

**WSP Manual**

**Infinity Financial Services**

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# INTRODUCTION

Infinity Financial Services (Infinity) will conduct its business consistent with the highest standards of commercial honor and just and equitable principles of trade. Keeping our customers' interest foremost is key to Infinity's success. The trust of our customers and Infinity's reputation are of paramount importance. Effective supervision is an integral part of achieving our goals in serving our customers.

This manual does not attempt to set forth all of the rules and regulations with which employees must be familiar, nor does it attempt to deal with all situations involving unusual circumstances. When questions arise, refer them to Compliance for assistance.

Supervision may be delegated to others, where appropriate; however, designated supervisors are responsible for ultimate supervision of assigned areas. The term "employee" as used in this manual includes RRs (and others as identified by Infinity) who may be independent contractors for tax and compensation purposes.

This manual is the property of Infinity Financial Services (Infinity) and may not be provided to anyone outside the Firm without the permission of Compliance or the Firm's counsel.

# 1 TRAINING AND EDUCATION

## 1.1 Annual Compliance Meeting

[FINRA Rule 3110(a)(7) and 3110.04]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• List of RRs and registered principals by branch, department, or for Infinity</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Annual</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Determine appropriate subjects to include in meetings, depending on RRs and principals who are participants</li><li>• Conduct compliance meetings or interviews with RRs and principals</li><li>• If electronic media is used to conduct meetings, designate a local supervisor to complete an attendance record to ensure RRs and principals arrive on time and attend the entire meeting</li><li>• If on-demand webcasts are used:<ul style="list-style-type: none"><li>○ Users are assigned a unique user ID and password</li><li>○ Records of attendance are maintained electronically in "read-only" format</li><li>○ Each user will be advised he or she has the opportunity to e-mail or telephone questions to the presenter and receive answers in a timely manner</li><li>○ Each user will be advised of Q+As available on Infinity's intranet and Q+As will be updated when questions are received</li><li>○ The number of minutes the webcast stays on is tracked</li><li>○ The webcast is configured as click-as-you-go</li><li>○ At the end of the webcast a pop-up box requires the user to attest that the entire webcast was viewed (or a separate attestation will be required)</li></ul></li><li>• Ensure all subject RRs and principals complete the required annual meeting or interview</li><li>• For RRs and principals who do not complete the requirement, take corrective action which may include contact with the RR's or principal's supervisor; limitation on business activities until the requirement is completed; other corrective action determined as appropriate for the circumstances</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• A record of when and where meetings are conducted, subjects discussed, and who attended is retained by Compliance</li><li>• A record of corrective action is retained in the RR's or principal's file</li></ul>

As required by FINRA rules, RRs and registered principals are required to attend an annual compliance meeting or interview.

Infinity intends to employ the use of electronic media in conducting the annual compliance meeting. The use of this media will permit the attendees to interact with the presenters to ask and have questions answered in real-time or otherwise engage the presenters in dialogue.

## 1.2 Continuing Education

[FINRA Rule 1240; FINRA CE web site: <http://www.finra.org/industry/continuing-education>; [regulatory notice 21-41](#)]

Registered employees are subject to SRO continuing education requirements composed of two distinct elements. Registered employees are required to complete both elements at specified time intervals. The two elements are:

**Regulatory Element:** This element is a computer-based training program that focuses on compliance, regulatory, ethical, and sales practice standards. Its content is derived from rules and regulations as well as standards and practices widely accepted within the industry. This element is administered by FINRA through a web-based delivery system.

**Firm Element:** All registered employees dealing with public customers and their supervisors are required to complete continuing education administered by Infinity.

### Summary of Amendment

#### Extension of Firm Element to All Registered Persons and Recognition of Other Training Requirements for Firm Element

FINRA has amended the CE rules to extend the annual Firm Element requirement to all registered persons, including individuals who maintain solely a permissive registration consistent with Rule 1210.02, beginning January 1, 2023.<sup>11</sup> In conjunction with this change, FINRA has also amended the CE rules to expressly allow firms to consider training relating to the anti-money laundering compliance program under Rule 3310(e) and the annual compliance meeting under Rule 3110(a)(7) toward satisfying an individual's annual Firm Element requirement.<sup>12</sup> In addition, FINRA has revised the current minimum Firm Element training criteria to provide that the training must cover topics related to the role, activities or responsibilities of the registered person and to professional responsibility.<sup>13</sup>

### Regulatory Element

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• CRD Firm Queues and related reports</li><li>• CRD notifications of inactive registrations</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Ongoing</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Review CRD Firm queue</li><li>• Request queue reports</li><li>• Notify affected persons of requirements</li><li>• Schedule web-based training</li><li>• Review CRD notifications of inactive registrations</li><li>• Notify designated supervisors of restricted persons</li><li>• Review activity of restricted persons during restricted period<ul style="list-style-type: none"><li>○ Impose disciplinary action if appropriate including cancellation of commissions, letters of admonition, other appropriate action</li></ul></li></ul>

<b>Record</b>	<ul style="list-style-type: none"> <li>• Queue reports, FINRA notices, and records of notifying employees are maintained in registration files</li> <li>• Reviews of restricted person activities and action taken</li> </ul>
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## **Who Is Subject To The Requirements**

All registered persons are subject to the regulatory element.

## **When Requirements Must Be Completed**

All covered persons shall comply with the requirement to complete the Regulatory Element.

Each covered person registered with FINRA in a representative or principal registration category immediately preceding January 1, 2023 shall complete the Regulatory Element for the registration category annually by December 31 of 2023 and by December 31 of every year thereafter in which the person remains registered, or as otherwise prescribed by FINRA. Each covered person registering with FINRA in a representative or principal registration category for the first time on or after January 1, 2023 shall complete the Regulatory Element for the registration category annually by December 31 of the subsequent calendar year following the calendar year in which the person becomes registered and by December 31 of every year thereafter in which the person remains registered, or as otherwise prescribed by FINRA.

A covered person, other than a covered person designated as eligible for a waiver pursuant to Rule 1210.09, may be required to complete assigned continuing education as prescribed by FINRA, in the event such person:

(A) is subject to any statutory disqualification as defined in Section 3(a)(39) of the Exchange Act;

(B) is subject to suspension or to the imposition of a fine of \$5,000 or more for violation of any provision of any securities law or regulation, or any agreement with or rule or standard of conduct of any securities governmental agency, securities self-regulatory organization, or as imposed by any such regulatory or self-regulatory organization in connection with a disciplinary proceeding; or

(C) is ordered as a sanction in a disciplinary action to complete continuing education by any securities governmental agency or self-regulatory organization.

Such covered person must complete any continuing education required under this paragraph (a)(3) within 120 days of the covered person becoming subject to the statutory disqualification, in the case of (A) above, or the disciplinary action becoming final, in the case of (B) and (C) above.

## **Regulatory Element Contact Person**

[FINRA Rule 1250(a)(7)]

Compliance or a designated person responsible for registration will notify FINRA of the name and email address of the contact person to receive CRD notices. Changes will be reported within 30 days of the change. Annually, by the 17<sup>th</sup> business day following the end of the calendar year, the contact person information will be reviewed and updated, if necessary.

## **Firm Element**



<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Information regarding firm products, services, training needs</li> <li>• Guidance from regulators</li> <li>• Current regulatory concerns</li> <li>• Disciplinary actions</li> <li>• FINRA Webcast Usage Report</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Annual and ongoing</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Develop needs analyses; training plans; and training materials</li> <li>• Identify employees who are subject to the requirement (covered persons)</li> <li>• Monitor completion of requirements</li> <li>• Restrict covered persons who do not complete requirements</li> <li>• At year-end, determine whether objectives were met and whether training was effective</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Needs analyses; training plans; training materials</li> <li>• Dates of training, contents of training, lists of attendees</li> <li>• Copies of training material used</li> <li>• Certifications</li> <li>• Webcast Usage Reports</li> <li>• Evaluations</li> <li>• Records (memos, notes, <i>etc.</i>) of actions restricting covered persons</li> </ul>

### **Who Is Subject To The Requirements**

All registered persons who do business with the public and their supervisors are subject to the firm element. Firm element continuing education is required regardless of the length of registration or employment in the securities industry.

### **Firm Requirements**

Infinity is required to:

- identify job functions and persons subject to the requirement
- prepare an annual needs analysis including gathering information about products and services and training topics
- determine training objectives
- develop a written training plan
- implement the training plan
- retain a record of participation
- develop a method of evaluating the effectiveness of the training
- consider the evaluations in developing the next year's needs analysis
- restrict covered persons who do not complete the requirement

Infinity's internal program may include videos, computer training, in-person presentations, and other methods of conveying training material including a combination of methods.

## Annual Needs Analysis

An annual needs analysis is prepared for covered persons.

In developing the needs analysis, the following methods will be used:

- Questionnaires will be provided to key managers in business and other areas including Legal and Compliance and responses will be considered in topics to be included
- Feedback from regulators including recent audits, regulatory alerts, and CE feedback will be evaluated
- New business lines or marketing strategies will be evaluated

Needs analyses will be completed by December 31 (or shortly thereafter) each year for the upcoming calendar year.

## Evaluating The Firm Element Program

Participants are asked to complete an evaluation form to evaluate the effectiveness of the firm element continuing education program. These evaluations are considered when designing the next year's continuing education program.

## Registered Persons Who Fail To Complete Requirements

Registered persons who fail to complete the requirements of continuing education cannot conduct any duties that require registration or earn commissions or other compensation related to such activities. Registrations are considered "inactive" until continuing education requirements are completed.

The designated supervisor will notify affected persons and their supervisors by phone and written memorandum when their registration becomes inactive and when the requirement is satisfied and inactive status is lifted. Accounting/Commissions also will be notified by memorandum. Copies of memos will be retained in the individual's registration file.

## 1.3 Trainees

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• New trainees</li><li>• Internal or external training material</li><li>• Rules and regulations</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required when new trainees are hired</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Develop training program that addresses the business areas of trainees and includes key regulatory requirements such as anti-money laundering, insider trading, and other key issues</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Record of training program content, who attended, dates attended</li></ul>

When Infinity hires individuals to train to serve as registered representatives, those individuals will complete a training program. Trainees are not permitted to conduct business with public customers until all required registrations are effective and training is accomplished.

## **2 DESIGNATION OF SUPERVISORS AND OFFICES**

### **2.1 Designation Of Supervisors**

[FINRA Rule 3110(a)]

Infinity maintains a schedule designating the firm's supervisory principals. Please refer to that schedule.

### **2.2 Designation Of Offices**

Infinity maintains a schedule for the firm's Branch Offices. Please refer to that schedule.

## 3 GENERAL EMPLOYEE POLICIES

### 3.1 Standards Of Conduct

[FINRA Rule 2010]

It is Infinity's policy and mandate to its employees to conduct Infinity's business under the high standards and principles of the rules governing our industry. Employees are expected to deal with customers in a fair and honest way, with the customer's interest of primary concern.

Compliance will distribute compliance policies and procedures to all employees and from time to time will issue updates, as needed.

### 3.2 Outside Business Activities

[FINRA Rule 3270]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Requests to engage in outside business activities (OBA)</li><li>• Annual certifications/OBA Form</li><li>• Other potential indicators such as incoming or outgoing correspondence</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Employee's supervisor:<ul style="list-style-type: none"><li>○ Question employee regarding potential unapproved outside business activities referenced in correspondence or other indicators of outside business activity</li><li>○ Refer requests to Compliance</li></ul></li><li>• Compliance:<ul style="list-style-type: none"><li>○ Consider whether the proposed activity will:<ul style="list-style-type: none"><li>▪ Interfere with or otherwise compromise the employee's responsibilities to Infinity and its customers</li><li>▪ Be viewed by customers or the public as part of Infinity's business based upon the nature of the proposed activity and the manner in which it will be offered</li></ul></li><li>○ Determine whether the activity is an outside business activity or if it would be considered a private securities transaction subject to the requirements of the next section</li><li>○ Determine any limitations to be imposed prior to approval</li><li>○ Notify employee of approval/disapproval and any limitations, in writing</li></ul></li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Retention for 3 years, 2 years in a readily accessible location:<ul style="list-style-type: none"><li>○ Outside Business Activity Request forms including approval/disapproval and any limitations on the activity</li><li>○ Written notification to the employee and his/her supervisor</li></ul></li></ul>

Employees are required to disclose to Infinity, in writing, any outside business activities and obtain approval prior to engaging in such activity. Charitable activities are not included in this requirement unless the employee is being compensated. This policy applies to all employees (or other relationships such as RRs acting as independent contractors registered with Infinity); it does not apply to private securities transactions which are discussed in the next section.

Outside business activities may include a wide range of activities including but not limited to the following:

- Employment with an outside entity
- Acting as an independent contractor to an outside party
- Serving as an officer, director, or partner
- Acting as a finder
- Referring someone and receiving a referral fee
- Receiving compensation or having the reasonable expectation of compensation from any other person as a result of a business activity outside the scope of employment or other relationship with Infinity

Compensation may include salary, stock options or warrants, referral fees, or providing of services or products as remuneration. Generally, remuneration consisting of anything of present or future value for services rendered may be considered compensation.

Employees requesting approval to engage in outside business activities must complete the Outside Business Activity Request form and submit it to Compliance **prior to** engaging in the activity. Compliance will approve or disapprove the outside business activity in writing and notify the employee and the employee's supervisor. **See Schedule 5 for the Outside Business Activity Request Form.**

Undisclosed unreported OBAs will be investigated to determine why the disclosure was not made. What action will be taken against the employee will be determined on a case-by-case basis. An intentional non-disclosure will generally be grounds for dismissal or not being hired absent some extenuating circumstance.

### 3.3 Private Securities Transactions

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Requests to engage in private securities transactions</li> <li>• Annual certifications</li> <li>• Other indications of potential "selling away" such as in correspondence</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Employee's supervisor: <ul style="list-style-type: none"> <li>○ Refer requests or indications of private securities transactions to Compliance</li> </ul> </li> <li>• Compliance: <ul style="list-style-type: none"> <li>○ Review requests and certifications</li> <li>○ Follow up with RR and supervisor regarding indicators of selling away</li> <li>○ Notify employee by memo (with a copy to the employee's supervisor) that private securities transactions are not permitted</li> <li>○ Take corrective action which may include: <ul style="list-style-type: none"> <li>▪ Disciplinary action against the RR (letter of reprimand; fine, suspension; termination)</li> <li>▪ Notification to private securities investors that Infinity is not associated with the investment</li> </ul> </li> </ul> </li> </ul>

<b>Record</b>	<ul style="list-style-type: none"> <li>• Memo in employee's file</li> <li>• Records of transactions and review/action taken</li> </ul>
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Employees are not permitted to engage in private securities transactions (as defined by FINRA), whether or not there is compensation paid for effecting the transaction. Private securities transactions are defined by FINRA as any securities transaction outside the regular course or scope of an employee's employment with Infinity (sometimes referred to as "selling away"). This does not include outside securities accounts approved by Infinity, transactions with immediate family members where the employee receives no selling compensation, and personal transactions in investment company and variable annuity securities.

RRs should note that promissory notes often are securities. Even if a promissory note is not deemed a security, the RR has the obligation to obtain Infinity's permission **before** engaging in any outside business activity involving the offer of promissory notes.

RRs are required to conduct their selling activities through Infinity.

## 3.4 Employee And Employee Related Accounts

### Employee And Employee Related Accounts Defined

Employee and employee related accounts ("covered accounts") are subject to review by Infinity. Covered accounts include:

- the spouse of a person associated with the member;
- a child of the person associated with the member or such person's spouse, provided that the child resides in the same household as or is financially dependent upon the person associated with the member;
- any other related individual over whose account the person associated with the member has control; or
- any other individual over whose account the associated person of the member has control and to whose financial support such person materially contributes.

In addition, accounts subject to review include any account where an employee has a beneficial interest or the authority to make investment decisions (for example, trust accounts, accounts for minors, *etc.*).

### Outside Accounts

[FINRA Rule 3210; FINRA FAQs on Rule 3210: <https://www.finra.org/rules-guidance/rulebooks/finra-rules/3210/fag>; NYSE Rule 407]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Requests for outside accounts</li> <li>• Annual certifications</li> <li>• Other</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Employee's supervisor: <ul style="list-style-type: none"> <li>○ Refer requests to Compliance</li> </ul> </li> <li>• Compliance:</li> </ul>

	<ul style="list-style-type: none"> <li>○ Review requests and certifications</li> <li>○ Notify employee by memo of approval or disapproval</li> <li>○ Notify firm carrying the employee's outside account by letter regarding to whom duplicate confirmations and statements should be sent. If the carrying firm is a non-member and the ability to receive confirmations and statements is limited, consider whether the account should be approved.</li> <li>○ Review confirmations and statements as they are received. Review for: <ul style="list-style-type: none"> <li>▪ Transactions in securities restricted by Infinity</li> <li>▪ Transactions in new issues</li> <li>▪ Transactions potentially involving insider trading or other rule/law violation</li> <li>▪ Large debit balances, very active trading, or other trading activity that may be of concern</li> </ul> </li> <li>○ For transactions in restricted securities, contact the employee and take corrective action which may include cancellation of the transaction</li> <li>○ For trading activity that may be indicative of law or rule violations, conduct an internal investigation</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Approval/disapproval of outside account in employee's file</li> <li>• Confirmations/statements initialed and filed in employee's file</li> <li>• Record of internal investigation, if applicable</li> <li>• Quarterly report to FINRA of internal investigations, if Infinity engages in investment banking activities</li> </ul>

It is the general policy of Infinity to require that employees maintain their securities accounts at Infinity. Exceptions require written approval by Compliance prior to opening the account. Compliance will request duplicate confirmations and statements from the other dealer carrying the employee's account. This includes accounts with a commodities firm to trade security futures and any accounts where the employee has a beneficial interest.

Accounts for the following where the employee is presumed to have a beneficial interest include:

- a spouse
- a child of the employee or the employee's spouse, provided the child resides in the same household or is financially dependent upon the employee
- any other related individual over whose account the employee has control
- any other individual over whose account the employee has control and to whose financial support the employee materially contributes

There may be exceptions to the presumption if the employee can demonstrate to Compliance that the employee derives no economic benefit from, and exercises no control over, the account.

The employee is also obligated to notify in writing the broker-dealer or other institution prior to opening the account that the employee is associated with Infinity. Accounts opened prior to association with Infinity are subject to the same approval requirement by Compliance and notification to the carrying institution within 30 days of employment with Infinity.

These requirements do not apply to accounts limited exclusively to transactions in unit investment trusts and variable contracts or redeemable securities in mutual funds.

## Review Of Transactions

[FINRA Rule 3110(d)]



<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Order records</li> <li>• Customer monthly statements</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily (order records)</li> <li>• Monthly (customer monthly statements)</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review employee and employee related accounts for possible concerns regarding: <ul style="list-style-type: none"> <li>○ Very active trading</li> <li>○ Sizeable debit balances</li> <li>○ Bounced checks</li> <li>○ High risk trading patterns</li> <li>○ Transfers between accounts, particularly employee or related accounts and customer accounts</li> <li>○ Insider trading</li> </ul> </li> <li>• Where items of concern are identified, action to be taken depends on the circumstances and may include conducting an internal investigation to identify potential rule/law violations</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Record of review of orders and actions taken, if applicable</li> <li>• Record of internal investigation, if applicable</li> <li>• Record of review of accounts and actions taken, if applicable</li> <li>• Quarterly report to FINRA of internal investigations, if Infinity engages in investment banking activities</li> </ul>

Transactions in employee and employee related accounts are reviewed daily. Employees will be contacted about transactions that are potentially contrary to rules or Firm policy.

## Insider Trading

[SEC Securities Exchange Act of 1934 Rule 10b-5 and Section 10]

Employees are prohibited from effecting transactions based on knowledge of material, non-public information. The chapter *INSIDER TRADING* explains Infinity's policy and all employees are expected to be familiar with the policy.

### 3.4.5 Sharing In Accounts

[FINRA Rule 2150]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• New account forms</li> <li>• Requests to open accounts jointly with customers</li> </ul>

<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• RR's supervisor: <ul style="list-style-type: none"> <li>○ When approving new accounts, identify accounts where an RR is potentially sharing in the account</li> <li>○ Confer with employee as to the nature of the shared account (what is the relationship between the employee and the other account owner, allocation of profits and losses)</li> <li>○ Refer shared accounts or requests to share in an account to Compliance</li> </ul> </li> <li>• Compliance: <ul style="list-style-type: none"> <li>○ Require written request from employee and written authorization from customer</li> <li>○ Review and determine whether shared account is appropriate</li> <li>○ Approve or disapprove the request</li> <li>○ Notify employee and supervisor of approval or disapproval</li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Copies of employee request, customer's written authorization, and notation of approval or disapproval is retained with the new account records for the account</li> </ul>

Infinity and its registered employees may not share directly or indirectly in the profits or losses of a customer's account (with the exception of performance-based fees specifically permitted under rules governing investment adviser and other permitted arrangements). As a general policy, registered employees may not participate in an account that includes customers who are not family members of the employee.

