client(s). This information is used in addition to the other information collected on the form to familiarize the firm with the client account and investment history, holdings, and experience.

The Principal Review Desk and Operations Principals have identified some confusion related to the correlation of the information entered in the Investments section and the financial information supplied on many Customer Account Forms. PCS is issuing this communication to assist Representatives when completing the CAF and reducing the number of NIGO incidents.

When reviewing a CAF, the firm Principal is looking for a correlation between the total value of investments supplied in comparison to the amount of Liquid Net Worth (LNW) listed on the CAF. The LNW should be the closest financial indicator representing the value of investments held by a client in most retail accounts. The general rule used is that if the value of the other investments is equal to the lower end of the range listed for LNW then the information supplied is accurate and meets the requirements of Rule 2090 (related to other

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investments). Of course, the opposite may also be presented where the investments listed are valued significantly higher than the LNW listed on the CAF.

It is understood that the information provided on the CAF is dependent on the information supplied by the client, and the client may not be fully aware of the current value of all investments. Because of this, PCS will take into consideration a variance for market fluctuation and some “estimates” provided by the client. That being said, if for example the LNW provided is \$500,000 – \$750,000 and the value of the investments is \$400,000 that is too far of a gap to be considered accurate. Either the LNW or the investments value is incorrect.

In the situation where the client LNW and disclosed investments do not correlate, the representative should use the comments section of the CAF to provide additional guidance to the firm regarding why there is a discrepancy. Some comments may be related to the type of account such as a 529 plan where the investments are limited, and the financials are for the custodian; or trust assets listed are mostly illiquid.

When reviewing a new account application, it is critical to provide additional information whenever there is an inconsistency with the entries made on the form. PCS principals will not make assumptions, so it is the responsibility of the representative to provide complete information and explanations when necessary.

Please direct any questions to your assigned Managing Principal, OSJ Manager, or compliance@pcsb.net.

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