

CHAPTER 3. RULES OF FAIR PRACTICE

Rule 3.110. Business Conduct of Members

- (a) A Member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.

Rule 3.120. Violations Prohibited

- (a) No Member shall engage in conduct in violation of the Act, the rules or regulations thereunder, the Bylaws, LTSE Rules, or any policy or written interpretation of the Bylaws or LTSE Rules by the Board or an appropriate Board committee. Every Member shall so supervise persons associated with the Member as to assure compliance with those requirements.

Rule 3.130. Use of Fraudulent Devices

- (a) No Member shall effect any transaction in, or induce the purchase or sale of, any security by means of any manipulative, deceptive, or other fraudulent device or contrivance.

Rule 3.140. False Statements

- (a) No Member or applicant for membership, or person associated with a Member or applicant for membership, shall make any false statements or misrepresentations in any application, report or other communication to the Exchange. No Member or person associated with a Member shall make any false statement or misrepresentation to any Exchange committee, officer, the Board, or any designated self-regulatory organization in connection with any matter within the jurisdiction of the Exchange.

Rule 3.150. Know Your Customer

LTSE Members shall comply with FINRA Rule 2090 as if such rule were part of the Exchange's Rules.

Rule 3.160. Fair Dealing with Customers

All Members have a fundamental responsibility for fair dealing with their customers. Members who handle customer orders on the Exchange shall establish and enforce objective standards to ensure queuing and executing of customer orders in a fair and equitable manner. Practices that do not represent fair dealing include, but are not limited to, the following:

Rule 3.180. The Prompt Receipt and Delivery of Securities

- (a) Recommending speculative securities to customers without knowledge of or an attempt to obtain information concerning the customers' other securities holdings, their financial situation, and other necessary data. This prohibition has particular application to high pressure telephonic sales campaigns;
- (b) Excessive activity in customer accounts (churning or overtrading) in relation to the objectives and financial situation of the customer;
- (c) Establishment of fictitious accounts in order to execute transactions that otherwise would be prohibited or which are contrary to the Member's policies;
- (d) Causing the execution of transactions that are unauthorized by customers, or the sending of confirmations in order to cause customers to accept transactions not actually agreed upon;
- (e) Unauthorized use or borrowing of customer funds or securities; and
- (f) Recommending the purchase of securities or the continuing purchase of securities in amounts which are inconsistent with the reasonable expectation that the customer has the financial ability to meet such a commitment.

Rule 3.170. Suitability

- (a) LTSE Members and associated persons of a Member shall comply with FINRA Rule 2111 as if such rule were part of the Exchange's Rules.
- (b) For purposes of this LTSE Rule:
 - (1) References to FINRA Rules 2111 and 4512 shall be construed as references to LTSE Rules 3.170 and 4.512, respectively;
 - (2) References to "FINRA's Rules" shall be construed as references to "LTSE Rules"; and
 - (3) References to FINRA Rule 2214 shall be disregarded, and no comparable LTSE Rule shall apply to activities of LTSE Members in connection with investment analysis tools.

Rule 3.180. The Prompt Receipt and Delivery of Securities

- (a) Purchases. No Member may accept a customer's purchase order for any security until it has first ascertained that the customer placing the order or its agent agrees to

**Rule 3.230. Payments Involving Publications that Influence the
Market Price of a Security**

receive securities against payment in an amount equal to any execution, even though such an execution may represent the purchase of only a part of a larger order.

- (b) Sales. No Member shall execute a sale order for any customer or for its own account in any security unless such sale complies with the applicable provisions of the Act, including Regulation SHO.

Rule 3.190. Charges for Services Performed

Charges, if any, for services performed, including, but not limited to, miscellaneous services such as collection of monies due for principal, dividends, or interest, exchange or transfer of securities, appraisals, safe-keeping or custody of securities, and other services shall be reasonable and not unfairly discriminatory among customers.

Rule Series 3.200. Information and Disclosure Rules

Rule 3.200. Use of Information Obtained in Fiduciary Capacity

A Member who in the capacity of paying agent, transfer agent, trustee, or in any other similar capacity, has received information as to the ownership of securities, shall under no circumstances make use of such information for the purpose of soliciting purchases, sales, or exchanges except at the request and on behalf of the issuer.

Rule 3.210. Publication of Transactions and Quotations

No Member shall publish or circulate, or cause to be published or circulated, any notice, circular, advertisement, newspaper article, investment service, or communication of any kind which purports to report any transaction as a purchase or sale of any security unless such Member believes that such transaction was a bona fide purchase or sale of such security, or which purports to quote the bid price or asked price for any security, unless such Member believes that such quotation represents a bona fide bid for, or offer of, such security.

Rule 3.220. Offers at Stated Prices

No Member shall make an offer to buy from or sell to any person any security at a stated price unless such Member is prepared to purchase or sell, as the case may be, at such price and under such conditions as are stated at the time of such offer to buy or sell.