A registered employee may be a joint owner in an account with a customer only under the following conditions:

- the employee submits a written request to Compliance accompanied by signed authorization from the customer
- the employee is a disclosed owner of the account
- the employee shares in losses and gains only in proportion to the employee's monetary contribution to the account (not applicable to accounts shared with immediate family members)
- the employee receives written approval from Compliance

## Prohibition On Purchases Of Initial Public Offerings (IPOs)

[FINRA Rule 5130]

Employees and their immediate families (parents, spouse, children, in-laws, siblings) are prohibited from purchasing IPOs. This includes sales to anyone materially supported by an employee or a member of the employee's immediate family. Details regarding this prohibition are in the chapter *CORPORATE SECURITIES UNDERWRITING* in the section *Restrictions On Purchases Of Initial Public Offerings (IPOs)*.

## Restrictions On Personal Accounts Of Certain Firm Personnel

Personnel in certain departments such as research, trading, and investment banking may be subject to additional requirements or restrictions on the trading in their personal accounts. Affected personnel will be provided with any additional policies affecting their personal transactions.

## 3.5 Gifts, Gratuities And Entertainment

[FINRA Rule 2310(c)(2)(A), 2320(g)(4)(A), 2341(l)(5) and 3220]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Requests to give or receive gifts</li><li>• Expense reports</li><li>• Annual certification</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• RR's supervisor:<ul style="list-style-type: none"><li>○ Refer requests regarding gifts and gratuities to Compliance</li><li>○ Review expense reports for reasonableness and compliance with expense policies and approve or disapprove</li></ul></li><li>• Compliance:<ul style="list-style-type: none"><li>○ Review and approve or disapprove gifts and gratuities to be given, aggregated on a calendar year basis to determine compliance with the \$100 annual limit</li></ul></li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Gift Approval Forms are maintained in a branch/department file</li><li>• Expense reports are maintained in Accounting</li></ul>

Gifts, gratuities, and entertainment are subject to regulators' limitations. Failure to comply may result in fines or other regulatory actions against the employee and Infinity. **It is important for all employees to know and comply with this policy.** Questions regarding this policy on gifts and entertainment should be referred to Compliance. Key requirements include:

- **Gifts to others are limited to \$100 per year per person** (other than "personal gifts" defined in the policy).
  - Multiple gifts to the same person are aggregated, *i.e.*, the total of all gifts in any year firm-wide cannot exceed \$100 to one person.
  - "Personal gifts" are excluded (as discussed below).
- **Receiving** gifts is limited.
- An **employee must host entertainment** to avoid entertainment being considered a "gift" subject to limitations.
- **Records of entertainment** must include details of who was entertained and the nature of entertainment.
- **Gifts to public officials require prior Compliance approval.**
- **Your supervisor must be notified** of gifts to others.
- **Your supervisor must be notified** of gifts received (other than personal gifts).
- Gift requirements (whether the gift is given or received) **do not apply to personal gifts** to immediate family members (parents, children, grandparents, siblings, spouse, in-laws) who also happen to be customers and where the gift is unrelated to Infinity's business. The policy also does not apply to occasional personal gifts to others (such as a wedding gift or a congratulatory gift for the birth of a child).
- **If Infinity pays for the gift** or reimburses the employee for the cost of the gift, the gift is subject to the requirements of this policy.
- **Gifts incidental to entertainment** (*e.g.*, a golf shirt given during a golf outing, *etc.*) are considered gifts subject to reporting to Compliance and the gift limitations.

### Gifts To Others

Employees are required to preapprove any business gifts with Compliance (does not include Infinity employees) prior to giving the gift.

### **De Minimis And Promotional Items**

The policy does not apply to gifts of *de minimis* value (such as pens, notepads, or modest desk ornaments) or to promotional items of nominal value with Infinity's logo (e.g., umbrellas, tote bags or shirts). Promotional items must be valued substantially below the \$100 limit to be excluded from the gift policy. Items of higher value (near \$100 or more), even if they include Infinity's logo, are considered "gifts" subject to this policy.

FINRA excludes customary Lucite tombstones, plaques or other decorative items commemorating a business transaction. This exemption is very limited; other items are considered gifts subject to the policy, even if they commemorate a business transaction.

### **Aggregation Of Gifts**

The annual gift limitation is the aggregate of all gifts given to any one individual. For example, a gift of a \$75.00 ticket to a football game in November (as a gift and not as entertainment discussed below) and then a holiday gift of a \$50.00 bottle of wine to the same person in the same year would be in violation of the \$100 limitation.

Each recipient is limited to \$100 in **total** gifts during any calendar year.

### **Valuation Of Gifts**

Gifts are valued at the higher of cost or market value excluding tax and delivery charges. For tickets, it is the higher of cost or face value. If gifts are given to multiple recipients, the names of all recipients are recorded and the value of the gift is prorated among recipients. For example, a \$250 fruit basket given to an office of three individuals is permitted since the value of the gift prorated is less than the \$100 limitation per person.

### **Accepting Gifts**

Employees may not solicit gifts or gratuities from customers or other persons with business dealings with Infinity. Employees are not permitted to accept gifts from outside vendors currently doing business with Infinity or seeking future business without the written approval of Compliance. This policy does not include customary business lunches or entertainment; promotional items (caps, T-shirts, pens, *etc.*); or gifts of nominal (less than \$100.00) value. When accepting gifts from customers or other business-related persons, the employee is required to submit the Gift Approval Form to his or her supervisor.

### **Entertainment**

Entertainment of customers or prospective customers must be reasonable and not so expensive it raises a suggestion of unethical conduct. All entertainment and related expenses must be detailed on an expense form with receipts attached for expenses over \$25.00. Expense forms should be submitted to the appropriate supervisor within 30 days of incurring the expenses.

The limitation on gifts and gratuities does not apply to usual business entertainment such as dinners or sporting events where the employee hosts the entertainment, though such expenses should be reasonable.

"Entertainment" includes a broad range of activities such as trips, parties, and other activities where an employee hosts someone related to Infinity's business. Questions regarding the reasonableness of proposed entertainment and related expenses should be referred to Compliance.

## 3.6 Privacy Policy

[SEC Regulation S-P]

Please refer to Infinity's Privacy Policy on the firm's website (<https://www.infinitysecurities.com/privacy-policy>) for details on Infinity's privacy policies.

## 3.7 Reporting Possible Law Or Rule Violations

[SEC Securities Exchange Act of 1934 Section 21F; SEC Rule 21F; FINRA Rule 4530(b)]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>Chief Compliance Officer (or, if the CCO is involved in the potential wrongdoing, an alternate senior manager)</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>Reports of possible law or rule violations from employees</li> <li>Referrals from outside sources such as regulators</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>Investigate reports: As required</li> <li>Employee education: At least annually</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>Acknowledge the employee's report and advise confidentiality will be maintained and there will be no retaliation for reporting</li> <li>Determine who will be involved in the investigation and notify those persons of the confidentiality of the investigation</li> <li>Conduct the investigation using tools appropriate to the issue (interviewing employees, reviewing internal/external reports, engaging counsel, etc.)</li> <li>Determine whether there was potential wrongdoing and decide whether a report should be made to regulators</li> <li>Take internal corrective action, as appropriate</li> <li>Advise the reporting employee of the status of the investigation</li> <li>Include reporting of possible law or rule violations and Infinity's process for internal investigations as part of regular employee education</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>Report from employee</li> <li>Information regarding the investigation including records reviewed, who is involved, what steps taken, reports to regulators (if appropriate), conclusion of investigation</li> <li>Records of employee education including how education is conducted (classes, online education, compliance memos, etc.), who participates, subjects included, and when it occurs</li> </ul>

It is the intent of Infinity to adhere to all laws and regulations that apply to the organization; the underlying purpose of this policy is to support the organization's goal of legal compliance. The support of all employees is necessary to achieve compliance with various laws and regulations.

## **Reporting**

Employees should report possible crimes or rule violations involving Infinity, a department, or an employee or employees as well as outside vendors or service providers. Reporting may be made to any or all of the following, particularly where the employee's supervisor may be involved in the possible wrongdoing.

1. Your supervisor
2. Chief Compliance Officer

## **Confidentiality Of Employee Reporting**

All reports will be treated as confidential. The employee's identification will be kept confidential other than to those who need to know such as the compliance officer or counsel or someone else conducting an investigation. Any person identified in the report as a potential wrongdoer will not be provided the name of the person who has filed a report.

## **Notification Of Chief Compliance Officer**

A supervisor or other manager who receives a report of possible violations should immediately refer the matter to the Chief Compliance Officer who is responsible for conducting an investigation and overseeing the review until its conclusion, including potential reporting to a regulator. If the Chief Compliance Officer is involved in the potential wrongdoing, the member of management to whom the issue is reported will be responsible for conducting the investigation.

## **Investigation**

Infinity will promptly investigate the reported possible wrongdoing and determine what action is required. Outside counsel may be engaged as part of the investigation. The reporting employee will be advised of the conclusion or resolution of the investigation.

## **Anti-Retaliation**

Infinity will not retaliate against an employee who reports some practice of Infinity, a department, or employee(s) or of another individual or entity with whom Infinity has a business relationship that may represent a rule or law violation. Infinity will not retaliate against employees who disclose or threaten to disclose (to Infinity or a public body such as a regulator) any activity, policy, or practice of Infinity that the employee believes is in violation of a law, or a rule, or regulation mandated pursuant to law.

Supervisors and others are prohibited from engaging in discipline, threats, or discriminatory actions against employees for engaging in whistleblowing activities.

### 3.8 Requests For Information From Outside Sources

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Written or oral requests for information</li><li>• Subpoenas</li><li>• Other</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Compliance: Provide response, as appropriate</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Retain record of response in legal, regulatory, or other files</li></ul>

Infinity and its employees are sometimes contacted by outside parties such as regulators (SEC, FINRA, exchanges, state and other regulators), attorneys and governmental agencies (e.g., the IRS) that request information about customer accounts, Infinity activities, or an individual employee's activities.

Information regarding customer accounts, Infinity and its employees is considered confidential and may be released only to those authorized to receive it. Any requests from outside parties (other than the principal or authorized person on behalf of an account requesting information on the account) should be immediately referred to Compliance for response. This includes requests received in any form whether written, by phone, or in person. This also includes visits by regulators. Proof of identification should be requested and Compliance immediately notified.

### 3.9 Internal Reviews And Investigations

If necessary, Infinity may conduct an internal review or investigation when wrong doing is suspected or reported. Employees may be requested for information that may include an employee's signed written statement. Failure to provide requested information may result in disciplinary action, up to and including termination.

The Chief Compliance Officer is generally responsible for investigating reports of wrong doing and will work with the applicable employees to determine the appropriate disciplinary action if necessary.

### 3.10 Employee Obligation To Notify The Firm And The Firm's Obligation To Report

[FINRA Rule 4530]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Information provided by employees including information from Annual Employee Certifications</li><li>• Lawsuits and arbitrations</li><li>• Regulatory actions</li></ul>

	<ul style="list-style-type: none"> <li>• Criminal actions</li> <li>• FINRA compliance reports</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Determine whether information or events are reportable including updating the RR's Form U4 or U5</li> <li>• File information electronically with FINRA</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Record of electronic filings</li> <li>• Records of updates to Form U4 or U5</li> </ul>

Regulators require reporting of certain events and updating of Forms U4 and U5 when previously-filed information changes. **Employees are obligated to notify Compliance if there are changes to Form U4 responses and report other information required by rule or by Infinity.**

The following is an excerpt from FINRA Rule 4530 that outlines events that require reporting:

1. the member or an associated person of the member:
  - has been found to have violated any securities-, insurance-, commodities-, financial- or investment-related laws, rules, regulations or standards of conduct of any domestic or foreign regulatory body, self-regulatory organization or business or professional organization;
  - is the subject of any written customer complaint involving allegations of theft or misappropriation of funds or securities or of forgery;
  - is named as a defendant or respondent in any proceeding brought by a domestic or foreign regulatory body or self-regulatory organization alleging the violation of any provision of the Exchange Act, or of any other federal, state or foreign securities, insurance or commodities statute, or of any rule or regulation thereunder, or of any provision of the by-laws, rules or similar governing instruments of any securities, insurance or commodities domestic or foreign regulatory body or self-regulatory organization;
  - is denied registration or is expelled, enjoined, directed to cease and desist, suspended or otherwise disciplined by any securities, insurance or commodities industry domestic or foreign regulatory body or self-regulatory organization or is denied membership or continued membership in any such self-regulatory organization; or is barred from becoming associated with any member of any such self-regulatory organization;
  - is indicted, or convicted of, or pleads guilty to, or pleads no contest to, any felony; or any misdemeanor that involves the purchase or sale of any security, the taking of a false oath, the making of a false report, bribery, perjury, burglary, larceny, theft, robbery, extortion, forgery, counterfeiting, fraudulent concealment, embezzlement, fraudulent conversion, or misappropriation of funds, or securities, or a conspiracy to commit any of these offenses, or substantially equivalent activity in a domestic, military or foreign court;
  - is a director, controlling stockholder, partner, officer or sole proprietor of, or an associated person with, a broker, dealer, investment company, investment advisor, underwriter or insurance company that was suspended, expelled or had its registration denied or revoked by any domestic or foreign regulatory body, jurisdiction or organization or is associated in such a capacity with a bank, trust company or other financial institution that was convicted of or pleaded no contest to, any felony or misdemeanor in a domestic or foreign court;
  - is a defendant or respondent in any securities- or commodities-related civil litigation or arbitration, is a defendant or respondent in any financial-related insurance civil litigation or arbitration, or is the subject of any claim for damages by a customer, broker or dealer that relates to the provision of financial services or relates to a financial transaction, and such civil litigation, arbitration or claim for damages has been disposed of by judgment, award or settlement for an amount exceeding \$15,000. However, when the member is the defendant or respondent or is the subject of any claim for damages by a customer, broker or dealer, then the



- reporting to FINRA shall be required only when such judgment, award or settlement is for an amount exceeding \$25,000; or
- is, or is involved in the sale of any financial instrument, the provision of any investment advice or the financing of any such activities with any person who is, subject to a "statutory disqualification" as that term is defined in the Exchange Act. The report shall include the name of the person subject to the statutory disqualification and details concerning the disqualification; or
- 2. an associated person of the member is the subject of any disciplinary action taken by the member involving suspension, termination, the withholding of compensation or of any other remuneration in excess of \$2,500, the imposition of fines in excess of \$2,500 or is otherwise disciplined in any manner that would have a significant limitation on the individual's activities on a temporary or permanent basis.

In addition, employees are required to promptly report any of the following to Compliance:

- A temporary or permanent injunction issued by any court and involving securities, commodities, insurance, or banking matters
- Any customer complaint (securities or commodities) including a written complaint, civil litigation, or arbitration
- An arrest, indictment, arraignment, conviction, pleading guilty or no contest to any felony or misdemeanor (other than misdemeanor traffic offenses)
- A bankruptcy proceeding or unsatisfied liens or judgments

Undisclosed open liens will be investigated to determine why the disclosure was not made. What action will be taken against the employee will be determined on a case-by-case basis. An intentional non-disclosure will generally be grounds for dismissal or not being hired absent some extenuating circumstance. Employees that have open liens that are disclosed at the time of being hired or that are disclosed in a timely manner once they are learned about do not require action other than filing or amending a Form U-4.

## Reporting Requirements

Infinity will report specified events involving the firm or an associated person to FINRA via the Regulatory Filings Application on the FINRA Firm Gateway no later than 30 calendar days after Infinity knows of the event. This is in addition to any obligation to update an associated person's U4 or U5 or Infinity's Form BD.

Infinity will promptly report to FINRA (not later than 30 calendar days after Infinity has concluded or reasonably should have concluded) that an associated person of Infinity or Infinity itself has violated any securities-, insurance-, commodities-, financial- or investment-related laws, rules, regulations or standards of conduct of any domestic or foreign regulatory body or self-regulatory organization. Conduct reported will be conduct that has a significant monetary result with respect to Infinity, customers, or markets, or multiple instances of any violative conduct.

Relating to reported events, Infinity will file with FINRA copies of the following. Events already reported on Form U4 with an affirmative request to satisfy Rule 4530 reporting requirements and FINRA findings and actions will not be reported separately.

1. any indictment, information or other criminal complaint or plea agreement for conduct reportable under paragraph (a)(1)(E) of this Rule;
2. any complaint in which a member is named as a defendant or respondent in any securities- or commodities-related private civil litigation, or is named as a defendant or respondent in any financial-related insurance private civil litigation;
3. any securities- or commodities-related arbitration claim, or financial-related insurance arbitration claim, filed against a member in any forum other than the FINRA Dispute Resolution forum;
4. any indictment, information or other criminal complaint, any plea agreement, or any private civil complaint or arbitration claim against a person associated with a member that is reportable under

question 14 on Form U4, irrespective of any dollar thresholds Form U4 imposes for notification, unless, in the case of an arbitration claim, the claim has been filed in the FINRA Dispute Resolution forum.

### 3.11 Emergency Business Recovery Procedures

[FINRA Rule 4370]

Infinity has a *Business Continuity Plan* that assigns responsibilities and outlines procedures in the event of a disaster or emergency which impacts Infinity's ability to continue conducting business (also termed a "significant business disruption"). Please refer to Infinity's Business Continuity Plan for more details. A summary of the firm's Business Continuity Plan is also provided on the firm's website (<https://www.infinitysecurities.com/continuity-plan>).

### 3.12 Prohibited Activities

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Various (referral of items, direct identification, review of transactions, correspondence, <i>etc.</i> depending on the nature of the prohibited activity)</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Take corrective action which may include:<ul style="list-style-type: none"><li>○ Conferring with the employee</li><li>○ Referring the matter to Compliance</li><li>○ Issuing a written admonition</li><li>○ Restricting the activities of or transactions handled by the employee</li><li>○ Suspending the employee</li><li>○ Termination</li></ul></li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• The record of action taken depends on the nature and seriousness of the prohibited activity. Records, if needed, may be in different forms, including the following:<ul style="list-style-type: none"><li>○ Designated supervisors may record action taken in supervisory logs, Daytimers, memos to employees' files, <i>etc.</i></li><li>○ Compliance may record action by memo to the employee's file</li></ul></li></ul>

#### Use Of Firm Name

No employee may use Infinity's name in any manner which could be reasonably misinterpreted to indicate a tie-in between Infinity and any outside activity of the employee.

#### High Pressure Sales Tactics

Infinity and its RRs will not engage in high pressure sales tactics which may include excessive telephone calls, implying that a price may change on a security if the customer doesn't act immediately, or falsely representing that there is a limited supply of a security at a particular price.

## **Providing Tax Advice Not Permitted**

Employees may not give tax advice to customers since Infinity and its employees are not engaged in the practice of providing tax advice. Customers requiring specific tax guidance should be referred to their personal tax advisers.

## **Rebates Of Commission**

[FINRA Rule 2040]

Employees are prohibited from rebating to anyone, directly or indirectly, any commission or compensation received.

## **Sharing Commissions Or Fees With Non-Registered Persons**

[FINRA Rule 2040]

With few exceptions, regulations generally prohibit the sharing of commissions or compensation with non-registered persons. Any payment, finder's fee, or sharing arrangement involving a non-registered person must be referred to Compliance for review.

## **Accepting Compensation From Others**

RRs are prohibited from accepting direct or indirect compensation (finders' fees, commissions, *etc.*) for Firm-related business other than through Firm-approved products or programs or with the prior approval of Compliance.

## **Settling Complaints Or Errors Directly With Customers**

Employees may not make payments to customers of any kind to resolve an error or customer complaint. Errors and complaints must be brought to the attention of the employee's designated supervisor.

## **Borrowing From And Lending To Customers**

[FINRA Rule 3240; FINRA Notice to Members 04-14]

Registered employees are generally not permitted to borrow from or lend to their own customers. "RR" as used in this policy refers to **any** registered employee of Infinity.

This restriction does NOT apply when an employee enters into a loan arrangement with a customer who is:

1. an immediate family member (defined as parents; grandparents; in-laws; spouse; siblings; children; grandchildren; cousins; aunts or uncles; nieces or nephews; and any other person whom the RR supports, directly or indirectly, to a material extent);

2. a financial institution in the business of providing credit, financing, or loans AND where the terms of the lending arrangement are those that would also be available to the general public doing business with those institutions;
3. another registered employee of Infinity;
4. someone (or an entity) who has a personal relationship with the RR and the lending arrangement arises from the personal relationship rather than an RR/customer relationship; or,
5. someone (or an entity) that has a business relationship outside the RR/customer relationship.

Any proposed loan with the RR's customer (other than a loan with a family member or financial institution in item numbers 1 and 2 above) requires the PRIOR review and approval by Compliance. RRs requesting exceptions must complete the RR/Customer Lending Arrangement Request form and submit it to Compliance prior to effecting the loan arrangement. Compliance will retain written approvals for at least 3 years after the date that the borrowing or lending arrangement has terminated or for at least 3 years after the RR has terminated employment with Infinity.

## **Personal Funds Deposited In Customer Accounts**

In general, employees are not permitted to deposit personal funds or securities in customers' accounts or deposit customers' personal funds or securities in employee accounts. The same prohibitions apply to withdrawals. Exceptions should be reviewed by Compliance.

## **Prohibition Against Guarantees**

[FINRA Rule 2150]

Infinity and its employees are prohibited from guaranteeing a customer against loss in any securities transaction. Designated supervisors are responsible for identifying prohibited guarantees in correspondence or other written communications with public customers. Options or written agreements that establish the future price of a transaction such as repurchase agreements are not included in this prohibition.

