

FINRA Issues Update on Option Account Sweep

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FINRA has provided an update on its targeted exam sweep related to option account opening, supervision, and disclosure (the Update). While the sweep is ongoing, FINRA's recent release serves as a helpful reminder for FINRA-member firms to carefully review their options account opening and customer approval processes as well as their supervision of those processes and general trading and compliance.

The Update, available [here](#), highlights a number of questions that firms should consider as they evaluate their options account opening and approval processes to determine whether their supervisory systems are reasonably designed to address risks related to supervising the approval of options accounts and trading activity in options accounts.

The Update highlights three areas for consideration:

- 1. Approving Options Trading:**
Firms must ensure that their account opening and approval processes comply with [FINRA Rule 2360](#), among other rules.
- 2. Options Disclosures:**
Firms must ensure that their communications regarding options contain proper risk disclosures and comply with [FINRA Rules 2210](#) and [2220](#).
- 3. Options Trading Supervision:**
Firms must ensure that their supervisory systems, processes, and controls for options trading are sufficient in light of the firm's overall risk profile.

The approach to options account approval is particularly relevant to online and mobile brokerage options trading platforms. FINRA highlighted the following three approaches that are generally utilized by broker-dealers providing options trading:

- 1. Manual Review** – Some firms only implement manual reviews.

- 2. Automated Review** – Some firms rely almost exclusively on automated, algorithmic, or software-based reviews, making sparing use of manual reviews.
- 3. Dual Approach** – Some firms implement a dual approach that incorporates manual and automated reviews.

The most practical approach, especially for online and mobile brokerage platforms relying on an automated onboarding process, is to implement a process that incorporates automated and manual reviews. While automatic account opening may be the most efficient method of approving accounts to trade options, the potential for software bugs or other technological errors may leave a firm liable to regulatory violations if an error or bug incorrectly approves a customer to trade options. Implementing a form of manual review would create a more complete process and allow firm representatives to catch or prevent account approvals inconsistent with the firm's internal standards or otherwise deviating from the intent of the firm's automated process.

FINRA has not issued guidance detailing when or how specific approaches should be utilized. Rather, each of the above may be more appropriate for some firms versus others. For example, it may be impracticable for an online broker to manually approve all customer accounts. However, FINRA's continued focus on account opening and approval is consistent with previous FINRA guidance. Specifically, in [Regulatory Notice 21-15](#) (issued April 9, 2021), FINRA reminded member firms of their obligations and requirements when approving customer accounts to trade options, including proper due diligence and risk-based methods for approving options accounts. As such, and in light of this recent guidance, it is essential for member firms to continue to be vigilant in assessing the adequacy and appropriateness of their account opening and approval processes for options accounts.

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