Rule 3.230. Payments Involving Publications that Influence the Market Price of a Security

- (a) Except as provided in paragraph (b) of this Rule 3.230, no Member shall directly or indirectly give, permit to be given, or offer to give anything of value to any person, or

Rule 3.260. Discretionary Accounts

intimidate any person for the purpose of influencing or rewarding the action of such person in connection with the publication or circulation in any electronic or other public media, including any investment service or similar publication, website, newspaper, magazine or other periodical, radio, or television program of any matter which has, or is intended to have, an effect upon the market price of any security.

- (b) The prohibitions in paragraph (a) of this Rule 3.230 shall not apply to compensation paid to a person in connection with the publication or circulation of:
 - (1) a communication that is clearly distinguishable as paid advertising;
 - (2) a communication that discloses the receipt of compensation and the amount thereof in accordance with Section 17(b) of the Securities Act of 1933; or
 - (3) a research report, as that term is defined in FINRA Rule 2241.

Rule 3.240. Customer Confirmations

A Member, at or before the completion of each transaction with a customer, shall give or send to such customer such written notification or confirmation of the transaction as is required by Rule 10b-10 under the Act.

Rule 3.250. Disclosure of Control Relationship with Issuer

A Member controlled by, controlling, or under common control with, the issuer of any security, shall, before entering into any contract with or for a customer for the purchase or sale of such security, disclose to such customer the existence of such control, and if such disclosure is not made in writing, it shall be supplemented by the giving or sending of written disclosure at or before the completion of the transaction.

Rule 3.260. Discretionary Accounts

- (a) Excessive Transactions. No Member shall effect with or for any customer's account in respect to which such Member or its agent or employee is vested with any discretionary power any transactions of purchase or sale which are excessive in size or frequency, in view of the financial resources and character of such account.
- (b) Authorization and Acceptance of Account. No Member or Registered Representative shall exercise any discretionary power in a customer's account unless such customer has given prior written authorization to a stated individual or individuals and the account has been accepted by the Member, as evidenced in writing by the Member or the partner, officer, or manager duly designated by the Member, in accordance with LTSE Rule 5.110.

Rule 3.270. Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts

- (c) Approval and Review of Transactions. The Member or the person duly designated shall approve promptly in writing each discretionary order entered and shall review all discretionary accounts at frequent intervals in order to detect and prevent transactions that are excessive in size or frequency in view of the financial resources and character of the account.
- (d) Exceptions. This LTSE Rule 3.260 shall not apply to:
 - (1) discretion as to the price at which or the time when an order given by a customer for the purchase or sale of a definite amount of a specified security shall be executed, except that the authority to exercise time and price discretion will be considered to be in effect only until the end of the business day on which the customer granted such discretion, absent a specific, written contrary indication signed and dated by the customer. This limitation shall not apply to time and price discretion exercised in an institutional account, as defined in LTSE Rule 5.110 pursuant to valid Good-Till-Canceled instructions issued on a "not-held" basis. Any exercise of time and price discretion must be reflected on the order ticket.
 - (2) bulk exchanges at net asset value of money market mutual funds ("Funds") utilizing negative response letters provided:
 - (A) The bulk exchange is limited to situations involving mergers and acquisitions of Funds, changes of clearing members and exchanges of Funds used in sweep accounts;
 - (B) The negative response letter contains a tabular comparison of the nature and amount of the fees charged by each Fund;
 - (C) The negative response letter contains a comparative description of the investment objectives of each Fund and a prospectus of the Fund to be purchased; and
 - (D) The negative response feature will not be activated until at least 30 days after the date on which the letter was mailed.

Rule 3.270. Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts

- (a) Improper Use. No Member or person associated with a Member shall make improper use of a customer's securities or funds.

Rule 3.270. Improper Use of Customers' Securities or Funds; Prohibition Against Guarantees and Sharing in Accounts

- (b) Prohibition Against Guarantees. No Member or person associated with a Member shall guarantee a customer against loss in connection with any securities transaction or in any securities account of such customer.
- (c) Sharing in Accounts; Extent Permissible.
 - (1)
 - (A) Except as provided in paragraph (c)(2) of this LTSE Rule 3.270, no Member or person associated with a Member shall share directly or indirectly in the profits or losses in any account of a customer carried by the Member or any other Member; provided, however, that a Member or person associated with a Member may share in the profits or losses in such an account if:
 - (i) such person associated with a Member obtains prior written authorization from the Member employing the associated person;
 - (ii) such Member or person associated with a Member obtains prior written authorization from the customer; and
 - (iii) such Member or person associated with a Member shares in the profits or losses in any account of such customer only in direct proportion to the financial contributions made to such account by either the Member or person associated with a Member.
 - (B) Exempt from the direct proportionate share limitation of paragraph (c)(1)(A)(iii) above are accounts of the immediate family of such Member or person associated with a Member. For purposes of this LTSE Rule 3.270, the term "immediate family" shall include parents, mothers-in-law or fathers-in-law, husbands or wives, children or any relatives to whose support the Member or person associated with a Member otherwise contributes directly or indirectly.
 - (2) Notwithstanding the prohibition of paragraph (c)(1) of this LTSE Rule 3.270, a Member or person associated with a Member that is acting as an investment adviser may receive compensation based on a share in profits or gains in an account if:
 - (A) such person associated with a Member seeking such compensation obtains prior written authorization from the Member employing the associated person;

Rule 3.290. Customer Disclosures

- (B) such Member or person associated with a Member seeking such compensation obtains prior written authorization from the customer; and
- (C) all of the conditions in Rule 205-3 of the Investment Advisers Act of 1940 (as the same may be amended from time to time) are satisfied.