## **Fees And Other Charges**

Employees are not permitted to charge fees or assess other charges to customers or customers' accounts unless they are expressly permitted by Infinity.

## **Customer Signatures**

Employees are not permitted to sign documents on behalf of customers, even when doing so is meant to accommodate a customer's request. Customer signatures must be original by the customer on all documents.

## **Acting Without Registration**

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• New account forms</li> <li>• Notices of registration status from Compliance</li> </ul>

	<ul style="list-style-type: none"> <li>• Reports of transactions effected by RRs not licensed in the customer's state of residency</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Ongoing</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review new account forms to identify any out-of-state accounts where the RR may not be registered</li> <li>• Review reports of transactions identifying unlicensed activity and follow up with RR</li> <li>• Immediately refer any RRs requiring state registration to Compliance</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Include a notation on the New Account form or report noting action taken</li> <li>• Supervisor's log, daytimer, or other record, as needed</li> </ul>

No employee may engage in activities that require registration (selling securities, soliciting accounts, trading, *etc.*) unless registered in the appropriate capacities. Questions regarding the need for registration should be referred to Compliance.

### Improperly Influencing Research Analysts

Non-research personnel are prohibited from attempting to coerce research analysts to: (1) alter their views regarding the content of a research report or the timing of its publication; or (2) change the investment conclusions in a research report other than as appropriate to correct factual inaccuracies or verify market information such as prevailing market prices or to ensure consistency with established firm policies.

## 3.13 Computer Records, Equipment And Software

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> <li>• Compliance - lost devices</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Records of employees with company-issued laptops or other devices</li> <li>• Disks and other computer records maintained by a terminating employee</li> <li>• Reports of lost devices</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Issue firm laptops or other mobile devices to employees and maintain a record of laptops</li> <li>• Provide employees with education and policy information about proper use of computer and other electronic equipment including appropriate security measures and accessing customer information</li> <li>• Instruct offices to secure equipment and information</li> <li>• Secure disks, computers, software, and other firm property when an employee terminates</li> <li>• Do not permit removal of firm equipment without approval</li> </ul>

	<ul style="list-style-type: none"> <li>• Take action regarding lost devices including remote deactivation, if available, and assessment of whether a breach of customer information has or may occur</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Records of laptops or other devices and to whom they are provided</li> <li>• Records of lost devices and actions taken</li> </ul>

Infinity considers its computer records, systems, and software to be corporate assets. Employees are responsible for protecting these assets from unauthorized use, destruction, or unauthorized modification. This includes a prohibition against violating copyright laws or licensing agreements applicable to computer software.

Physical equipment (PCs, printers, software, diskettes, *etc.*) must be placed in a secure location to avoid theft, tampering, unauthorized use, and environmental hazards (water, smoke, magnets, *etc.*). The use of personal computers for Infinity business is subject to the same guidelines and restrictions as Infinity computers.

When an employee terminates, any disks or other storage medium that includes proprietary information, including customer information, are considered property of Infinity and must be left with Infinity.

## Reporting Lost Devices

- The loss of a mobile device **must be immediately reported to Compliance.**

## Identifying And Reporting Data Breaches

- All employees are required to immediately report an identified potential intrusion into a mobile device or into Infinity's systems.

## Software

Software installed and used on electronic devices is limited to software approved by Infinity. Infinity will install or provide authorized software for business use including anti-virus and anti-malware protection.

Employees are strictly prohibited from installing software other than what is authorized by Infinity.

## Prohibited Downloading

Employees are prohibited from:

- Downloading customer and other confidential firm information from Infinity's mainframe or other central records, unless specifically authorized
- Using portable devices such as USB key drives, MP3 players, mobile phones, and other devices for downloading information
- Downloading programs from the Web to Infinity computers unless specifically authorized

### **3.14 Employees Acting As Trustees, Executors, Or Other Fiduciary Capacities**

Employees usually will not act in a fiduciary capacity (e.g., trustee, executor) for a customer's account unless the account is for a relative of the employee. Exceptions require the approval of Compliance who should be notified by written memo requesting the exception and the reasons for the exception.

## 4 EMPLOYMENT, REGISTRATION AND LICENSING

### 4.1 Employment

#### Hiring Procedures

[FINRA Regulatory Notice 07-55]

This section outlines hiring requirements.

#### RR Interview Guidelines

[FINRA Notice to Members 07-06]

At the time an RR is being considered for hire, the following are areas the hiring manager should consider:

1. Discuss with the applicant the nature of the applicant's prior customers and the types of securities sold while associated with prior employers. If customers' investments include investment company products (mutual funds, variable annuities), determine whether Infinity has dealer or servicing agreements in place and, if not and the RR is hired, plan for suitability reviews and notification to customers of investment options and costs of switching investments.
2. Obtain the applicant's explanations regarding any customer complaints and regulatory actions to determine the merit, to the extent practicable, of each before hiring.
3. Ask the applicant about the existence of and nature of any pending proceedings, customer complaints, regulatory investigations, or arbitrations not listed in the CRD.
4. Discuss the reasons for the applicant's frequent change of employers, if applicable.
5. Obtain the RR's prior year W-2.
6. Ask the RR whether he or she signed an employment contract with the present employer and if so, obtain a copy from the RR.

#### Prospective RRs Require Pre-Clearance By Compliance

Information regarding RRs who are being considered for hire should be referred to Compliance for review of the individual's CRD record. This review requires the written permission of the RR. The RR may sign page 4 of Form U4 or a separate form. Information regarding complaints, regulatory actions, and other information determined by Compliance will be referred to the hiring manager for consideration in extending an offer of employment.

#### Qualification Of Supervisors

[FINRA Rule 3110(a)(6)]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Hiring Supervisor - confirm qualifications</li><li>• Compliance - determine registration requirements</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Individuals identified as potential supervisors</li><li>• Background information on candidate including registration status</li></ul>



<b>Frequency</b>	<ul style="list-style-type: none"> <li>As required when a supervisory position is to be filled</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>Hiring supervisor: <ul style="list-style-type: none"> <li>Evaluate candidate's qualifications including experience and knowledge</li> <li>Arrange for training, if necessary</li> </ul> </li> <li>Compliance: <ul style="list-style-type: none"> <li>Confirm individual has required registration qualifications and, if not, arrange for the individual to complete the required exams</li> <li>Notify the hiring supervisor of added qualifications required and remind him/her the individual may not act as a supervisor until necessary registrations are obtained (unless a regulator allows for a grace period to act as a supervisor before registration is completed)</li> <li>Provide supervisory policies/procedures to the candidate if not already available to him/her</li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>Hiring manager's consent to appoint the candidate to a supervisory position</li> <li>Background and registration information in candidate's file</li> <li>Record of training (if necessary) including a description of training and when completed</li> <li>Record of providing supervisory policies/procedures</li> </ul>

The manager who hires or appoints a supervisor is responsible for determining that the individual is qualified for the supervisory position. Individuals included in Infinity's business plan filed with FINRA are required to have at least one year of direct experience or two years of related experience in the area to be supervised.

### Multiple CCO Designations

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>Proposed multiple CCOs</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>Confirm principal status of candidate</li> <li>Document areas of responsibility and provide to each CCO and his/her supervisor</li> <li>Confirm each CCO meets the requirements of Rule 3130</li> <li>Coordinate multiple annual compliance reports to the CEO</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>Records of qualification review</li> <li>Documentation of areas of responsibility and provision to CCO and supervisor</li> </ul>

If Infinity designates multiple chief compliance officers (CCOs), it will meet the following requirements:

- CCOs will be designated on Schedule A of Form BD.
- Each designated CCO is a principal.

- Each CCO's areas of compliance responsibility are defined and documented with identification of primary responsibility in areas that overlap.
- Each CCO meets the requirements of Rule 3130 regarding the defined area of primary compliance responsibility.
- The designated CCOs have the responsibilities and expertise enabling them to consult with the CEO on the totality of subject matters included in certification requirements.

## Background Investigation

[FINRA Rule 3110(e)]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Employment application</li> <li>• Form U4</li> <li>• Form U5 filed by prior employer</li> <li>• Public records</li> <li>• Outside background check services</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• When new employees are hired</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Identify outside services, if any, to conduct background investigations <ul style="list-style-type: none"> <li>◦ Where an outside service is used, review capabilities and references</li> </ul> </li> <li>• Obtain records for review</li> <li>• Within 30 calendar days of filing the initial or transfer Form U4, verify the accuracy and completeness of information: <ul style="list-style-type: none"> <li>◦ Contact most recent prior employers for 3 years (review can be performed by a background check service)</li> <li>◦ Obtain additional information from employee, if necessary, and verify</li> <li>◦ Review notification from FINRA regarding public records information missing or contrary to filed U4</li> <li>◦ Submit revised U4 within 30 days to reflect information received from FINRA public records search</li> </ul> </li> <li>• Within 60 days of filing an application for a transferring RR, review the most recent U5 (including any amendments) and take follow up action, if necessary</li> <li>• Conduct further investigation where reviews reveal patterns of negative information such as customer complaints, bankruptcies, liens, criminal activity, litigation, or other negative information</li> <li>• Where discrepancies or incomplete information are identified, contact the employee for further information and investigate further, if needed</li> <li>• Evaluate negative information and its impact on the employment of the individual, consulting with the employee's supervisor</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Review of outside services to conduct background investigations</li> <li>• Review of public records</li> <li>• Form U5 and results of review</li> <li>• Form U4 with related reviews and results of reviews including public records</li> <li>• Reviews of discrepancies or missing information and action taken including consultation with employee and supervisor</li> <li>• Action taken, if any, after reviews conducted</li> </ul>

Background investigations are conducted on all new employees. New employees must be accurate and complete in the information provided to Infinity at time of hire. Failure to do so may result in termination.

Records to be provided by a new employee include:

- Completed Form U4 (required for all registered persons)
- Prior firm's Form U5 filed on behalf of a registered person (can also be obtained electronically from WebCRD)
- Other information requested by Infinity

Reviews conducted will include:

- Contact with at least the last three years' employers or background screening performed by vendor
- Form U5 from prior employer
- Form U4 filed with Infinity
- Review of public records by FINRA for information regarding criminal and bankruptcy records, civil litigation, judgments and liens
- Other reviews which may include a review of credit records

New employees will be required to reconcile discrepancies or missing information which may affect the employee's eligibility for hire. U4s will be updated within 30 days of notice from FINRA regarding public record discrepancies.

## Fingerprints

[SEC Securities Exchange Act of 1934 Rule 17f-2; FINRA Rule 1010(d)]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Notifications regarding registration and other applicants</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• If necessary, identify third parties (local law enforcement officials, <i>etc.</i>) to take fingerprints and: <ul style="list-style-type: none"> <li>○ Notify the third parties of securities industry fingerprinting requirements including identification verification procedures</li> <li>○ Provide applicants with a list of acceptable third-party vendors</li> </ul> </li> <li>• Submit electronic filing to CRD</li> <li>• Obtain Fingerprint Attestation and fingerprints, compare signatures of applicant and note on Attestation</li> <li>• Submit fingerprints to CRD with barcode</li> <li>• If fingerprints are not received by the CRD within 30 days of filing Form U4, notify appropriate supervisor that activities requiring registration must cease</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Registration files for employees include records of CRD filings and submission of fingerprints including Fingerprinting Attestation form</li> </ul>

Compliance will obtain and submit fingerprints on all registered personnel for receipt by the CRD within 30 days of filing Form U4. Fingerprints for other personnel will be obtained and submitted by Human Resources. A Fingerprinting Attestation form will be completed for each applicant.

If fingerprints are not received by the CRD within 30 days, the employee must cease engaging in activities that require registration. Compliance will notify the appropriate supervisor of deficiencies, and the supervisor is responsible for restricting the applicant's activities until fingerprints have been received by the CRD.

## **Policies And Procedures**

At the time of hire, Compliance will provide the RR with a current copy of Infinity's policies and procedures either in hard copy or by notifying the RR of the location of policies and procedures in electronic form. The RR will be asked to acknowledge, in writing or electronically, that the policies were received and that the RR is responsible for complying.

## **Recruitment Practices And Account Transfers**

[FINRA FAQs: <https://www.finra.org/rules-guidance/guidance/faqs/frequently-asked-questions-regarding-finra-rule-2273>]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Newly-hired RRs</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Instruct responsible persons to provide the required communication to former customers transferring to Infinity</li><li>• Monitor accounts transferred within 3 months of the RR's hire to confirm communications are provided</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• New RRs including date of hire</li><li>• Communications provided to former customers</li></ul>

When an RR is hired by Infinity, each former customer transferring to Infinity will be provided, in paper or electronic form, an educational communication prepared by FINRA. The requirement applies for 3 months following the date the RR begins employment with Infinity.

The communication will be provided when:

- The former customer of the RR is contacted by Infinity or through a representative to transfer assets; or
- A former customer, without individual contact, transfers assets to an account assigned, or to be assigned, to the RR.

Events that trigger the requirement include oral or written communications by the newly-hired RR:

- informing the former customer that he or she is now associated with the recruiting firm;
- suggesting that the former customer consider transferring his or her assets or account to the recruiting firm;
- informing the former customer that the recruiting firm may offer better or different products or services; or
- discussing with the former customer the fee or pricing structure of the recruiting firm.

Communication with a group of customers via a mass mailing, e-mail, or automated phone calls or voicemails also triggers the requirement to provide the disclosure to the customers.

The educational communication must be provided as follows:

- at the time of first individualized contact regarding transferring assets to Infinity.
  - If first contact is in writing, the disclosure must accompany the written communication.
  - If by electronic communication, a hyperlink to the disclosure may be included.
  - If oral, the RR must notify the customer that an educational communication that includes important considerations about transferring assets will be provided no later than 3 business days after the contact.
- If the customer seeks to transfer assets but there has been no individualized contact with the customer, the communication must be sent to the customer with the transfer approval documentation.

If the former customer states he or she will not transfer assets, the educational communication requirement does not apply. Should the former customer decide to transfer assets within 3 months of the RR's employment, the communication must be provided with the account transfer approval documentation.

### Exceptions

"Former customer" includes any customer that had a securities account assigned to a registered person at the representative's previous firm. The term "former customer" does not include a customer account that meets the definition of an "institutional account" as defined in FINRA Rule 4512(c); accounts held by a natural person do not qualify for the institutional account exception.

The Rule does not apply to circumstances where a customer's account is proposed to be transferred to Infinity via a bulk transfer or due to a change of broker-dealer of record.

### Termination Procedures

[FINRA Corporation By-Laws Article V Section 3; FINRA Rule 3110(f); FINRA Regulatory Notice 19-10]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Notification from RR or supervisor of termination</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Immediately notify Compliance of terminating registered employees</li><li>• Immediately notify Compliance of terminating non-registered employees where termination was caused by theft or fraud</li><li>• Immediately notify Human Resources of terminating registered and non-registered employees</li><li>• Secure computers and computer files</li><li>• Retrieve office keys, company credit cards, <i>etc.</i> from terminated employee</li><li>• Reassign accounts</li><li>• Notify customers of newly-assigned RR</li><li>• Compliance will file Form U5 for terminating RRs</li><li>• Compliance will provide the terminated RR with a copy of the RR's Form U5 within 30 days of termination</li></ul>

<b>Record</b>	<ul style="list-style-type: none"> <li>• The CRD retains copies of Form U5</li> </ul>
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### **Notification To Compliance**

Whenever an employee terminates employment from Infinity, the designated supervisor is responsible for immediately notifying Compliance and Human Resources. Notification to Compliance regarding registered employees should include:

- Name of terminated person and RR number(s)
- Type of termination (voluntary, permitted to resign, discharged, *etc.*)
- If the termination is not voluntary, an explanation of the reason for termination
- Date of termination
- Any known compliance problems at the time of termination

### **Reassignment Of Accounts**

Designated supervisors are responsible for reassigning the accounts of terminated RRs.

### **Responding To Customer Inquiries**

Designated supervisors should instruct branch or department employees, including RRs receiving reassigned accounts, to only indicate the employee is no longer with Infinity. No details or speculation regarding the departure should be given to customers or anyone else outside Infinity unless authorized by Compliance to do so.

### **Form U5**

Compliance is responsible for filing Form U5 for any terminated registered employee. Compliance will also send, within 30 days of termination, a copy of Form U5 to the former employee.

## **4.2 Registration And Licensing**

[FINRA Corporation By-Laws Article V; FINRA Rule 1200 series; FINRA Regulatory Notice 17-30; FINRA FAQs: <https://www.finra.org/registration-exams-ce/qualification-exams/faq>; NASDAQ Rule 1000 series]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• New hire notices</li> <li>• Change of status notices</li> <li>• Requests for registration</li> <li>• CRD Late Filing Fee Report</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Quarterly - review CRD Late Filing Fee Report</li> <li>• As required for new hires and requests for registration</li> </ul>

	<ul style="list-style-type: none"> <li>Periodically - confirm personnel are registered as required and those with "permissive registration" do not act outside the scope of their assigned functions</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>Identify employees who require registration by reviewing new hire or change of status records</li> <li>Submit required filings to the CRD</li> <li>Acknowledge electronic filings are on behalf of Infinity and its employees</li> <li>Request and schedule examinations</li> <li>Ensure employees who require registrations obtain them</li> <li>Amend U4s or U5s when there are reportable events</li> <li>Review the CRD Late Filing Fee Report to identify late filings and to take corrective action</li> <li>Affirm that employees are registered as required for their responsibilities</li> <li>For those with "permissive registration:" <ul style="list-style-type: none"> <li>Assign persons with permissive qualification to a registered supervisor (representative or principal to supervise a representative; principal to supervise a principal); the assigned registered person is responsible for periodically contacting the person's direct supervisor to confirm the person is not acting outside his/her assigned responsibilities</li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>Registration records including CRD notices, approvals, amendments, and other registration records are maintained in employee files <ul style="list-style-type: none"> <li>Where the registered person's signature is not required on U4 amendments, Infinity may rely on the CRD for recordkeeping</li> </ul> </li> <li>The CRD Late Filing Fee Report is retained in a CRD report file with initials of who reviewed and date reviewed and any action taken</li> <li>Affirmation regarding appropriate registrations or activities</li> </ul>

This section outlines the requirements for registration. All individuals engaged in activities (including selling or trading products such as stocks, bonds, options, insurance, etc.) or supervising such activities subject to registration requirements must complete the necessary registration and licensing prior to engaging in such activities (with the 120-day exception explained below). Employees may not conduct business with public customers or engage in other activities requiring registration until required registrations are effective.

Changes in registration requirements became effective October 1, 2018.

### **Persons Registered Prior To October 1, 2018**

- Individuals registered prior to October 1, 2018 who maintain their registration on or after that date may continue conducting business requiring their registration status without further requirements.
- Individuals whose registration terminated between October 1, 2014, and September 30, 2018 are not required to take the Securities Industry Essentials (SIE) examination provided they re-register within four years from the date of their last registration.

### **Registered Representatives**

Individuals registering as representatives after October 1, 2018 must satisfy the following requirements:

- Pass the SIE examination; and

- Pass a representative-level qualification examination (such as the Series 7 exam).

Accepting customer orders requires registration as a representative.

As of October 1, 2018, FINRA has eliminated the registration categories of Order Processing Assistant Representative, United Kingdom Securities Representative, Canada Securities Representative, Options Representative, Corporate Securities Representative, Government Securities Representative and Foreign Associate. These registrations may be maintained but will not be reinstated if registration is terminated.

## **Registered Principals**

Firms are required to have at least two officers or partners who are registered as General Securities Principals; however, a firm limited in its activities may instead have two officers or partners who are registered in a principal category corresponding to the scope of the firm's activities.

Principals are required to pass the SIE, representative level, and principal-level qualification examinations.

Representatives who assume duties that require principal registration have 120 calendar days to pass the appropriate principal examination, provided that such person has at least 18 months of experience functioning as a registered representative within the five-year period immediately preceding the designation and has fulfilled all applicable prerequisite registration, fee and examination requirements prior to designation as a principal.

## **Financial And Operations Principal (FINOP) And Introducing Broker-Dealer Financial And Operations Principal**

Every firm is required to designate a FINOP (which includes a FINOP for an introducing BD) unless exempt from the requirement. The FINOP is responsible for the BD's financial reports including approval and preparation; compliance with financial responsibility rules; supervision of those preparing reports, maintaining books and records, and engaged in back office operations; and any other matter involving the financial and operational management of the member.

## **Principal Financial Officer And Principal Operations Officer**

Infinity will appoint a Principal Financial Officer and Principal Operations Officer subject to the following:

- The Principal Financial Officer is responsible for financial filings and related books and records.
- The Principal Operations Officer has primary responsibility for the day-to-day operations of the business, including overseeing the receipt and delivery of securities and funds, safeguarding customer and firm assets, calculation and collection of margin from customers and processing dividend receivables and payables and reorganization redemptions and those books and records related to such activities.
- Both must qualify through registration as a Financial and Operations Principal or Introducing Broker Financial and Operations Principal as well as an Operations Professional. No exam is required for these principals to qualify as an Operations Professional. The FINOP exam does not apply to BDs exempt from the FINOP requirement.
- Introducing vs. clearing firms:
  - If the firm neither self-clears nor clears for others, the same person may act in both roles as well as Financial and Operations Principal or introducing Broker-Dealer Financial and Operations Principal.
  - Firms that are clearing and self-clearing must designate separate persons to function as Principal Financial Officer and Principal Operations Officer, though such individuals may also carry out the responsibilities of a Financial and Operations Principal.



- A clearing or self-clearing firm that is limited in size and resources may request a waiver of the requirement to designate separate persons to function as Principal Financial Officer and Principal Operations Officer.
- Firms may appoint multiple Principal Operations Officers (but not Principal Financial Officers), provided that the firm precisely defines and documents the areas of primary responsibility and makes specific provision for which of the officers has primary responsibility in areas that can reasonably be expected to overlap.
- A Principal Financial Officer or a Principal Operations Officer is permitted to delegate his or her day-to-day duties to other principals at the firm with the understanding that ultimate responsibility for the function rests with the Principal Financial Officer and the Principal Operations Officer.

## **Compliance Officer**

Infinity will designate a Compliance Officer (unless it is engaged in limited investment banking or securities business). An individual designated as Chief Compliance Officer on Schedule A of Form BD may register in a principal category that corresponds to the limited scope of business. Individuals who have the prerequisite qualifications prior to October 1, 2018 may be designated as Compliance Officer without taking further examinations. Those qualifying on or after October 1 must qualify as a General Securities Representative including the SIE; General Securities Principal (Series 24); and Compliance Official (Series 14).

## **Expiration Of Registrations**

When a registration is terminated, there are grace periods for re-registering before an individual must re-take examinations. These periods are:

- SIE registration: four years
- Representative or principal: two years

## **Persons Exempt From Registration**

[FINRA Rule 1230]

The following persons are not required to be registered with FINRA:

- persons whose functions are solely and exclusively clerical or ministerial; and
- persons whose functions are related solely and exclusively to:
  - effecting transactions on the floor of a national securities exchange and who are appropriately registered with such exchange;
  - transactions in municipal securities;
  - transactions in commodities; or
  - transactions in security futures provided that any such person is registered with a registered futures association.

## **Waivers**

[FINRA Rule 9600]

Individuals who go to work for a foreign or domestic financial services industry affiliate of Infinity may terminate their registrations with Infinity and who then rejoin Infinity would be granted a waiver of their requalification

requirements, including the SIE, upon reapplying with FINRA for registration as a representative or principal, subject to conditions outlined in Regulatory Notice 17-30.

## **Other Registrations**

- Infinity may permit any employee to become registered as a representative or a principal, including individuals working in a clerical or ministerial capacity ("permissive qualification"). If not required for the person's responsibilities, approval by the supervisor and Compliance is required. These individuals are subject to regulatory conduct rules such as outside business activities, private securities transactions, etc. All registered persons, including those who solely maintain a permissive qualification, are required to satisfy the annual Regulatory Element of continuing education. Permissively qualified persons will be assigned to a registered supervisor who is responsible for confirming that individual does not act outside the scope of his/her responsibilities or registration status.
- Anyone (whether employed by a member firm or not) may ask to take the SIE exam. That person cannot be registered with FINRA unless employed by a member firm and has completed an RR qualification examination.

## **State Registrations**

RRs must be registered in the state from which they conduct business and may be required to be registered in other states where customers are domiciled. Most states require successful completion of the Series 63 Uniform State Agent Securities Law Examination. Successful completion of the exam does not automatically confer registered status on the examinee. Application must be made to the CRD to obtain each state registration.

The designated supervisor is responsible for identifying transactions in states where registration may be required.

## **Parking Registrations**

[FINRA Rule 1210.11]

Infinity does not permit individuals to "park" licenses. Parking occurs when Infinity maintains a registration on behalf of an individual that does not work for Infinity or who does not need that registration for their job function. Registration status is retained only for those persons where it is required. Infinity may, however, maintain registration for legal, compliance, or other non-sales employees as permitted under regulators' rules.

## **Form U4**

[FINRA Rule 1010 and 2263]

All applicants for registration are required to complete Form U4. It is the RR's responsibility to include accurate information and promptly notify Infinity of any updates that may require amendment to Form U4.

At the time a new or amended U4 is signed, the applicant will be provided the *Form U4 Disclosure To Associated Persons*, which discloses information about the predispute arbitration clause included in Form U4.

## **Amendments To Form U4 Or Form U5**

Infinity will submit amendments to Form U4 when an RR advises of updates that require amendment. Compliance is responsible for determining whether reportable events or other matters require the filing of an amendment to an RR's Form U4. Compliance is also responsible for identifying disciplinary or complaint matters to be reported on Form U5 termination notices including amendments required after termination. Required reportable events include the receipt of an SEC Wells notice.

## Assignment Of RR Numbers

RR numbers are assigned by Compliance. New numbers will not be assigned to individuals who are not yet registered with Infinity. An RR number may be assigned prior to registration approval when customer accounts are being transferred and the RR number is needed to transfer accounts. However, the number is not approved for conducting business until all registration approvals have been received.

## 4.3 Statutorily Disqualified Persons

[SEC Securities Exchange Act of 1934 Rule 19h-1 and Section 3(a)(39); FINRA By-Laws Article III Section 3 and Section 4; FINRA Regulatory Notice 09-19; FINRA FAQs for MDCDC firms: <https://www.finra.org/rules-guidance/guidance/faqs/faq-eligibility-proceedings-firms-participating-mcdc-initiative>]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• CRD</li> <li>• Record of Applicant's disciplinary and other such history</li> <li>• Form U-4</li> <li>• MC-400</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Compliance will: <ul style="list-style-type: none"> <li>○ Complete the required regulatory forms</li> <li>○ Establish procedures for conducting required supervision</li> </ul> </li> <li>• The designated supervisor will: <ul style="list-style-type: none"> <li>○ Conduct required supervision</li> <li>○ Provide Compliance with certifications of supervision, if required</li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Regulatory applications/forms and related documents are retained in the RR's file in Compliance</li> <li>• Certifications of supervision, if required, are retained in the RR's file in Compliance</li> </ul>

## Introduction

Individuals may become subject to statutory disqualifications as a result of a felony conviction or regulatory suspension, revocation of registrations or injunctions (including actions by domestic regulators including the CFTC and actions by foreign regulators). The definition of statutory disqualification is included in Section 3(a)(39) of the Securities Exchange Act of 1934. FINRA Regulatory Notice 09-19 includes a chart, in Attachment B, that outlines statutory disqualifications under the Rule.

## Hiring A Statutorily Disqualified Person

All prospective employees (including those engaged solely in clerical and/or ministerial activities) are subject to background investigations that include identification of potential statutory disqualification. Prior to hiring an individual subject to a statutory disqualification, Compliance should be consulted to review the nature of the statutory disqualification and potential special supervision that may be required upon hiring.

## Regulatory Filings

[FINRA Rule 4517]

Compliance is responsible for completion and filing of the appropriate regulatory form or application, which will be signed by a senior officer or partner of Infinity. A hearing may be required prior to approval of the individual's association with Infinity. The individual may not conduct any activities requiring registration until approval is received from the appropriate regulatory authorities.

## Supervision

Compliance will establish procedures to carry out the supervision required under agreement with the SRO reviewing the disqualified person, including records of supervision to be conducted by the designated supervisor. The supervisor assigned to supervise the statutorily disqualified person will be provided a copy of the procedures and will be responsible for carrying them out.

## Reporting Statutory Disqualifications

When an employee becomes subject to a statutory disqualification, Compliance will file the necessary registration updates and, in addition, the required notification on the quarterly complaint report will be made to regulators consistent with those SRO's reporting requirements.

## 4.4 Broker-Dealer Registration

### Form BD

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Information regarding reportable items including civil and regulatory actions</li><li>• Records regarding officers and directors to be included on Form BD</li><li>• Other information as required by Form BD</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required - updates</li><li>• Quarterly - review for potential updates</li></ul>

<b>Action</b>	<ul style="list-style-type: none"> <li>• Prepare updates as required; consult with in-house or outside counsel, as required</li> <li>• File Form BD updates</li> <li>• At least quarterly review Form BD for potential updates</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• File of BD amendments</li> </ul>

Compliance is responsible for updating Form BD when necessary and filing with the required SROs and other regulatory agencies.

## Change In Ownership, Control, Or Business Operations

[FINRA Rule 1017; FINRA web site re mergers, acquisitions, and business transfers: <http://www.finra.org/industry/checklist-organizational-change-important-steps-related-merger-acquisition-or-succession>; NASDAQ Rule 1017]

When Infinity anticipates a material change in its business, Compliance will file requests for approval by the appropriate SROs. Events that require approval include merger with or acquisition of another broker-dealer or acquisition of 25% or more of the assets of another dealer; a change in ownership or control; and a material change in business operations. In addition, material changes include removing or modifying a membership agreement restriction; market making for the first time; adding business activities that require a higher level of minimum net capital; and engaging in activities beyond proprietary trading as defined in NASDAQ rules.

Certain types of expansions are presumed to not be a "material change in business operations" and do not require FINRA approval. However, this safe harbor is not available to firms that, among other things, have a "disciplinary history" as defined in IM-1011-1. The interpretation must be consulted to determine what changes are not material and what constitutes disciplinary history precluding use of the safe harbor.

If Infinity operates under a Restriction Letter, it will conduct business consistent with the Letter and Compliance will contact FINRA if a change is necessary.

## Regulatory Contact Information

Infinity is obligated to maintain current contact information with regulators.

### FINRA Contact Information

[FINRA Rule 4517; FINRA Contact System web page: <http://www.finra.org/Industry/Compliance/RegulatoryFilings/FCS/>]

Updates to contact information will be made within 30 days following any change. In addition, by the 17<sup>th</sup> business day after the end of each calendar year, Infinity is required to verify contact information through the FINRA Contact System.

Compliance will update the following information through FINRA's Contact System when necessary and will conduct the mandatory annual verification:

- Executive Representative [NASD By-Laws Article IV, Section 3, FINRA Rule 4517; NASDAQ Rule 1150]
- Regulatory Element Continuing Education Contact Person [FINRA Rule 1250]
- Emergency contact persons [FINRA Rule 4370]
- AML contact person(s) [FINRA Rule 3310.02]
- Other contacts mandated by FINRA rules

Contact information will be provided promptly to FINRA upon request, but no later than 15 days after the request.

## 4.5 Heightened Supervision

[FINRA Regulatory Notice 18-15]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Form U4 information</li><li>• CRD</li><li>• Customer complaints</li><li>• Regulatory actions</li><li>• Other activity that may warrant heightened supervision, at the discretion of Compliance</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Compliance:<ul style="list-style-type: none"><li>○ Identify employees subject to heightened supervision</li><li>○ Determine the scope of heightened supervision</li><li>○ Notify the employee's supervisor of required supervision</li><li>○ Collect certifications from supervisor</li></ul></li><li>• Designated supervisor:<ul style="list-style-type: none"><li>○ Conduct required heightened supervision</li><li>○ Prepare and send certifications to Compliance</li></ul></li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Reviews of employees for potential heightened supervision are retained in a "Heightened Supervision" file in Compliance</li><li>• Memos and certifications pertaining to a specific employee are retained in Compliance's file for the employee</li></ul>

### Introduction

Infinity will institute heightened supervision for RRs or other employees when appropriate. The following sections describe Infinity's procedures for identifying those subject to heightened supervision and the types of supervision that may be conducted. Reference to "employees" also includes independent contractors affiliated with Infinity.

### Identifying Employees For Heightened Supervision

It is the responsibility of Compliance to identify employees for potential heightened supervision. Employees will be identified at the time of hire or when an employee becomes subject to regulatory action and/or a pattern of customer complaints. Unregistered individuals who were previously registered and the subject of customer or regulatory complaints are also subject to consideration for heightened supervision.

## Criteria For Identifying Candidates For Heightened Supervision

The following are criteria that will trigger a review by Compliance to determine whether an employee should be subject to heightened supervision. Pending as well as resolved matters will be considered. The criteria are subjective and the details of complaints and/or regulatory actions must be considered in determining whether heightened supervision is necessary.

- Three or more customer complaints alleging sales practice abuse within the past two years (complaints include written complaints, arbitrations, other civil actions)
- Complaint filed by a regulator
- Injunction in connection with an investment-related activity
- Termination for cause or permitted to resign from a former employer where the termination appears to involve a significant sales practice or regulatory violation
- Employment with three or more broker-dealers in the past five years
- Direct or indirect outside business activities associated with microcap and OTC companies (see the section *Low-Priced And Microcap Securities* in the chapter *ORDERS*)
- Traders involved in trading microcap and low-priced OTC securities (determined by Trading Supervisor)

## Heightened Supervision Memorandum

When a candidate is identified for possible heightened supervision Compliance, in consultation with the RR's supervisor, will consider whether heightened supervision will be established. After the determination is made, Compliance will prepare a memorandum outlining action taken (or not taken).

Where it is determined that Infinity's existing supervision is adequate to address oversight of the candidate, Compliance will document in the memorandum the reasons why existing supervision is adequate. Where it is decided heightened supervision will be conducted, Compliance will complete a Heightened Supervision Plan ("HSP"). The HSP will identify the supervisor that is responsible for implementing and enforcing the HSP. All subject RRs will be required to undergo appropriate training to address the nature of the incident(s) resulting in the HSP. Compliance will outline the supervision to be conducted (including type, frequency, time period of heightened supervision, and how supervision should be documented) and provide copies of the memorandum to the subject RR and the RR's supervisor outlining the terms of the heightened supervision. The RR and the supervisor will sign and return copies of the memorandum to Compliance. Compliance will conduct annual reviews of the HSPs to assess effectiveness.

Once the HSP expires, Compliance may determine that heightened supervision continue for the RR. In such a case, a new HSP will be created, detailing a new expiration date.

## Scope Of Potential Heightened Supervision

Heightened supervision will be established after considering the specifics that apply to the RR. Heightened supervision may take many forms and may include some of the following, to be determined by Compliance. This list does not limit or prescribe how heightened supervision should be structured for any one RR, since each case must be reviewed individually.

- Limits on type of business (option, futures, etc.)
- Limits on types of accounts (discretionary, certain age groups or other demographics, etc.)
- Verification with customers of new account information when accounts are opened
- Pre-approval of some or all trades entered
- Pre-approval of certain types of accounts
- Contact with customers by the RR's designated supervisor
- Pre-approval of all written public communications originated by the RR

- Extra training or continuing education in areas subject to heightened supervision
- Assignment of the RR to a "mentor" or partner

### **Certification By RR's Supervisor**

During the term of heightened supervision, the RR's supervisor will certify to Compliance, in writing, that the heightened supervision has been conducted. The form and frequency of certification will be determined by Compliance and will be explained in the Heightened Supervision Memorandum provided to the supervisor.



# 5 COMMUNICATIONS WITH THE PUBLIC

[FINRA Rule 2200 Series, 3110(b)(4), 3110.06, 3110.07, 3110.08 and 3110.09; FINRA Regulatory Notice 19-31; FINRA Rule 2210 Q & A: <https://www.finra.org/industry/finra-rule-2210-questions-and-answers>]

## 5.1 Introduction

[FINRA Rule 2200 Series; FINRA Regulatory Notice 12-29]

This chapter explains regulatory and policy requirements when dealing with the public through a wide range of media including electronic media. "Communications" consist of correspondence, retail communications and institutional communications.

In general,

- All communications must be truthful and balanced.
- Communications (incoming and outgoing) are subject to review by Infinity. Do not expect confidentiality for any communications that are received by you or that you send from Infinity.
- Infinity's facilities and systems (email, fax, etc.) should be used for business purposes only.
- Records of communications (incoming and outgoing) are retained by Infinity and are subject to review by regulators and subpoena in civil actions.

## 5.2 Definitions

[FINRA Rule 2210(a)]

There are three broad categories of communications as defined by rule. **"Written communications" include electronic communications.**

**Retail communication:** includes **any** written communication (including advertising, telemarketing and other sales scripts and other written communications) that is published, distributed or made available to **more than 25** retail investors within any 30 calendar-day period. *Requires pre-use approval except that the following do not require pre-use approval and may be supervised like correspondence:*

- *Communications excepted from the definition of "research report" **unless** the communication makes any financial or investment recommendation;*
- *Any retail communication that is posted on an online interactive electronic forum; and*
- *Any retail communication that does not make any financial or investment recommendation or otherwise promote a product or service of Infinity.*

**Institutional communication:** includes written communications that are distributed or made available only to institutional investors. *(Does not require pre-use approval, reviewed consistent with correspondence requirements.)*

**Correspondence:** Includes any written communication that is distributed or made available to **25 or fewer** retail investors within any 30 calendar-day period. *(Does not require pre-use approval unless indicated otherwise for specific products or services.)*

Additional definitions include:

**Retail investor:** includes any person other than an institutional investor, regardless of whether the person has an account with Infinity.

**Institutional investor:** includes a:

1. government entity or subdivision thereof;

2. employee benefit plan, or multiple employee benefit plans offered to employees of the same employer, that meet the requirements of Section 403(b) or Section 457 of the Internal Revenue Code and in the aggregate have at least 100 participants, but does not include any participant of such plans;
3. qualified plan, as defined in Section 3(a)(12)(C) of the Exchange Act, or multiple qualified plans offered to employees of the same employer, that in the aggregate have at least 100 participants, but does not include any participant of such plans;
4. FINRA member firm or registered person of such a member; and
5. person acting solely on behalf of any such institutional investor.

Institutional investor also includes [per FINRA Rule 4512(c)] an account for:

1. a bank, savings and loan association, insurance company or registered investment company;
2. an investment adviser registered either with the SEC under Section 203 of the Investment Advisers Act or with a state securities commission (or any agency or office performing like functions); or
3. any other person (whether a natural person, corporation, partnership, trust or otherwise) with total assets of at least \$50 million.

## 5.3 Retail Communications

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> <li>• Compliance (approval of advertising, file retail communications with FINRA (if required))</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Retail communications submitted for review</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review proposed retail communications</li> <li>• Make revisions as needed</li> <li>• Provide requestor with approved copy or notify of disapproval</li> <li>• File communication with FINRA, if required; notify requestor of any required delay to receive FINRA approval</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Dates of first and (if applicable) last use</li> <li>• Copies of reviewed communications, including the reviewer's approval and date of approval</li> <li>• For communications not requiring pre-approval, the name of the person who prepared or distributed the communication</li> <li>• Information regarding the source of any statistical table, chart, graph or other illustration used in the communication</li> <li>• Copies of communications filed with FINRA (see section <i>FINRA Filing Requirements</i>) and FINRA response/approval (as applicable)</li> <li>• If the communication was prepared by another member firm and filed with FINRA, the name of the firm and a copy of FINRA's review letter</li> </ul>

Retail communications, which include advertising, require the **prior approval** of the designated supervisor prior to use or distribution. Advertising also requires the **prior approval** of Compliance and may be filed with FINRA depending on the content. The person submitting the retail communication for review (and that person's supervisor, if applicable) will be notified of approval or the need to make changes prior to release.

## FINRA Filing Requirements

[FINRA Rule 2210(c)]

Some retail communications must be filed with FINRA. The following chart outlines those requirements and the corresponding rule cite.

- Filings must be accompanied by FINRA's Advertising and Sales Literature Filing Cover Sheet.
- Filings should identify the reference number of any communication previously submitted by Infinity and already reviewed by FINRA that is similar to the current filing.
- All retail communications to be submitted to FINRA must be approved by the designated supervisor prior to submission to FINRA.
- The actual or expected date of first use or publication and the name and CRD number of the approving supervisor must be included with the FINRA filing. [FINRA Rule 2210(c)(5)]

It is not necessary to file any retail communication which has previously been filed and is used without any changes. FINRA rules should be consulted for specific requirements and some exclusions [Rule 2210(c)(7)] from the requirements.