Rule 3.280. Communications with Customers and the Public

Exchange Members and persons associated with a Member shall comply with FINRA Rule 2210 (except FINRA Rule 2210(c)) as if such rule were part of the Exchange's Rule. The Exchange and FINRA are parties to the Regulatory Contract pursuant to which FINRA has agreed to perform certain functions on behalf of the Exchange. Therefore, Exchange Members are complying with this LTSE Rule 3.280 by complying with relevant portions of FINRA Rule 2210, as written. In addition, functions performed by FINRA, FINRA departments, and FINRA staff under this LTSE Rule 3.280 are being performed by FINRA on the Exchange's behalf.

Rule 3.290. Customer Disclosures

No member may accept an order from a customer for execution in the Pre-Market Session or Post-Market Session without disclosing to such customer that extended hours trading involves material trading risks, including the possibility of lower liquidity, high volatility, changing prices, unlinked markets, an exaggerated effect from news announcements, wider spreads, and any other relevant risk.

The disclosures required pursuant to this LTSE Rule 3.290 may take the following form or such other form as provides substantially similar information:

- (a) Risk of Lower Liquidity. Liquidity refers to the ability of market participants to buy and sell securities. Generally, the more orders that are available in a market, the greater the liquidity. Liquidity is important because with greater liquidity it is easier for investors to buy or sell securities, and as a result, investors are more likely to pay or receive a competitive price for securities purchased or sold. There may be lower liquidity in extended hours trading as compared to regular market hours. As a result, your order may only be partially executed, or not at all.
- (b) Risk of Higher Volatility. Volatility refers to the changes in price that securities undergo when trading. Generally, the higher the volatility of a security, the greater its price swings. There may be greater volatility in extended hours trading than in regular market hours. As a result, your order may only be partially executed, or not at all, or you may receive an inferior price in extended hours trading than you would during regular market hours.

Rule 3.291. Influencing or Rewarding Employees of Others; Gratuities

- (c) Risk of Changing Prices. The prices of securities traded in extended hours trading may not reflect the prices either at the end of regular market hours, or upon the opening of the next morning. As a result, you may receive an inferior price in extended hours trading than you would during regular market hours.
- (d) Risk of Unlinked Markets. Depending on the extended hours trading system or the time of day, the prices displayed on a particular extended hours system may not reflect the prices in other concurrently operating extended hours trading systems dealing in the same securities. Accordingly, you may receive an inferior price in one extended hours trading system than you would in another extended hours trading system.
- (e) Risk of News Announcements. Normally, issuers make news announcements that may affect the price of their securities after regular market hours. Similarly, important financial information is frequently announced outside of regular market hours. In extended hours trading, these announcements may occur during trading, and if combined with lower liquidity and higher volatility, may cause an exaggerated and unsustainable effect on the price of a security.
- (f) Risk of Wider Spreads. The spread refers to the difference in price between what you can buy a security for and what you can sell it for. Lower liquidity and higher volatility in extended hours trading may result in wider than normal spreads for a particular security.

Rule 3.291. Influencing or Rewarding Employees of Others; Gratuities

- (a) No Member or person associated with a Member shall, directly or indirectly, give or permit to be given anything of value, including gratuities, in excess of one hundred dollars per individual per year to any person, principal, proprietor, employee, agent, or representative of another person where such payment or gratuity is in relation to the business of the employer of the recipient of the payment or gratuity. A gift of any kind is considered a gratuity.
- (b) This LTSE Rule shall not apply to contracts of employment with or to compensation for services rendered by persons enumerated in paragraph (a) of this Rule 3.291, provided that there is in existence prior to the time of employment or before the services are rendered, a written agreement between the Member and the person who is to be employed to perform such services. Such agreement shall include the nature of the proposed employment, the amount of the proposed compensation, and the written consent of such person's employer or principal.
- (c) A separate record of all payments or gratuities in any amount known to the Member, the employment agreement referred to in paragraph (b) of this LTSE Rule 3.291, and

Rule 3.293. Short-Interest Reporting

any employment compensation paid as a result thereof shall be retained by the Member for the period specified by Rule 17a-4 of the Act.

Rule 3.292. Telemarketing

LTSE Members and persons associated with a Member shall comply with FINRA Rule 3230 as if such rule were part of the LTSE Rules.

Rule 3.293. Short-Interest Reporting

To the extent such information is not otherwise reported to FINRA in conformance with FINRA Rule 4560, LTSE Members shall comply with FINRA Rule 4560, with respect to securities listed on LTSE, as if such rule were part of LTSE's rules. Information required to be reported pursuant to this Rule shall be reported to LTSE in the form and manner specified by LTSE.