Retail Communication Content Requiring Filing	When	FINRA Rule
New member firms only: certain broadly disseminated retail communications such as generally accessible websites, print media communications, and TV and radio commercials. Free writing prospectuses are also included other than those exempt from filing with the SEC. The rule also excludes research reports concerning only securities listed on a national securities exchange [other than those that must be filed under Section 24(b) of the Investment Company Act of 1940]	One-year requirement to file at least 10 business days prior to use starting on the date the firm's membership with FINRA becomes effective, per the CRD. Free writing prospectuses may be filed within 10 business days of first use.	2210(c)(1)(A)
Investment company communications that promote a specific registered investment company or family of registered investment companies. (Generic investment company communications are not required to be filed.)	Within 10 business days of first use or publication	2210(c)(30)(A)
Investment company using performance rankings or comparisons	10 business days prior to first use or publication	2210(c)(2)(A) 2212 2214
Security futures (with certain exceptions)	10 business days prior to first use or publication	2210(c)(2)(B) 2215
Bond mutual funds that include volatility ratings	10 business days prior to first use or publication	2210(c)(2)(A) 2213
Options communications used prior to the delivery of the Options Disclosure Document	10 calendar days prior to first use or publication	2220(c)
Public direct participation programs	Within 10 business days of first use or publication	2210(c)(3)(B)

<p>Templates for written reports produced by or concerning an investment analysis tool <i>(Retail communications based on templates previously filed with FINRA where the only changes are to update statistical or other non-narrative information do not require re-filing. Also updated non-predictive narrative descriptions of market events during the period covered by the communication and factual descriptions of portfolio changes without having to re-file the template as well as updated information from a registered investment company's regulatory documents filed with the SEC. Filing exclusion includes updates supplied by third-party data providers if its information is from SEC filings; Infinity should obtain assurances from the data provider regarding the quality of the data and consistency with SEC source data.)</i></p>	No filing requirement; must provide access to investment analysis tools upon request	<b>2214</b>
Registered CMOs	Within 10 business days of first use or publication	<b>2210(c)(3)(C) 2216</b>
Registered securities that are derived from or based on a single security, a basket of securities, an index, a commodity, a debt issuance or a foreign currency	Within 10 business days of first use or publication	<b>2210(c)(3)(D)</b>
Television or video where Infinity has filed with FINRA a draft version of a "story board"	Within 10 business days of first use or broadcast	<b>2210(c)(4)</b>
Certain 529 Plans communications offering registered investment company products	Within 10 business days of first use or publication	<b>2210(c)(2)(A)</b>
Certain broker-prepared widely disseminated free-writing prospectuses that are required to be filed with the SEC under Securities Act 433(d)(1)(ii) [Excludes those exempt from filing with the SEC]	Within 10 business days of first use or publication	<b>Regulatory Notice 10-52</b>

## 5.4 Institutional Communications

[FINRA Rule 2210(b)(3)]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>Communications sent to institutions</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>Communications limited to institutions reviewed after sending: <ul style="list-style-type: none"> <li>Review all; or</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>○ Review on a sampling basis (see the section <i>Risk-Based Reviews</i> that follows)</li> <li>• Limit distribution to only institutions by: <ul style="list-style-type: none"> <li>○ Advising the receiving institution that the material is for institutions only</li> <li>○ Adding a legend to material;</li> <li>○ Asking the receiving institution to affirm materials will be distributed to institutional investors only; or</li> <li>○ Taking other steps to limit distribution</li> </ul> </li> <li>• If institutional communications will be distributed to retail customers or Infinity becomes aware they are going to retail customers: <ul style="list-style-type: none"> <li>○ Subject the communication to reviews required for those sent to retail customers (see <i>Outgoing Communications</i>); or</li> <li>○ Cease providing material to the institution</li> </ul> </li> <li>• Include institutional communications in training (approval requirements, requirements when institutions forward communications to retail customers, acceptable content, other subjects)</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Institutional communications reviewed including record of who reviewed and date reviewed</li> <li>• Institutional affirmations limiting distribution</li> <li>• Action taken if an institution distributes institutional-only communications to retail investors</li> <li>• Training including subjects covered, who attended, date conducted</li> </ul>

Institutional communications (including electronic communications) are subject to review and retention by Infinity. Communications sent only to institutions do not require approval prior to sending. Those sent to institutions that also will be sent to retail customers (whether by Infinity or forwarded by the institution) require approval described in *Outgoing Communications*, including prior approval for any communication provided to more than 25 retail investors in a 30-day period. Institutions may be asked to provide written affirmation that communications sent to them will NOT be provided to retail customers.

Institutional communications are subject to the general standards that appear below.

## 5.5 General Standards

[FINRA Rule 2210(d)(1)]

Communications must meet general standards which are summarized below. The rules should be consulted for details.

- Communications must be based on principles of fair dealing and good faith, must be fair and balanced, and must provide a sound basis for evaluating the facts and must not omit any material fact where its omission would make the communication misleading.
- Communications may not contain false or misleading statements or any statement Infinity knows to be untrue.
- Information may be placed in a legend or footnote only in the event that such placement would not inhibit an investor's understanding of the communication.
- Statements must be clear and not misleading within the context in which they are made and must provide balanced treatment of risks and potential benefits. Communications must be consistent with the risks of fluctuating prices and the uncertainty of dividends, rates of return and yield inherent to investments.
- The nature of the audience to which the communication will be directed must be considered providing appropriate details and explanations appropriate to the audience.

- Communications may not predict or project performance, imply that past performance will recur or make any exaggerated or unwarranted claim, opinion or forecast; provided. Exceptions include hypothetical illustrations of mathematical principals, investment analysis tools, or research reports subject to certain conditions.

## **Comparisons**

Any comparison in retail communications between investments or services must disclose all material differences between them, including (as applicable) investment objectives, costs and expenses, liquidity, safety, guarantees or insurance, fluctuation of principal or return, and tax features.

## **Disclosure Of The Firm's Name**

All retail communications (other than "blind" advertisements used to recruit personnel) and correspondence must:

- prominently disclose the name of the Firm, or the name under which business primarily is conducted (per Infinity's Form BD), and may also include a fictional name by which Infinity is commonly recognized or which is required by any state or jurisdiction;
- reflect any relationship between Infinity and any non-member or individual who is also named; and
- if it includes other names, reflect which products or services are being offered by Infinity.

## **Tax Considerations**

- References to tax-free income must indicate which income taxes apply, or which do not.
- Communications must not characterize income or investment return as tax-free or exempt when liability is merely postponed.
- A comparative illustration of the mathematical principles or tax-deferred versus taxable compounding must meet seven specified criteria.

## **Disclosure Of Fees, Expenses And Standardized Performance**

[FINRA Regulatory Notice 13-23]

Communications about fees must be accurate and balanced. Representing that fees are not charged in connection with retail accounts and IRAs is inaccurate and a violation of rules when the account is subject to other charges or fees. Investment products have their own associated costs including commissions, management fees, and other product-level expenses. For example, stating that there are no fees charged or highlighting "no fees" and then providing separate, less-prominent disclosure of other fees is misleading. Footnotes do not meet the requirements for disclosure.

Claims regarding fees must be accompanied by clear disclosure of the types of fees that may be charged. A statement that "other account fees, fund expenses, brokerage commissions and service fees may apply" would be consistent with rule requirements. This statement could be hyperlinked to Infinity's web site where fees are explained.

Communications that present certain permitted investment company performance data must disclose performance information required by SEC Rule 482 and Investment Company Act Rule 34b-1, among other things. This information must be set forth prominently, and in any print advertisement, in a prominent text box that contains only the required information.

## Recommendations

- If a communication includes a recommendation of securities, it must have a reasonable basis and disclose:
  - whether Infinity is making a market in the recommended security (or in the underlying security if the recommended security is an option or security future) or the security will be bought or sold on a principal basis;
  - if Infinity or any associated person directly and materially involved in the preparation of the content of the communication has a financial interest in the securities of the issuer; and
  - if Infinity was a manager or co-manager of a public offering of any securities of an issuer whose securities were recommended within the past 12 months.
- Infinity must provide, or offer to furnish upon request, available investment information supporting the recommendation (including, for corporate equity securities, the price at the time the recommendation is made).
- Generally, a communication may not refer to past specific recommendations of Infinity that were or would have been profitable; however, it may set out or offer to furnish a list of all recommendations as to the same type of securities made by Infinity within the past year if the communication meets certain conditions, including the condition that the communication contain a specified, prominently displayed cautionary legend.
- These requirements do not apply to any communications that meet the definition of "research report" and include required research disclosures.
- The general disclosure requirements for recommendations do not apply to any communication that recommends only registered investment companies or variable insurance products, if such communications have a reasonable basis for the recommendation.

## Prospectuses Filed With The SEC

Prospectuses, preliminary prospectuses, fund profiles and similar documents that have been filed with the SEC are not subject to the content standards except for investment company prospectuses published pursuant to Rule 482 and broadly disseminated free writing prospectuses that are filed with the SEC pursuant to Securities Act Rule 433(d)(1)(ii).

## Limitations On Use Of FINRA's Name And Any Other Corporate Name Owned By FINRA

[FINRA Rule 2210(e); FINRA email address for questions: [trademarks@finra.org](mailto:trademarks@finra.org)]

Infinity may indicate its FINRA membership in only three ways:

- In a communication that complies with the standards of FINRA Rule 2210 and neither states nor implies that FINRA or any other corporate name or facility owned by FINRA, or any other regulatory organization, endorses, indemnifies or guarantees Infinity's business practices, selling methods, the class or type of securities offered, or any specific security; references are limited to "Reviewed by FINRA" or "FINRA reviewed;"
- In a confirmation statement for an OTC transaction that includes a specified legend; or
- On Infinity's website (or any related firm website about securities business), as long as Infinity provides a hyperlink to the homepage of FINRA's website in close proximity to Infinity's indication of FINRA membership.

Member firms are prohibited from including FINRA's logo on web sites, business cards, stationery, or other marketing materials. The FINRA trademark or references to membership may not be included in any trademark

of Infinity or associated person. Infinity may, however, include "FINRA Member Firm" or "Member of FINRA" on such materials.

## 5.6 Approval

[FINRA Rule 2210(b)]

Supervisory review and approval requirements are outlined in the following chart.

Type	Approval Required
Retail communications	<p>Must be approved by the designated supervisor <b>before</b> the earlier of its first use or filing with FINRA.</p> <p>Prior approval is <b>not</b> required for the following retail communications:</p> <ul style="list-style-type: none"><li>• Another FINRA member already filed it and received approval and the Firm does not materially alter it or use it inconsistent with FINRA's approval</li><li>• Retail communications supervised as correspondence where: it is excepted from the definition of "research report" unless it makes any financial or investment recommendation; it is posted on an online interactive electronic forum; and it does not make any financial or investment recommendation or otherwise promote a product or service of the member.</li></ul>
Institutional communications	<ul style="list-style-type: none"><li>• Reviewed after sending</li></ul>
Correspondence	<ul style="list-style-type: none"><li>• Reviewed after sending</li></ul>
Seminar materials	Compliance prior approval
Advertising	Compliance prior approval
Pre-approved form letters, group e-mails, hedge clauses, other pre-approved communications	Require no additional approval if used without change

## 5.7 Testimonials

[FINRA Rule 2210(d)(6)(B); FTC Guides Concerning the Use of Endorsements and Testimonials:  
<http://ftc.gov/os/2009/10/091005revisedendorsementguides.pdf>]

There are specific requirements when using testimonials in communications with the public, including disclosure regarding payment of more than \$100 in value paid for the testimonial. Compliance should be contacted before preparing any communications that include testimonials.

## 5.8 Telemarketing Scripts



All scripts used for telemarketing calls are considered retail communications and require the approval of the designated supervisor prior to use. The section *Cold Callers* includes further information regarding the use of scripts and callers.

## 5.9 SIPC Membership

[Securities Investor Protection Act of 1970; United States Code Title 15 Chapter 2B-1; SIPC web site at [www.sipc.org/how/sipclogo.aspx](http://www.sipc.org/how/sipclogo.aspx)]

Advertising must include a notation that Infinity is a member of SIPC, e.g., "Member, SIPC." If an explanatory statement will be included in advertising explaining what SIPC is, one of the following two standardized phrases must be included:

- Member of SIPC, which protects securities customers of its members up to \$500,000 (including \$250,000 for claims for cash). Explanatory brochure available upon request or at <http://www.sipc.org>.
- Member of SIPC. Securities in your account protected up to \$500,000. For details, please see <http://www.sipc.org>.

The words "Member, SIPC" may be omitted if the official explanatory statement is used in conjunction with the official SIPC symbol.

When SIPC is referenced in Infinity's web site, the site will include a hyperlink to the SIPC web site.

"Advertising" is defined under SIPC rules as any promotional material used in or on any newspaper, magazine, or other periodical, radio, television, telephone or tape recording, videotape display, motion picture, slide presentation, telephone directory, sign or billboard, electronic or other public media.

## 5.10 Recordkeeping Requirements For Retail And Institutional Communications

[FINRA Rule 2210(b)(4)(A); SEC Securities Exchange Act of 1934 Rule 17a-4]

Records of retail and institutional communications must include:

- Originals of all communications received and copies of all communications sent
- While not "retail" or "institutional" communications, records of inter-office memoranda and communications relating to Infinity's business [SEC Rule 17a-4(b)(4)]
- The dates of first use and (if applicable) last use
- The name of the registered principal who approved the communication and the date of approval
- For communications not approved by a supervisor prior to first use, the name of the person who prepared or distributed the communication (where clerical staff prepares or distributes the communication, include the name of the person on whose behalf the communication was prepared or distributed)
- The source of statistical tables, charts, graphs and other illustrations
- For a retail communication prepared by another firm and submitted to FINRA, the name of the firm and a copy of FINRA's review letter
- A record that the item was filed with FINRA and when filed (if required)
- Changes recommended by FINRA and approval received from FINRA (if required)

## 5.11 Outgoing Communications

[FINRA Rule 3110(b)(4), 3110.07, 3110.08 and 3110.09]

This section outlines requirements for outgoing communications which includes written and electronic communications. Electronic communications are subject to specific procedures for review; see the section

*Electronic Mail* in this chapter and the section *Electronic Communications Policy* in the chapter *GENERAL EMPLOYEE POLICIES*.

## Review And Approval

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Outgoing customer communications</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review communications for appropriateness of language</li> <li>• Pre-approve retail communications that are sent to more than 25 persons in a 30-day period (other than those excluded; see <i>Retail Communications</i> under <i>Definitions</i> in this chapter)</li> <li>• Review other communications after sending</li> <li>• Identify outgoing communications that may constitute "research" under FINRA Rule 2241(a)(11)</li> <li>• Take corrective action, if necessary, which may include consultation with the RR and/or Compliance, sending corrected communications, added training for the RR, restrictions on communications, or other action considered appropriate for the circumstance</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Communications including reviewer's initials or other record of review and action taken, if appropriate</li> </ul>

Outgoing customer communications are subject to review and approval by the designated supervisor.

- Retail communications sent to more than 25 persons in a 30-day period require the supervisor's approval **before** sending.
- Other communications will be reviewed and approved after sending.
- Some communications (depending on type and other factors) require prior approval (see the section *Approvals*).

Pre-approved form letters and group e-mails **used without change** (other than customer name, address) may be sent to customers or prospective customers without additional approval. Records of to whom form letters and group e-mails are sent must be retained in Infinity's records.

## Content Guidelines

Items to consider when preparing and reviewing outgoing communications (and other forms of written or electronic communications) include:

- Truthfulness and good taste are required.
- Exaggerated, unwarranted, or misleading statements or claims are prohibited.
- Promises or guarantees: past performance may not be used to promise, guarantee, or imply future profits or income from securities.

- Projections and predictions are not permitted.
- Comparisons of personnel, facilities, or charges with those of other broker-dealers should not be made unless supported by the facts, and other firms' names should not be included.
- Communications regarding securities subject to pending distributions (underwritings) are generally not permitted.
- Communications regarding securities sold by prospectus (mutual funds, limited partnerships, *etc.*) must be approved by Compliance prior to sending (except for pre-approved communications where no changes are made).
- Only firm-approved hedge clauses may be used.
- Tax advice must not be provided; the customer should be referred to his or her tax adviser for such issues.
- Photocopying and distributing copyrighted material may violate copyright laws.
- The use of firm letterhead should be restricted to firm-related matters.
- No fictitious designations may be used.
- Communications regarding options is subject to specific requirements which are discussed in the chapter *OPTIONS*.

## Facsimiles

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Outgoing faxes</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As Required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review outgoing faxes as follows: <ul style="list-style-type: none"> <li>◦ Review faxes on a sampling basis (see risk-based techniques in the Outgoing Communications section of this chapter).</li> </ul> </li> <li>• For faxes with questionable content: <ul style="list-style-type: none"> <li>◦ Confer with RR</li> <li>◦ Confer with Compliance, if necessary</li> <li>◦ Take corrective action which may include: <ul style="list-style-type: none"> <li>▪ Sending a revised fax to the recipient</li> <li>▪ Training for RR</li> <li>▪ Disciplinary action against RR which may include a reprimand, suspension, or termination</li> </ul> </li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Outgoing faxes with reviewer's initials</li> <li>• Records of corrective action taken</li> </ul>

Facsimiles are included in the definition of "outgoing communications" and are subject to review by the designated supervisor.

Facsimile transmissions may NOT be used for unsolicited advertising. Refer to the section *Calling (Telemarketing) And Fax Restrictions* in this chapter.

## Research

Research published by Infinity must be distributed in accordance with the requirements and limitations communicated by Research or another issuing department/personnel. Failure to comply may subject Infinity and the RR to regulatory actions for violating rule requirements. For example:

- If Infinity issues debt research, some may be restricted to institutional customers only. Institutional investors are required to affirm they meet the definition of an institution and are able to meet certain conditions regarding their investment sophistication. Such research may NOT be provided to retail customers.
- Some research may qualify for distribution only to certain jurisdictions (states) where the subject securities are qualified for sale.

Questions regarding distribution of research should be referred to the appropriate research personnel or to Compliance.

## Other Communications Defined As "Research"

[SEC Regulation AC; FINRA Rule 2241(a)(11)]

RRs are **not** permitted to send communications that may be deemed "research" since there are complex requirements that apply to the issuance of research reports. Federal and SRO rule interpretations define "research" as any written communications (including electronic) that includes an analysis of equity securities of individual companies or industries (other than an open-end registered investment company that is not listed or traded on an exchange), and that provides information reasonably sufficient upon which to make an investment decision and that is distributed to at least 15 persons. This applies even if the author does not hold the title of "research analyst" and does not work in a research department.

There are specific exceptions under SRO rules. Questions regarding whether a communication constitutes "research" should be referred to Compliance.

## 5.12 Incoming Correspondence

[FINRA Rule 3110(b)(4), 3110.07, 3110.08 and 3110.09]

In this section, "correspondence" means written and electronic communications received by Infinity.

### Review Of Incoming Correspondence

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Incoming correspondence, including correspondence marked "personal and confidential"</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Daily</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Review all incoming correspondence</li><li>• Refer customer securities and checks directly to Operations</li><li>• Refer customer complaints to Compliance</li><li>• Refer audit letters to Operations</li></ul>

<b>Record</b>	<ul style="list-style-type: none"> <li>Initial each piece of correspondence and maintain in branch/department incoming customer correspondence files.</li> </ul>
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All incoming written correspondence will be opened and reviewed by the designated supervisor or someone qualified and appointed by the department supervisor. This review includes letters, facsimiles, courier deliveries, and other forms of written communication. Electronic mail is subject to specific procedures for review; see the section *Electronic Mail* in this chapter and the section *Electronic Communications Policy* in the chapter *GENERAL EMPLOYEE POLICIES*.

The following guidelines for review apply:

- Correspondence identified as "Confidential" will be opened and reviewed.
- Obvious non-customer correspondence (bank statements, advertising, *etc.*) will not be opened and will be forwarded directly to the addressee.
- Audit letters (requests from customers' auditors for verification of account positions) will be forwarded directly to Operations for response.
- Complaints will be immediately forwarded to the RR's supervisor and to Compliance.
- Checks or securities will be immediately deposited with the appropriate operations personnel and the RR notified of receipt.
- Original customer correspondence will be retained for Infinity's files; the addressee will receive a copy.
- Original customer correspondence will be forwarded to the designated supervisor for review, initialing, and filing.

## Offices Without Resident Supervisors

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>Incoming customer correspondence</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>Supervisors: review incoming correspondence in accordance with Infinity's policy</li> <li>Compliance: conduct branch reviews to verify procedures are being followed</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>Incoming correspondence retained by designated supervisor in accordance with Infinity's policy on incoming correspondence</li> <li>Compliance retains records of branch reviews</li> </ul>

For offices without a resident registered supervisor, copies of all incoming, written correspondence related to Infinity's securities business must be forwarded to the designated supervisor at the end of each week for review.

Compliance with this requirement will be audited during branch reviews.

## Personal Mail

Employees should direct all personal mail to their home address. Personal mail is subject to incoming correspondence and electronic mail review policies.

## 5.13 Legends And Footnotes

[FINRA Rule 2210(d)(1)(C)]

When legends or footnotes are included in public communications, they cannot be placed or sized in a way that limits the investor's ability to read or understand the information. Small fonts may inhibit reading the information or may inappropriately diminish the importance of the information. Bold claims balanced by a footnote may also mislead the reader.

## 5.14 Internal Communications

[FINRA Rule 3110(b)(4)(B), 3110.06, 3110.07, 3110.08 and 3110.09]

### Internal Use Only

Printed or electronic information marked "internal use only" may not be sent or otherwise provided to individuals outside Infinity.

## 5.15 Complaints

[FINRA Rule 3110(b)(5), 4513 and 4530]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Customers' complaints (written or electronic)</li><li>• FINRA reports (Report Center, Risk Monitoring Reports):<ul style="list-style-type: none"><li>○ FINRA Sales Practice Complaint Report</li><li>○ FINRA Customer Complaint Report</li></ul></li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Branch/Department Supervisor:<ul style="list-style-type: none"><li>○ Resolve complaints of an operational nature such as late dividends, delayed delivery of stock, <i>etc.</i> If written, forward a copy to Compliance with description of resolution</li><li>○ Refer all other complaints (mishandling of account by RR, improper transactions, churning, <i>etc.</i>) to Compliance</li></ul></li><li>• Compliance:<ul style="list-style-type: none"><li>○ Send initial acknowledgment of receipt of written complaint</li><li>○ Gather needed information and investigate the complaint</li><li>○ Provide a response and resolution to the customer with a copy to the RR and RR's supervisor</li><li>○ If necessary, amend the RR's U4 (or, in the case of a terminated RR, amend Form U5)</li><li>○ File quarterly electronic complaint report with FINRA</li></ul></li></ul>

	<ul style="list-style-type: none"> <li>○ Maintain central record of complaints</li> <li>○ For formal civil actions (lawsuits, arbitrations), refer the matter to Infinity's counsel for response</li> <li>○ Review FINRA reports for trends in complaints</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Copies of written complaints and related correspondence (including acknowledgment of receipt of complaint and resolution) are retained in: <ul style="list-style-type: none"> <li>○ Branch file for complaints (unless Infinity makes complaints promptly available to FINRA upon request at the office location)</li> <li>○ Compliance central file of Infinity's complaints (retention for 4 years)</li> </ul> </li> <li>• <i>Note:</i> options complaints are retained in separate files both by branches (where records are maintained at branches) and by Compliance</li> <li>• Central complaint log (MSRB requires electronic format under Rule G-8)</li> <li>• Record of electronic filings</li> <li>• Records of updates to Form U4 or U5</li> <li>• Reviewed FINRA reports</li> <li>• FINRA record retention: 4 years (Rule 4513)</li> <li>• MSRB record retention: 6 years with 2 years in a readily-accessible location (MSRB Rule G-8)</li> </ul>

## Complaint Defined

"Complaint" is defined as any grievance by a customer or any person authorized to act on behalf of the customer involving the activities of Infinity or someone associated with Infinity in connection with the solicitation or execution of any transaction or the disposition of securities or funds of that customer.

## Handling Of Customer Complaints

When a written complaint is received, a copy should be forwarded immediately to Compliance for follow-up.

Oral complaints may be resolved by the designated supervisor if the nature of the complaint is operational such as late check, late dividend, or another type of nominal problem. Oral complaints alleging mishandling of the customer's account (unauthorized trading, improper investments, *etc.*) should be brought to the attention of Compliance for review and resolution.

## Oral Complaints

Oral complaints should be reported immediately to the designated supervisor for sales practice issues, or to Operations for operational issues. Examples of sales practice issues include complaints regarding losses, improper trades, and other complaints involving the quality of investments or wrongdoing by the RR or Infinity. Examples of operational issues include late dividend checks, errors on monthly statements, *etc.* RRs should not make independent decisions regarding whether to report complaints; all oral complaints should be reported either to the designated supervisor or Operations.

## Complaints Received By Clearing Firm

As required under SRO rules, whenever Infinity's clearing firm receives a customer complaint, the clearing firm will:

- Provide a copy of the complaint to Infinity's compliance officer.
- Provide a copy to Infinity's designated examining authority (DEA).
- Notify the customer directly that their complaint has been forwarded to Infinity for response and to the DEA.

When received by Infinity, the complaint will be handled in the same manner as other complaints received directly by Infinity.

## Records Of Complaints

Compliance will maintain a central record of all customer complaints including the following MSRB rules require an electronic log.

- Complainant's name and address
- Account number or municipal advisory number or code, if any
- Date the complaint was received
- Name(s) of employee(s) identified in the complaint
- Description of the nature of the complaint including the date(s) of activity that resulted in the complaint
- Disposition of the complaint

## Office Records Of Complaints

Each office of supervisory jurisdiction (OSJ) will maintain a separate file of all written customer complaints that relate to that office (including complaints that relate to activities supervised from that office) and action taken by Infinity, if any, or a separate record of complaints and a clear reference to the office files that contain correspondence regarding complaints. Alternatively, Infinity may make complaints promptly available at that office, upon request of FINRA.

## Notice To Customers

Each customer is provided with notification of the address and telephone number of the department to which complaints may be directed. The FINOP is responsible for establishing procedures to provide this information to customers.

## Reporting Of Customer Complaints

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Complaints received from customers or referred by RRs, supervisors, or others</li> <li>• FINRA Disclosure Timeliness Report Card</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Statistical Complaint Report: Quarterly</li> <li>• Form BD, U4s, and U5s (if applicable): Promptly after receipt of complaint</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Identify reportable complaints and other reportable events</li> <li>• Report to FINRA the events specified in FINRA Rule 4530 within 30 calendar days of knowledge of the event</li> </ul>



	<ul style="list-style-type: none"> <li>File electronically the quarterly statistical report by the 15<sup>th</sup> of the month following the calendar quarter</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>Quarterly complaint reports are maintained in a file for the reports</li> <li>Copies of events reported</li> </ul>

Infinity will file a quarterly statistical report of complaints with FINRA. Complaints reportable in Infinity's Form BD and/or an RR's Form U4 (or an amendment to Form U5, if the RR is terminated) will be promptly forwarded to FINRA.

## 5.16 Scripts

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>Scripts to be used by RRs or non-registered cold callers</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>Review and revise (as needed)</li> <li>Scripts for use by non-registered personnel are strictly limited; refer to the section <i>Cold Callers</i> for more details</li> <li>Ensure required elements (as described in the policy) are included in all scripts</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>Maintain copies of approved scripts in a file - Include initials and date approved</li> </ul>

Scripts used for the purpose of contacting the public are subject to the requirements governing retail communications. The general requirements include the following:

- Any scripts involving options require the approval of Compliance prior to use.
- Scripts for non-option products require the approval of the designated supervisor prior to use.
- Cold callers are restricted to using scripts when making calls (see the section *Cold Callers*). Depending on the content of the script and states where used, the cold caller may require registration and be subject to more stringent state requirements.
- Scripts must clearly include the following, at the beginning or in the introductory portion of the script:
  - the caller's identity
  - the firm's name
  - the address or phone number of the branch office or OSJ where the caller may be contacted
  - a statement that the purpose of the call is to solicit interest in a security

These disclosures are not required for a script used by an RR who calls existing customers.

## 5.17 Prohibition Against Payments Involving Publications To Influence Market Prices

[FINRA Rule 5230]

Payments of anything of value, directly or indirectly, are prohibited for the purpose of influencing or rewarding someone in connection with the publication or circulation of information in any electronic or other public media for the purpose of influencing the market price of the subject security. This includes any investment service or similar publication; web sites; newspapers, magazines, or other periodicals; radio; or television program. The prohibition does not apply to clearly-identified paid advertising; a communication that discloses the amount and receipt of compensation; or a research report as defined under FINRA rules.

## 5.18 Pre-recorded Voice Messages And Automatic Telephone Dialing Systems (Autodialers)

[Telephone Consumer Protection Act of 1991; FCC Report and Order dtd 2/15/12:  
[http://transition.fcc.gov/Daily\\_Releases/Daily\\_Business/2012/db0215/FCC-12-21A1.pdf](http://transition.fcc.gov/Daily_Releases/Daily_Business/2012/db0215/FCC-12-21A1.pdf); FINRA Rule 3230(k)]

Infinity and its associated persons are prohibited from initiating any outbound telemarketing call that delivers a prerecorded message without a person's express written agreement to receive such calls. The rule also requires that all prerecorded telemarketing calls provide specified opt-out mechanisms so that a person can opt out of future calls. The prohibition does not apply to a prerecorded message permitted for compliance with the "safe harbor" for abandoned calls discussed in the next section.

Infinity does not permit prerecorded messages or the use of autodialing systems.

## 5.19 Calling (Telemarketing) And Fax Restrictions

[FINRA Rule 3230; NASDAQ Rule 2212; NYSE Rule 3230; MSRB Rule G-39; Telephone Consumer Protection Act of 1991; Telemarketing and Consumer Fraud and Abuse Prevention Act of 1994; Junk Fax Prevention Act of 2005; FINRA FAQs on Telemarketing:  
[https://www.finra.org/rules-guidance/guidance/faqs/finra-rule-3230?utm\\_source=MM&utm\\_medium=email&utm\\_campaign=O%5FWEEKLY%5FUPDATE%5F120419%5FFINAL](https://www.finra.org/rules-guidance/guidance/faqs/finra-rule-3230?utm_source=MM&utm_medium=email&utm_campaign=O%5FWEEKLY%5FUPDATE%5F120419%5FFINAL)]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Compliance</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Requests to conduct telemarketing</li> <li>• Third parties contracted for telemarketing</li> <li>• Do not call requests</li> <li>• Federal/state do not call lists</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• For third party telemarketers, confirm compliance with registration requirements and confirm their ability to comply with requirements</li> <li>• Establish and maintain internal do-not-call list</li> <li>• Obtain federal/state do not call lists and make them available to RRs or establish an internal system for automatically checking outgoing calls against lists</li> <li>• For abandoned calls, establish and maintain a method of ensuring compliance with requirements</li> <li>• Train RRs regarding telemarketing prohibitions, use of billing information (if applicable), do-not-call lists, etc.</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Third party telemarketer compliance reviews</li> <li>• Internal do-not-call list</li> <li>• Records of technology (if employed) to block calls to restricted numbers</li> <li>• Recorded phone calls where billing information is submitted</li> </ul>

	<ul style="list-style-type: none"> <li>• Records of compliance with abandoned call requirements</li> <li>• Records of training including training materials, who attended when conducted</li> </ul>
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This section describes restrictions on telemarketing calls under Federal and FINRA rules and regulations. There may be additional regulations such as state laws and rules. Compliance will communicate any such requirements to RRs.

## Introduction

Infinity and its employees are subject to restrictions that govern telephone solicitations as well as unsolicited facsimile advertisements to residences.

Key points include the following:

- Telephone and facsimile solicitations are allowed when the target individual has an "established business relationship" with Infinity.
- Calls may not be made to individuals included on a Do Not Call List which includes lists maintained by the federal government, state governments, and Infinity.
- "Telephone solicitation" is defined as a telephone call initiated for the purposes of encouraging the purchase of or investment in property, goods, or services. The definition exempts calls made by tax-exempt nonprofit organizations.
- "Established business relationship" includes someone who has had a transaction or security position, money balance, or account activity within 18 months preceding the call or fax or has contacted Infinity to inquire about a product or service within 3 months preceding the call or fax. Infinity has the burden to prove an established business relationship exists.
- Calls to businesses are exempt from telemarketing restrictions; however, solicitations may not be made to induce sales or contributions by individuals employed by a business.

## Telephone Calls

General requirements include the following:

- The caller must provide the called party, at the beginning or in the introductory portion of the script, the name of the caller; the name of the person or entity on whose behalf the call is being made; a telephone number or address at which the caller may be contacted; and disclosure that the purpose of the call is to solicit the purchase of securities or related services.
- Telephone solicitations to residences may not be made before 8:00 a.m. or after 9:00 p.m. in the time zone of the called party's location.
- A "Do Not Call" list must be established that includes the names of individuals who have specifically requested they not be called for solicitations.
- Prerecorded calls to residences are prohibited unless the person has consented in writing to receive such calls and can opt out of future calls and Infinity complies with the requirements of FINRA Rule 3230(k).
- The telephone number of the sender may not be a 900 number or other number where the called party will incur a charge for notifying the sender of a desire not to be called. Consumers may not be charged to protect their privacy.
- Caller identification information must be transmitted; blocking caller identification information is prohibited.
- Outbound telemarketing calls may not be "abandoned" which means a person answers the call and the call is not connected to someone at Infinity within two seconds of the completed greeting. Infinity employs technology to avoid abandoned calls as included in FINRA Rule 3230(j).

The restrictions do not apply to calls to customers for whom Infinity carries accounts and where the account has had some activity in the last 18 months (trading, credit of interest earned, etc.). Calls to other broker-dealers also are not covered by these restrictions.

## Do Not Call Lists

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• National Do-Not-Call Registry</li> <li>• State do not call lists</li> <li>• Internal do not call list</li> <li>• Other vendor lists</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Ongoing</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Add names to Infinity's do-not-call list within 30 days of receiving the request</li> <li>• Provide access to do not call lists</li> <li>• Obtain updated national do-not-call registry every 30 days</li> <li>• Include telephone solicitation restrictions in RR education programs</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• The internal do not call list is maintained by Compliance</li> <li>• Federal and state lists are maintained by the vendor (if a vendor is used) or by Compliance</li> </ul>

Phone solicitations may not be made to phone numbers that are included in federal, state, or Infinity's do not call list. **Because fines may be substantial for each call that violates a restriction, it is important to comply with these requirements.**

It is permissible to contact someone with whom Infinity has an "established business relationship" (described below); the person called has given express written permission to call outside the applicable time; or the person called is a broker or dealer.

If someone has asked to be included on Infinity's do not call list, that person may not be called regardless of whether they are a current customer or have an established business relationship. Individual states may impose stricter requirements limiting contact with persons on that state's do not call list.

- Lists are available for RRs to reference prior to making solicitation calls.

## National Do-Not-Call Registry

The Federal Trade Commission (FTC) and Federal Communications Commission (FCC) established requirements for sellers and telemarketers to participate in a National Do-Not-Call Registry of phone numbers that do not accept phone solicitations. Infinity and its employees must avoid solicitation calls to any number on the list unless the person has an "established business relationship" with Infinity. The list used must be no older than 31 days prior to the date any call is made.

In general, national do-not-call requirements apply to residential phone numbers. In addition, the FCC includes wireless subscribers in the national registry, presuming these are residential subscribers.

## State Restrictions

Certain states have enacted restrictions on telephone solicitations to residences. Florida, for example, has a restrictive policy whereby individuals may ask to be included on a state-wide "do not call" list. It is the telephone solicitor's obligation to be aware of any individuals who are included on that list. Contact Compliance if you have questions regarding state restrictions.

## Internal Do Not Call List

Employees are responsible for reporting to Compliance the names of individuals who do not wish to be called. Compliance maintains a Do Not Call List that is periodically distributed to employees with an explanation of Infinity's telemarketing policy. It is the RR's responsibility to ensure outgoing calls are not made to anyone appearing on Infinity's Do Not Call List.

## 5.20 Public Appearances

[FINRA Rule 2210(f)]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Requests for public appearances</li><li>• Outlines of subjects to be included</li><li>• Charts or other visual aids to be used in conjunction with public speaking</li><li>• Written materials to be provided to attendees</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Refer requests for contact with media to Compliance</li><li>• Review outlines of information to be presented and revise, as needed</li><li>• For product-specific presentations, request review by product manager, if necessary</li><li>• For mutual fund presentations, materials provided by wholesalers also require the approval of Compliance</li><li>• Option presentations require the review and approval of the ROP and Compliance</li><li>• Review charts and written materials to be presented</li><li>• Attend sales seminars periodically to confirm compliance with requirements</li><li>• Ensure presentations involving securities being offered by prospectus include provision of prospectuses to attendees</li><li>• Include public appearance requirements in training or provide training prior to appearances</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Maintain approved outline, samples of visual aids, and written materials in a "Public Appearances" file</li><li>• Initial and date all approved materials</li><li>• Obtain and maintain in the Public Appearances file a list of attendees who received prospectuses (if applicable)</li></ul>

	<ul style="list-style-type: none"> <li>• The ROP and Compliance maintain a file of all approved public appearances that includes options</li> <li>• Compliance maintains records of approved wholesaler materials</li> <li>• Records of training including who participated, subjects covered</li> </ul>
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The following sections outline requirements when RRs engage in public appearances.

## General Guidelines

The general concepts of truthfulness, good taste, and a fair presentation apply to employees engaging in public appearances. Public appearances include participation in a seminar, forum (including an interactive electronic forum), radio or television interview, or other public appearance or public speaking activity.

- The general standards explained earlier in this chapter apply to public appearances.
- If a security is recommended in the public appearance, the RR must have a reasonable basis for the recommendation **and** must disclose:
  - If the RR has a financial interest in the securities of the issuer; the nature of the interest (including derivatives such as options, warrants, *etc.*) and any material conflict of interest of the RR or Infinity known at the time of the appearance. (*This disclosure does not apply to investment company securities or variable insurance products.*)
- These requirements do not apply to public appearances by research analysts where the appearance complies with the requirements of FINRA Rule 2241(d).

## Seminars

RRs should use pre-approved materials and advertisements for sales seminars. Materials and advertising must be submitted to Compliance for approval prior to use if it has not been pre-approved.

## Approval

Prior to engaging in public speaking, the RR should prepare an outline and submit a Public Appearance/Seminar/Luncheon Request for approval by the designated supervisor and Compliance at least 3 weeks prior to the event to ensure timely review. The Request should also include a copy of any proposed advertising about the event if using materials that are not pre-approved by Infinity.

## Radio, TV, And Other Extemporaneous Presentations

The general standards of communications with the public apply to all public appearances whether scripted or not. The following should be considered when participating in radio, TV, or other non-scripted public appearances. Also refer to the chapter *GENERAL EMPLOYEE POLICIES* and the section *Media Contact Is Limited To Certain Authorized Persons* that explains restrictions on dealing with the media. Most employees are restricted from such contact except with the specific approval of Compliance.

- Specific recommendations of securities must be avoided unless approved by Compliance or the speaker is authorized under Infinity's "Media Contact" policy. If a recommendation is made, the speaker is required to disclose material information such as when Infinity is a market maker in the stock. The current price and any special risks associated with the security also must be disclosed.

- The firm's name must be clearly disclosed in conjunction with any securities or services offered.
- The speaker cannot assume a specific level of audience knowledge, experience or suitability. High risk securities may not be appropriate for discussion in a broadcast format available to any listener.
- Media presentations should be clear and understandable. Avoid overly complex messages and technical terminology which may not be understood by the general audience.
- Include products only where the speaker is licensed to sell the product.

For RRs who are approved to engage in radio, TV, or other extemporaneous public speaking, Compliance is responsible for periodically reviewing the presentations, either on tape or concurrent with broadcast, contacting the RR if unacceptable material is included, and making a record of the review and any action taken.

## 5.21 Electronic Communications

### Electronic Communications Systems And Devices

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Compliance</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Internal systems</li> <li>• External systems</li> <li>• Available communications devices</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required: determine approved systems/devices</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Identify systems and devices approved for employee communications and notify employees (including changes when they occur)</li> <li>• Identify systems for internal-use only and notify employees</li> <li>• Determine whether firewalls will be established to prevent disclosure of sensitive information and breaches of information barriers</li> <li>• Determine whether encryption is necessary, identify communications to be encrypted, and educate employees on use of encryption</li> <li>• At its discretion, audit an individual employee's computer and use of communication devices</li> <li>• Restrict use of systems or devices where appropriate</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Records of approved systems, communications to employees, audits of computer/device use and corrective action taken</li> </ul>

Compliance will determine what systems and devices may be used for Infinity business communications. Approved systems and devices are included in the Electronic Communications Policy.

### Education And Training

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Compliance: develop training</li> <li>• Supervisors/others designated to provide training</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Electronic Communications Policy</li> <li>• Annual compliance meetings</li> </ul>

	<ul style="list-style-type: none"> <li>• Firm Element continuing education</li> <li>• Annual employee certifications</li> <li>• Periodic reminders distributed to employees</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required - develop training</li> <li>• At time of hire of new employees - provide policy</li> <li>• Annually for: <ul style="list-style-type: none"> <li>○ Compliance meetings</li> <li>○ Continuing education</li> <li>○ Certifications</li> </ul> </li> <li>• Periodically for reminders</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Provide Policy to new employees</li> <li>• Conduct training</li> <li>• Distribute and obtain certifications (Annual Employee Questionnaire)</li> <li>• Send periodic reminders</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• New employee acknowledgement of Policy</li> <li>• Records of annual compliance meetings</li> <li>• Records of Firm continuing education</li> <li>• Annual certifications</li> <li>• Records of period reminders</li> </ul>

Employees are required to acknowledge receipt and compliance with the Electronic Communications Policy.

- Before employees are permitted to use Infinity-sponsored systems or devices, employees are required to read and agree to the Electronic Communications Policy. The Policy is distributed to all new employees who are required to acknowledge receipt in writing.
- Current employees acknowledge their understanding and agreement with the Policy in Infinity's annual certification.
- The Firm Element continuing education program and/or annual compliance meeting for registered employees will periodically include training regarding Infinity's Electronic Communications Policy.

## Commercial E-Mail Procedures

[CAN-SPAM Act of 2003]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Compliance</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Notification of recipients wanting to "opt-out"</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Ongoing</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Include any "opt-out" requests on a "Do-Not-Email" list</li> <li>• To the extent available in the electronic mail system, block outgoing e-mails to those who have opted out</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Do-Not-Email list</li> </ul>



	<ul style="list-style-type: none"> <li>• Requests to opt out</li> </ul>
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E-mails that are "commercial electronic mail" are subject to the CAN-SPAM Act. Commercial electronic mail includes, under federal law, any electronic mail message primarily for the purpose of sending a commercial advertisement or promotion of a commercial product or service. It does not include electronic mail relating to transactions or where there is a relationship between the sender and the recipient. The Act applies to "persons" who include individuals, groups, unincorporated associations, limited or general partnerships, corporations, or other business entities.

Infinity's e-mail will comply with the following federal requirements.

- All e-mails will include clear identification of Infinity, its address and the sender's e-mail address.
- E-mails will be sent using Infinity's computers or other computers specifically authorized for transmission of Infinity e-mails.
- Recipients will be given the opportunity to "opt-out" from receiving future commercial electronic mail. The recipient cannot, as a condition of honoring an opt-out request, be charged a fee, be required to provide information other than the recipient's e-mail address and opt-out preferences, and be required to take any steps other than sending a reply e-mail or visiting a single page on an Internet website. Opt-out requests will be effected within 10 business days of the request, as required by the Act.
- Where Infinity e-mails include other marketers (for example, a mutual fund management company), Infinity will be considered the "sender" responsible for compliance with the Act unless specifically agreed in advance that another entity included in the e-mail will act as "sender."
- Infinity will not use "address harvesting" or "dictionary attacks" to obtain e-mail addresses from the Internet.

## Review Of Electronic Communications

This section outlines procedures for reviewing electronic communications.

### Methods Of Review

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Compliance</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Internal programs</li> <li>• External programs</li> <li>• Electronic communications from approved systems</li> <li>• Reviewers including qualified supervisors and designees</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Monthly</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Determine programs/methods of review</li> <li>• Communicate review requirements to supervisors and designees</li> <li>• For research communications, establish copies to Compliance for review</li> <li>• Determine training needs for supervisors and designees including training prior to assuming review responsibilities</li> <li>• Include electronic communications reviews in branch/department audits</li> </ul>

	<ul style="list-style-type: none"> <li>• For Lexicon-based programs, review flagged communications and take corrective action, if necessary (notify supervisor, education, restriction of access to systems or devices, suspension, termination, <i>etc.</i>)</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Records of external programs used for reviews</li> <li>• Records of training including subject matter, names of those trained, when, and by whom or what method</li> <li>• Records of flagged communications that require corrective action including action taken</li> </ul>

All electronic communications are subject to review. Types of review include:

- Review of all or sampled communications depending on business area and/or criteria determined by Compliance for selective review

### **Delegation Of Review**

The designated supervisor is responsible for reviewing electronic communications and taking necessary actions. The review may be delegated to a qualified reviewer; “qualified” means the individual has been trained in what to review and what items to refer to the supervisor and/or Compliance. Though reviews are delegated, the supervisor is ultimately responsible for compliance with review requirements. The delegated reviewer will refer the following communications:

- Questionable language to the designated supervisor or Compliance
- Objectionable language or content (profanity, *etc.*) to the supervisor or Compliance
- Complaints to the designated supervisor **and** Compliance
- Advertising not previously approved to Compliance
- Communications regarding errors or account designation changes in orders to the supervisor

### **Communications Review Before Or After Sending**

The following communications require approval by a qualified supervisor **prior to** sending. Other types of communication are subject to post-sending review.

- Advertising (Compliance approval required)
- Form letters (approval of initial form required; subsequent communications may be sent without prior approval if there is no change in previously-approved content)
- Retail communications (communications sent to more than 25 retail investors)
- All communications to retail investors about options

### **Special Reviews**

Compliance may impose different standards of review that may include review of all incoming and outgoing communications regardless of form; pre-approval; or other special reviews. See the section *Heightened Supervision* in the chapter *EMPLOYMENT, REGISTRATION AND LICENSING* for further information.

## Advertising

Electronic advertising is subject to pre-use review by Compliance. Refer to the section *Retail Communications* in this chapter.

### Social Media, Blogs, Web Sites And Other Electronic Communication Systems

[FINRA Regulatory Notice 17-18, 11-39 and 10-06]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> <li>• Compliance</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Requests to participate in social networks, other systems</li> <li>• Postings on sites</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Approval of participants - as required</li> <li>• Weekly - review of sites</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Compliance: <ul style="list-style-type: none"> <li>○ Review and approve media for RR participation particularly considering the ability to monitor and retain records of communications</li> <li>○ Review requests to participate including review of RR's background</li> <li>○ Review an RR's proposed social media site in the form in which it will be launched including review of the first posting by the RR</li> <li>○ Approve or disapprove participation</li> <li>○ Arrange training for approved participants</li> <li>○ Obtain certification at time of approval and annually thereafter</li> <li>○ Approve or disapprove the use of personal communication devices particularly considering the ability to review and retain records of communications; provide guidelines to RRs if such devices are approved for use</li> <li>○ When using third-party media providers, perform due diligence including: <ul style="list-style-type: none"> <li>▪ The provider's reputation in the marketplace</li> <li>▪ The third party's policies including: <ul style="list-style-type: none"> <li>▪ collection and handling of customer information</li> <li>▪ the process and frequency by which the third party's policies may change</li> <li>▪ what control Infinity may have over the third party's policies or actions</li> </ul> </li> </ul> </li> </ul> </li> <li>• Designated supervisor: <ul style="list-style-type: none"> <li>○ Review media: <ul style="list-style-type: none"> <li>▪ Using lexicon-based reviews</li> <li>▪ Reviewing communications on a sampling basis</li> </ul> </li> <li>○ Review RR sites weekly</li> <li>○ Review and approve/disapprove static postings</li> <li>○ Remove inappropriate postings</li> <li>○ Take corrective action where problems are noted including blocking a 3<sup>rd</sup> party from posting; disciplining an RR which may include added training, removal of approval for participation, other appropriate action</li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• RRs approved/disapproved for participation</li> </ul>

	<ul style="list-style-type: none"> <li>• Training materials, who participated and when</li> <li>• Certifications</li> <li>• Templates, if available</li> <li>• Approved static postings</li> <li>• Records of business communications and corrective action, if appropriate</li> <li>• Review of media and any corrective action taken</li> </ul>
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The use of social media (Facebook, LinkedIn, Twitter, *etc.*), blogs, web sites, and other electronic forums (collectively referred to as "media" in this policy) for the purposes of advertising, soliciting business, or in any way communicating about Firm business is subject to the following requirements. "Social media" is a form of interactive online communication in which users can generate and share content through text, images, audio, and/or video. Social media is a dynamic and constantly evolving technology, therefore the definition is meant to be illustrative and not exhaustive.

## Definitions

**Static sites or postings:** Information that is posted and does not change unless changed by the person or entity that posted the information. Static postings are considered "advertising" under regulatory rules and require **prior approval**.

**Interactive sites or postings:** Sites where there are spontaneous communications between parties. Considered "public appearances" by regulators requiring post-use approval.

## Permitted Media

The use of specific media requires the approval of Compliance **prior to** access for business purposes. The proposed media must be able to provide access for monitoring and the ability to provide records of an RR's participation and communications. Regulatory rules require supervision and maintaining of records of use for business purposes.

## Permitted Participation

Compliance must approve RRs **prior to** their participating in social media web sites. Approval will depend on the type of participation requested; Infinity's ability to monitor participation and retain records of participation; and factors considered regarding the RR including demonstrable ability to comply with rules, regulations and Firm policy (this will include consideration of an RR's past disciplinary history and current compliance with firm policies and procedures).

## Training

RRs are not permitted to participate in social media web sites until they complete the required training to ensure they understand the requirements and allowable use of media.

## Certification

Every RR approved to participate in media will be required to sign a certification of his or her understanding of the requirements prior to participation. Certification will be required annually for continued participation in social media.

### **Accuracy And Truthfulness**

All electronic communications by Infinity and its RRs must be accurate and truthful. They must not include misleading statements or claims and language must be fair and balanced.

### **Interactive Media**

Where RRs are permitted to participate in interactive media, a record must be retained of all interactive "conversations" as part of Infinity's records. These records will be reviewed by the designated supervisor in accordance with firm policy on review of electronic communications (either on a sampling basis or review of all communications).

### **Static Postings**

Where an RR requests to make a static posting to media (such as a biography), a copy of the proposed posting must be provided to Compliance **prior to** posting. If approved, Compliance must then be notified when the posting is "launched." Any proposed changes to a static posting must be provided to Compliance for review and approval prior to posting. A record will be retained of postings and subsequent changes.

### **Use of Personal Communication Devices**

RRs may not use personal communication devices (Blackberrys, iPhones, etc.) unless they have been issued by the Firm for business purposes. The use of personal devices is strictly prohibited.

### **Third Party Sites**

Customers or other third parties may be permitted to post to Infinity's site or other sites where RRs participate for business purposes. Infinity is not required to supervise those postings unless Infinity or an employee was involved in the preparation of the content or explicitly or implicitly endorses or approves the content. **RRs are prohibited from participating in or endorsing third-party postings.** Infinity's site includes a disclaimer that third party posts do not reflect the views of Infinity and have not been reviewed by Infinity for completeness or accuracy.

Links to third party sites are prohibited if Infinity or an employee knows or has reason to know it contains false or misleading content. Additionally, if any third party site has legacy content produced by any RR, Compliance will contact such third party site and request the content to be removed if the content doesn't comply with Infinity policies. RRs are responsible for informing Compliance if they know or have a reason to know if there is any content, that they have produced, on third party sites that violate Infinity's policies.

### **Prohibition Against Recommendations**

RRs are prohibited from making specific recommendations in media. Postings must be only general in nature regarding the RR and Infinity's services.

## Templates

Compliance has available pre-approved templates for information that may be posted on media.

## Complaints

Infinity will treat any complaints posted by a customer of Infinity on social media as a complaint subject to complaint procedures in this chapter.

## Legal Liability

An employee is legally liable for anything he or she writes or presents online or through social media communications. Employees may be disciplined by Infinity for commentary, content, or images that violate this policy including those that are defamatory, pornographic, proprietary, harassing, libelous, or that can create a hostile work environment. Employees can also be sued by co-workers, competitors, and any individual or company for posted comments/views.

## Firm Web Site

[FINRA Rule 2210; FINRA Notice to Members 07-02; SIPC By-Laws Article 11 Section 4; SEC Guidance for public companies on the use of company web sites: <http://www.sec.gov/rules/interp/2008/34-58288.pdf>]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Infinity's web site</li><li>• Requests to include information</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Approvals - as required</li><li>• Periodic (at least quarterly) review of the web site</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Review proposed materials to be included on the web site and approve or disapprove<ul style="list-style-type: none"><li>○ Determine whether filing with FINRA is required and make necessary filings</li></ul></li><li>• Review the web site to confirm that only previously approved materials are included</li><li>• If SIPC is referenced on the site, provide a hyperlink to the SIPC web site</li><li>• If FINRA is referenced on the site, provide a hyperlink to FINRA's home page</li><li>• Contact supervisors of departments that have included unapproved materials and take corrective action</li><li>• Confirm hyperlinks to BrokerCheck are included</li><li>• Corrective action may include changing or deleting the material and/or reminding the supervisor of the pre-use approval requirement</li></ul>

<b>Record</b>	<ul style="list-style-type: none"> <li>• Approved materials and (if applicable) copies of FINRA filings</li> <li>• Notations regarding periodic reviews and corrective action taken</li> <li>• Record of the appearance of the site over the past 3 years (including all changes)</li> </ul>
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Infinity has established a web site. Any information to be included on the web site requires the **prior approval** of Compliance.

If Infinity's site refers to its membership with FINRA, a hyperlink to the FINRA internet home page will be included. If SIPC membership is included on the site, a hyperlink to SIPC's web site will be shown.

The site also includes the required hyperlink to FINRA's BrokerCheck on the initial web page for viewing by retail investors and on any web page that includes a profile of one or more RRs who deal with retail investors. The hyperlink is not required for firms that do not conduct business with retail investors or to a directory or list of RRs limited to names and contact information.

## RR Web Sites

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Prototype web site formats</li> <li>• Proposals for sites</li> <li>• Changes to sites</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required - approval</li> <li>• Quarterly - review sites</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Develop and update prototype sites</li> <li>• Review proposed sites submitted by RRs</li> <li>• Revise as needed and approve/disapprove proposals</li> <li>• Review sites for compliance with Firm requirements</li> <li>• Take corrective action if necessary which may include requiring revisions; limiting RRs whose sites fail to comply with pre-established requirements</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Proposals including revisions, approval, disapproval</li> <li>• Record of monthly review of approved sites and actions taken</li> <li>• Record of the appearance of each RR web site over the past 3 years (including all changes)</li> </ul>

RRs are permitted to establish web sites under the following conditions:

- RRs must use formats pre-approved by the Firm.
- RRs must obtain Compliance approval to publish a web site.
- Additions or changes to the site must receive the prior approval of Compliance.
- If FINRA or SIPC membership is included, the site will show hyperlinks to FINRA's internet home page and SIPC's web site.

## Data Feeds

[FINRA Regulatory Notice 11-39]

Any third party data feeds tied to Infinity's or an RR's web site must be reviewed by Compliance prior to use. Reviews will identify the proficiency of the data provider to feed accurate and timely information. Compliance will regularly review the data feeds for red flags indicating the data may not be accurate, and will take corrective action as necessary.

Compliance will advise the requestor whether the data provider is approved and will retain records of its review.

## Hyperlinks

[FINRA Interpretation Letter from Thomas M. Selman to the Investment Company Institute, November 11, 1997]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Proposed web site or other material that includes hyperlinks</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Confirm hyperlink conforms to requirements for inclusion</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Web site or other material maintained in review file</li></ul>

When hyperlinks to third-party sites are included in Infinity communications or on an Infinity web site, it is important the hyperlink meets the following conditions to avoid liability for the content or regulatory filing of information included in the third-party site:

- A hyperlink may not be established to a site known (or there is reason to know) to contain false or misleading information.
- The hyperlink must be continuously available to investors who visit the site.
- Infinity or its employees cannot have discretion to alter information on the third-party site.
- Investors have access to the hyperlinked site whether or not it contains material favorable to Infinity.
- The linked site can be updated or changed by the third party, following which investors would still be able to use the hyperlink.

## 6 FINANCIAL AND OPERATIONS PROCEDURES

This chapter provides key policies and procedures affecting the financial and operations areas of Infinity. Detailed operations procedures are included in a separate operations manual maintained by Infinity or, if Infinity is an introducing firm, the clearing firm's operations manual.

Infinity has designated a Financial and Operations Principal who is responsible for general oversight of financial and operations areas of Infinity. Supervisors of specific financial or operations areas are responsible for day-to-day procedures.



## 6.1 Qualification Of Operations Personnel

[FINRA Rule 1230(b)(6)(A) and 1250; FINRA Regulatory Notice 11-33]

Certain operations personnel are considered "covered persons" under FINRA Rule 1230 because of their responsibilities for "covered functions" as defined in the Rule. These personnel are required to qualify as "Operations Professionals" by completing the Series 99 qualification examination or by qualifying for an exception because of the person's other registration qualifications. In general the requirements apply to senior management responsible for covered functions; persons designated by senior management to supervise, manage, or approve or authorize work relating to the covered functions; and persons with authority or discretion materially to commit Infinity's capital relating to covered functions. The Rule should be consulted for definitions of covered persons and covered functions.

In addition, covered persons are required to participate in Regulatory Element and Firm Element continuing education. Refer to the chapter *TRAINING AND EDUCATION* for procedures regarding continuing education.

Infinity has named a Principal Financial Officer and Principal Operations Officer (unless an exception applies). Refer to the section *Principal Financial Officer And Principal Operations Officer* in the chapter *EMPLOYMENT, REGISTRATION AND LICENSING* for detailed information about these designations.

The Principal Operations Officer is responsible for confirming that covered persons complete the necessary requirements for registration and continuing education and to restrict an employee's activities if either requirement is not completed within required timeframes.

## 6.2 Books And Records

[SEC Securities Exchange Act of 1934 Rule 17a-3 and Rule 17a-4; FINRA Rule 4510, 4511 and 4512; FINRA New And Amended Recordkeeping Checklist: <http://www.finra.org/industry/books-and-records>; MSRB Rule G-8 and G-9]

### Introduction

SEC Rule 17a-3 identifies the types of books and records to be retained by Infinity and 17a-4 identifies the period these records are to be retained. SROs also specify certain record requirements. Designated supervisors are responsible for retaining required records for areas under their supervision. The FINOP is responsible for establishing and maintaining Infinity's record retention schedule.

For accounts and other business introduced to a clearing firm, the clearing firm is responsible for retaining certain records as outlined in the clearing agreement.

**See Schedule 7 for the Recordkeeping Checklist.**

### Electronic Storage Of Records

[SEC Securities Exchange Act of 1934 Rule 17a-4(f); FINRA Regulatory Notice 18-31]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Records required to be retained under SEC and SRO rules</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Ongoing recordkeeping, as required by rule</li></ul>

	<ul style="list-style-type: none"> <li>• Audit system - ongoing and periodic</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Develop internal system or choose a vendor or other third party that meets rule requirements</li> <li>• Contract with an independent third party download partner, if appropriate, in accordance with requirements including deletion or discarding of records</li> <li>• Notify DEA when initiating electronic storage and provide third party representation</li> <li>• Require any third party provider to file a written undertaking with the SEC that the records are the property of Infinity and will be surrendered promptly upon request of Infinity and the third party will permit examination of records retained</li> <li>• Provide revised notifications to DEA if necessary</li> <li>• Obtain senior management approval of system configuration to store records and subsequent changes</li> <li>• Issue passwords to authorized personnel and disable passwords for terminated employees or those no longer requiring access</li> <li>• Take corrective action internally or with outside vendor if anomalies are detected</li> <li>• Establish audit system for accountability regarding the input of records into the storage system</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Contracts with vendors or other third parties</li> <li>• Notification(s) to DEA</li> <li>• Written approval from senior management regarding system configuration</li> <li>• Record of corrective action taken, if necessary, when anomalies are detected</li> <li>• Record of passwords issued and disabled</li> <li>• Audit system and anomalies detected including corrective action taken</li> </ul>

Infinity utilizes electronic storage media and/or micrographic media for certain records.

### **Notification To Examining Authority**

[SEC Securities Exchange Act of 1934 Rule 17a-4(f)(2)(i)]

Infinity has provided the required notification to its designated examining authority (DEA) prior to employing electronic storage media. The independent third party with download access is also required to submit an undertaking indicating it agrees to promptly furnish information to regulators.

### **Conditions**

[SEC Securities Exchange Act of 1934 Rule 17a-4(f)(2)(ii)]

As required by rule, Infinity's electronic storage media meets the following conditions:

- non-rewritable, non-erasable format
- automatic verification of the quality and accuracy of the process
- serialize original (and duplicate units) and time-date for required retention period
- capacity to readily download indexes and records

### **Ability To Retrieve And Reproduce**

[SEC Securities Exchange Act of 1934 Rule 17a-4(f)(3)]

Infinity's electronic or micrographic storage will also meet the following requirements:

- facilities for immediate, easily readable production of records
- ability to provide facsimile enlargements
- duplicate copies stored separately from the originals
- organized and indexed accurately
- current information necessary to access records and indexes
- independent third party who has access and the ability to download records

### **Audit System**

The third party that provides electronic storage services has an audit system to test, on an ongoing basis, the integrity of the Firm's records retained in electronic storage media. Anomalies reported by the third party will be reviewed by the FINOP or another designated person on the FINOP's behalf to ensure corrective action has been taken and records are retained as required.

### **Confidentiality Of Electronic Records**

Infinity (in conjunction with any vendor) protects against unauthorized access to or use of customer records by use of a password system. Passwords will be changed periodically and disabled for terminated employees or employees no longer requiring access.

### **Availability Of Records In Offices**

Required records under Rules 17a-3 and 17a-4 are available in office locations. The FINOP is responsible for establishing a method for producing required records at office locations upon the request of a regulator. The section *Office Records* in the chapter *OFFICES* discusses this subject in more detail.

## **6.3 Calculation And Reporting Of Net Capital**

[SEC Securities Exchange Act of 1934 Rule 15c3-1, Rule 17a-5 and Rule 17a-11; FINRA Rule 4110, 4120, 4130, 4140, 4521 and 4524]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Financial and transaction records</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Ongoing</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Maintain ongoing calculation of Infinity's net capital</li><li>• Report net capital as required</li><li>• Report net capital deficiencies as required, when necessary</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Records retained by the FINOP include:</li></ul>

	<ul style="list-style-type: none"> <li>○ FOCUS reports</li> <li>○ Other net capital calculations</li> </ul>
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The calculation and monitoring of net capital is the responsibility of the FINOP who also is responsible for ensuring the accurate and timely reporting of periodic net capital reports. Some of the FINOP's specific responsibilities include:

- Review and filing of Infinity's financial reports and periodic review of accounting records
- Periodic consideration of whether Infinity's minimum net capital requirements have changed because of changes in Infinity's business
- Supervising additions to, and withdrawals from, the equity capital of Infinity
- Reporting borrowings and subordinated loans for capital purposes
- Establishing procedures for retention of required financial books and records

Infinity has engaged SD Daniels ("SDD") to prepare financial statements and monitor compliance with net capital. SDD reviews Infinity's net capital requirements during its month end process. Sufficient capital is maintained in order to not necessitate daily monitoring of net capital. During the month end process, SDD shall send net capital calculations and monthly and quarterly FOCUS Reports to the FINOP by email. The FINOP shall review the documents. The FINOP shall respond to the email evidencing the FINOP's approval or denial of the FOCUS Reports and calculation of net capital. If Infinity becomes deficient in its net capital position, the FINOP is responsible for making the necessary reports to regulators and communicating any restrictions in business that may result.

## 6.4 Reports

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• FINOP</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Data regarding capital, sending of statements, compliance with protection of customer assets</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Monthly: Risk reports (if applicable)</li> <li>• Quarterly: Custody Report</li> <li>• Annually: Audit Report; Exemption or Compliance Report (whichever applies)</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• File required reports</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Records of reports and when filed</li> </ul>

Infinity is obligated to file certain reports with regulators.

### Annual Audit Report

[Exchange Act Rule 17a-5(d); FINRA Regulatory Notice 16-05 and 11-46]

The FINOP is responsible for filing of Infinity's annual audited financial statements with regulators, not more than 60 days after the date of the statements, including the oath and affirmation page. Filing is made electronically with FINRA and the SEC. The FINOP will retain records of the filings including the filings themselves, names of regulators, and date of filing.

Reports will be as of the same fixed or determinable date each year, unless a change is approved in writing by FINRA. A copy of FINRA's written approval will be sent to Infinity's SEC regional office.

## Risk Reports

If Infinity computes capital charges under 15c3-1e (limitations on the withdrawal of equity capital) it is required to file additional reports with the SEC. Reports are required within 17 business days after the end of each month that is not a quarter and within 17 business days after the end of each quarter. Refer to Rule 17a-5(a)(6) for details of what must be reported.

## Custody Report And Requirements

[SEC Securities Exchange Act of 1934 Section 17(b); FINRA web page: <https://www.finra.org/media/document/8365>]

Infinity is required to file a quarterly Form Custody report that contains information about whether and how Infinity maintains custody of customer assets.

Infinity is also required to allow staff of the SEC and SROs to review working papers of Infinity's PCAOB-registered independent public accounting firm if requested in writing as part of an examination and allow regulators to discuss the findings of Infinity's accounting firm with the accounting firm's representatives. The FINOP is responsible for facilitating regulators' access.

## Exemption Report

[SEC Securities Exchange Act of 1934 Rule 17a-5]

Infinity will annually file with the SEC the Exemption Report (within 60 calendar days after the fiscal year-end as part of Infinity's annual compliance audit).

## 6.5 Reconciliations And Bank Records

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Bank records</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Monthly</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Reconcile bank accounts against Infinity's records</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Bank statements and other bank records, retained by FINOP</li></ul>

The FINOP is responsible for establishing procedures for the periodic reconciliation of bank statements, clearing and depository accounts, and other accounting and business records. Records of bank accounts and other reconciled accounts will be maintained in accordance with regulatory requirements.

## 6.6 Designation Of Accountant

[SEC Securities Exchange Act of 1934 Rule 17a-5(f)]

The FINOP is responsible for filing notice of the designation of its accountant by December 10 of each year with FINRA, the SEC's principal office, and Infinity's SEC regional office. If the agreement with the accountant is continuous providing for successive annual audits, notice is not required annually. The following additional requirements apply:

- An agreement must exist with an independent public accountant by December 1 covering a contractual commitment to conduct Infinity's annual audit during the following calendar year.
- If the agreement is for a single audit or if the continuing agreement is terminated or amended, a filing is required by December 10.
- If Infinity is exempt from filing an annual audited financial statement, notice must still be filed indicating the date as of which an unaudited report will be prepared.
- Notice must be filed with FINRA and the two SEC offices within 15 days after:
  - Infinity notifies the accountant that its services will be terminated;
  - the accountant notifies Infinity it will not continue its engagement; or
  - a new accountant has been engaged without notice to or by Infinity's current accountant.

The FINOP is responsible for maintaining a record of filing the required notices.

## 6.7 General Ledger And Suspense Accounts

[FINRA Rule 4523]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Ledger and suspense accounts</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Ongoing - oversee entries</li><li>• Monthly or more frequently - review of accounts</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Oversee entries</li><li>• Determine accounts are current and accurate</li><li>• Review accounts to determine they are accurate and any aged or unresolved are promptly identified for research and possible transfer to suspense account(s)</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• General and suspense accounts</li><li>• Resolution of aged or unresolved items</li><li>• Record of reviews including reviewers initials, date reviewed, notes of action taken, if any</li></ul>

The designated supervisor (or supervisors, if accounts are assigned to multiple persons) is responsible for oversight of general ledger and suspense accounts. Suspense accounts must be clearly identified as such and record money charges or credits and receipts or deliveries of securities whose ultimate disposition is pending determination. The record must include all information known for each item recorded.

## 6.8 Financial Reporting

[SEC Securities Exchange Act of 1934 Rule 17a-5 and Rule 17a-11; SEC FAQs regarding financial responsibility rules: <http://www.sec.gov/divisions/marketreg/amendments-to-broker-dealer-financial-responsibility-rule-faq.htm>; FINRA Rule 4520 Series]

The FINOP is responsible for financial reporting and payment of fees and assessments and maintaining records of reporting and payment. Some of the requirements include:

- Filing net capital reports
- Reporting net capital deficiencies
- Reporting notice of books and records deficiencies [17a-11(d)]
- Preparation and filing of unaudited financial statements
- Engaging outside accountants to conduct Infinity's annual audit and notifying regulators when there is a change of accountant
- Filing audited financial statements with regulators and providing to customers, as required
- Providing monthly statements of accounts to customers
- Notifying regulators of any change in Infinity's fiscal year
- Payment of assessments and fees to regulators

### Preparation Of Financial Reports

The FINOP is responsible for preparing and reviewing financial reports. While the FINOP may delegate responsibility for gathering information and preparing the reports, the FINOP is ultimately responsible for reporting accurate information.

Preparation of reports will include the following procedures:

- Gathering information through Infinity's records and systems to compile financial information.
- Working with outside auditors, when appropriate.
- Drafting reports.
- Determining the accuracy of calculations and information included in the report.
- Providing information to senior management and others, as appropriate.
- Sending reports to designated regulators.
- Providing information for publication to customers, where required by rule.

The FINOP will maintain files including calculations and other information utilized for preparing financial reports and records of internal, regulatory, and other external distribution of reports, as required.

### Financial Statements

[SEC Securities Exchange Act of 1934 Rule 17a-5(c)]

The FINOP will determine Infinity's obligation to provide financial statements to customers. This section discusses exemptions and requirements. Rule 17a-5 should be consulted for details regarding the requirements.

Broker-dealers are required to provide financial statements to their customers unless they qualify for an exemption, which includes: (1) an introducing broker or dealer; (2) a BD that promptly forwards subscriptions for securities to the issuer, underwriter, or other distributor and does not hold funds or securities; (3) a BD dealing with subscriptions of mutual funds, sale/redemption of savings and loan associations, or offering credit for loans to purchase insurance related to the sale of mutual funds; or (4) a BD that conducts business that is exempt under Rule 17a-3(a). These exemptions have further conditions and Rule 17a-5 should be consulted.

For firms that do not qualify for an exemption, audited statements must be provided to customers within 105 days after the end of the BD's fiscal year or within 30 days of that date if sent with the next mailing of quarterly customer statements. Unaudited statements dated 6 months from the date of the audited statements must be provided to customers within 65 days after the date of the unaudited statement or 70 days after that time if sent with the next mailing of customer quarterly statements.

Statements are not required to be sent if posted on the BD's web site not later than 90 days after the date of audited statements or 75 days after the date of unaudited statements. Statements must be accessible by hyperlinks in either textual or button format, separate prominent links that are clearly visible, and are placed in **each** of the following locations:

- On the BD's website home page; and
- On each page where a customer can enter or log in to the website; and
- If the home page website is for two or more BDs, on the home page of the website of each BD.

In addition, the BD must maintain a toll-free number that customers may call to request statements and must send statements promptly after request at no cost to the customer. The BD also must not have been required, during the year prior to the date of the statement, to give notice and transmit a report to the SEC under 17a-11(e).

## Disclosure Of Financial Condition

[FINRA Rule 2261]

Upon request, information about Infinity's financial condition in its most recent balance sheet will be made available to customers and to any member firm that is party to an open transaction or has on deposit cash or securities with Infinity. The information may be provided in paper or electronic form (if for a customer, the customer must consent to electronic delivery).

## Notification Rule ("Early Warning Rule")

[SEC Securities Exchange Act of 1934 Rule 17a-11]

The FINOP is responsible for notifying (within 24 hours) the SEC and other securities regulators upon the occurrence of certain events (insolvency, decrease of net capital below required minimum, or Infinity's repurchase and securities lending activities exceed 25 times its tentative net capital). As an alternative to notification regarding repurchase and securities lending activities, Infinity may report monthly as to its stock loan and repurchase activities to its DEA. The FINOP is responsible for maintaining records of any early warning notifications (or monthly reports).

## 6.9 Fees And Service Charges

[FINRA Rule 2122; NASD Notice to Members 92-11]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Schedule of fees and charges</li> <li>• Information regarding changes</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Include notification to new customers when accounts are opened</li> </ul>



	<ul style="list-style-type: none"> <li>• Arrange for written notification to customers</li> <li>• Update website as needed</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Notice provided to new customers</li> <li>• Copy of written notification sent to customers including date sent</li> <li>• Records of website changes and information posted</li> </ul>

Broker-dealers are obligated to disclose fees and service charges to customers. In general, fees and charges are required to be reasonable and not unfairly discriminatory between customers.

If a fee or commission will be charged to redeem a mutual fund and the fund could be sold through the fund company itself without cost, the customer should be notified that the fund could be redeemed without cost by liquidating directly through the mutual fund.

## Notification Of Customers

Customers will be notified of fees and changes to fees and service charges as follows:

- At the time an account is opened.
- When there is an increase in fees, at least 30 days prior to the increase to the last known address of every customer whose account is subject to the fees.
- If notification is by a method other than a letter (*i.e.*, statement stuffers, newsletters, *etc.*) notification of a fee increase will be clear and conspicuous and in plain English.
- Where a website is used to communicate or interact with customers, all fees will be posted (and kept current) including changes and the projected date of changes.
- For extensive fee changes, a letter may be sent to customers referring them to a website where complete information may be obtained.

## 6.10 Fidelity Bonding

[FINRA Rule 4360]

As required, Infinity is a member of SIPC and maintains required blanket fidelity bonding coverage based on Infinity's net capital requirement. The FINOP is responsible for obtaining and maintaining fidelity bonding as required by rule and verifying the adequacy of coverage and making necessary adjustments on at least an annual basis on the anniversary date of the issuance of the fidelity bond.

## 6.11 Cash Deposits and Equivalents Not Accepted

Infinity does not accept cash or currency from customers. If a customer attempts to deposit cash or currency, the employee receiving the deposit is responsible for refusing the deposit and advising the customer Infinity will only accept checks.

Infinity also does not accept deposits of cash equivalents such as travelers checks, money orders, or cashiers checks. Customers attempting to deposit cash equivalents should be advised to instead provide a personal check for deposit to their account.

In the event cash is inadvertently accepted, the following steps must be followed:

- Immediately provide the cash to the cashier or other authorized Operations personnel.
- The cashier or Operations is responsible for counting the cash (2 people must be present to verify the amount) and entering the amount into Infinity's customer account system for credit to the customer's account.
- Immediately thereafter the cash must be walked to Infinity's bank for credit to the account maintained for the benefit of customers or, if no account exists, obtain a cashier's check or money order made payable to Infinity (or its clearing firm if applicable) and then deposit or send the check/money order to the bank account for customers the same day.
- The Operations Manager is responsible for filing Form 104 (Currency Transaction Report) with the IRS by the 15<sup>th</sup> calendar day after receipt for cash in excess of \$10,000 for one person on any one day.
- The designated supervisor of Operations is responsible for retaining a file of forms filed with the IRS.

## 6.12 Chief Financial Officer

The Chief Financial Officer (or his/her designee) is responsible for the following on behalf of Infinity:

- Establishing accounting procedures in accordance with generally accepted accounting principles
- Ensuring the accurate and timely filing of Infinity financial reports with regulators and others where financial reports are required
- Establishing bank accounts and designating employees authorized to sign checks and transfer funds on behalf of Infinity
- Interacting with Infinity's public accounting firm and coordinating the providing of information requested during Infinity's annual audit
- Follow up regarding exceptions or recommendations referred by the outside public accounting firm
- Establishing and administering a budget to conduct the company's activities

## 6.13 Cybersecurity

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisors</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Internal and external systems, electronic devices, programs, <i>etc.</i></li> <li>• Customer and Firm data</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Annual: Identify risks</li> <li>• As required: Develop cyber incident response program</li> <li>• Periodically: conduct risk assessments</li> <li>• As required: review third party cybersecurity risks</li> <li>• Ongoing: notify business managers of risks in their business units and their responsibilities relating to mitigating risk</li> <li>• Ongoing: Assign responsible employees</li> <li>• Ongoing: review integrity of systems, monitoring of breaches</li> <li>• Ongoing: Control of electronic devices/systems (passwords, retrieving/disabling devices held by terminated employees)</li> <li>• Annual: review of internal controls and procedures</li> <li>• Annual: provide report to senior management</li> <li>• Periodic: Train personnel on cybersecurity policies</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Identify risks as outlined in this section</li> <li>• Develop a risk assessment schedule and conduct reviews</li> </ul>

	<ul style="list-style-type: none"> <li>• Review and approve third party vendors that will have access to Infinity's systems or otherwise may represent a cybersecurity risk; review their cybersecurity policies; review adequacy of firewalls and other securities systems and ability to detect breaches; monitor activity</li> <li>• Assign employees responsible for cybersecurity</li> <li>• Oversee monitoring of Infinity's networks and devices</li> <li>• Maintain a "whitelist" of trusted software to be used on Firm systems</li> <li>• Test systems regularly and correct anomalies</li> <li>• Develop and update, as needed, a cybersecurity incident response program</li> <li>• Coordinate responses to intrusions and recovery</li> <li>• Prepare and deliver a report to senior management about Infinity's cybersecurity risks and actions taken</li> <li>• When necessary, confer with outside counsel, consultants, other experts</li> <li>• Develop and conduct employee training which may include meetings (electronic or otherwise) and policy reminders, to: <ul style="list-style-type: none"> <li>○ RRs</li> <li>○ Persons responsible for firm systems, customer and firm data</li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Summary of annual identification of risk</li> <li>• Schedule of risk assessments and findings</li> <li>• List of employees responsible</li> <li>• Control of Firm systems and devices including passwords, disabling devices, etc.</li> <li>• Reviews of third party vendors</li> <li>• Cybersecurity incident response program including reviews and updates of program</li> <li>• Review of third-party vendors</li> <li>• List of approved software to be used with Firm systems and devices</li> <li>• Records of intrusions and responses including reports to regulators, notification of customers, actions taken</li> <li>• Annual report to senior management</li> <li>• Business unit managers' responses regarding deficiencies and corrective action</li> <li>• Records of training including date of training, persons trained, subjects included</li> </ul>

Infinity's business is dependent, to a great extent, on digital technology to process its business and interface with customers. This section summarizes Infinity's program for addressing cybersecurity risks and references other policies and procedures that deal with cybersecurity issues. These procedures are modeled after the NIST Framework for Improving Critical Infrastructure of Cybersecurity and are guidance for Infinity's cybersecurity oversight. Also refer to the following section *Protection Of Customer Information And Records*.

Some of these procedures will be conducted by Infinity's clearing firm, if applicable, and will be subject to the section on third party vendors. **This section provides general requirements for addressing cybersecurity and does not address a program specifically tailored to the Firm's business and customers. Developing specific procedures is the responsibility of the chief information officer or the designated supervisor with comparable responsibilities.**

### **Assignment Of Responsibility**

Cybersecurity oversight is the responsibility of the following:

- Outside cybersecurity specialist

The selection of the specialist will be done in accordance with the provisions of Chapter 6:39: Outsourcing.

## **Identification Of Risks**

Risks in Infinity's systems will be identified, reviewed annually, and updated when necessary, including the following.

- Identification of mission critical systems (email, data storage, *etc.*)
- Initial inventory of physical devices and systems, software applications and platforms (*updated as necessary, particularly where new systems or devices are added*)
- Mapping of network resources, connections, and data flows (including locations where customer data is housed)
- Cataloguing of connections to Infinity's network from external sources
- Prioritization of resources (hardware, data, and software) for protection based on their sensitivity and business value
- Review of logging capabilities and practices for adequacy, appropriate retention, and secure maintenance
- Identification of third parties with access to Infinity's systems and data

## **Risk Assessments**

Risk assessments will be conducted periodically.

- Frequency is determined by the designated supervisor who will maintain a schedule and update as necessary.
- Assessments will review to identify cybersecurity threats, vulnerabilities, and potential business consequences.
- Assessments will also review physical security threats and vulnerabilities bearing on cybersecurity (access to systems or equipment by unauthorized persons, *etc.*).
- Moderate or high risks identified in prior reviews are followed up to determine whether corrective action has been taken.
- Findings from the risk assessment will be included in a report provided to senior management. Reports will also be provided to business unit managers regarding risks in their business areas. Risks from prior reports where corrective action has not been taken will be included in reports to senior management and business unit managers. Business unit managers are required to respond regarding corrective action taken, which is also forwarded to senior management.

## **Third Party Vendors**

Third party vendors that will have access to Infinity's systems or devices will be reviewed, prior to engagement and periodically, to:

- Evaluate the vendor's cybersecurity safeguards prior to approving engagement with particular review of firewalls and other security systems
- Include cybersecurity assurances in Infinity's contract with the third party
- Notify RRs and supervisors of approved third party vendors and limitation of use to only approved vendors
- Periodically (at least annually) review security systems including cloud-based storage and protection of data

## Control Of Access

Authorized personnel are issued passwords to access systems and records; these passwords are periodically changed. Passwords are disabled when an employee terminates or is no longer an authorized person.

## Encryption Of Data

Data regarding private customer information transmitted to laptops or remote devices will be encrypted. Such data stored on laptops and other remote devices will also be encrypted.

## Retirement Of Equipment Containing Data

Computers or other data-retaining equipment that will be disposed of will be subject to clearing of hard drives and other repositories of data prior to disposal. If a computer will be re-assigned to someone who is not authorized to view data stored on that computer, the hard drive will be cleared prior to reassignment. Flash drives and other portable data devices that will no longer be used or will be reassigned will be destroyed or cleared of all data prior to disposal or re-use.

## Detection Of Unauthorized Activity

Procedures to detect unauthorized activity on networks and devices include the following:

- Employees are assigned responsibilities for detecting and reporting suspected unauthorized activity. The cybersecurity designated officer is responsible for identifying those responsibilities, who is responsible, and communicating to the designated employees.
- Baseline information regarding expected events on Infinity's network is maintained along with aggregating and correlating event data from multiple sources.
- Written incident alert thresholds are established and communicated to appropriate employees.
- Infinity's network and physical environment are monitored to detect potential cybersecurity events.
- Software is used to detect malicious code on Infinity's networks and mobile devices and to prevent loss of data.
- Activity of third party service providers with access to Infinity's networks is monitored.
- Monitoring is conducted for unauthorized users, devices, connections and software on Infinity's networks.
- Remote requests for transfer of customer assets are evaluated to identify anomalous and potentially fraudulent requests.
- Penetration tests and vulnerability scans are conducted periodically.

## Cybersecurity Incident Response Program

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Evidence of intrusion, system anomalies</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>

<b>Action</b>	<ul style="list-style-type: none"> <li>• Coordinate response and take actions included in this section</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Records of intrusions and corrective action taken</li> <li>• Notices to regulators, customers as required</li> </ul>

If an intrusion is identified, the designated cybersecurity supervisor will coordinate Infinity's response which may include:

- Limiting access to affected systems or devices
- Diverting computer resources to a safe system
- Engaging a third party to process data until Infinity's system is safe
- Engaging a third party to assess the intrusion
- Assessing data loss
- Notifying regulators and customers
- Evaluating potential financial losses
- Taking corrective action to prevent a future intrusion

## **Recovery**

Infinity has procedures for data backup and recovery of data. Refer to the *Business Continuity Plan* for further information.

## **Reports To Senior Management**

On at least an annual basis, the designated cybersecurity supervisor will provide a report to designated senior management regarding risk assessments and unauthorized activities or intrusions and corrective action taken. This may be provided in conjunction with the annual compliance report to the CEO.

## **Employee Training**

Employees will receive training/information regarding Infinity's security policy at the time of hire and on an ongoing basis. Training will include:

- Employees' obligation to maintain confidentiality of customer information
- Use of encryption for laptops and other remote devices when retrieving personally identifiable customer information
- Precautions/prohibitions against using Wi-Fi where customer information could be compromised
- Use of passwords, periodic changing of passwords
- Avoiding display of confidential information on remote devices where the information could be compromised
- Use of third-party vendors (including cloud-based storage) limited to those approved by Infinity

## **6.14 Extension Of Credit**

Infinity has established procedures for overseeing compliance with Regulation T or, for business introduced to a clearing firm, the clearing firm is responsible for Reg T compliance and overseeing the extension of credit. This section includes additional procedures used by Infinity to identify and address risk relating to the extension of credit.

## **6.15 Business Continuity Plan**

Infinity has developed a Business Continuity Plan to provide procedures for response and recovery in the event of a significant business disruption.

Please see the firm's Business Continuity Plan under separate cover.

## **6.16 Customer Payments For Purchases**

When an order to purchase securities is accepted from a customer, payment from the customer's bank account or other depository must be authorized in writing by the customer. Payment is not acceptable based only on the customer's oral authorization to withdraw funds. Examples of acceptable payment include:

- a check signed by the customer
- written authorization by the customer to draft funds from the customer's bank checking or savings account

Questions regarding proper payments should be referred to Operations or Compliance.

### **6.16.1 Checks Payable To Clearing Firm**

All checks provided by customers must be made payable to Infinity's clearing firm only. Questions regarding check requirements should be referred to Operations.

### **6.16.2 Guaranteed Accounts**

A customer (the "guarantor") may provide a written guarantee to cover the margin calls in another account (the "guaranteed" account) using the equity in the guarantor's account. Written agreements for such guarantees must be provided to Operations.

RRs are prohibited from guaranteeing payment in another customer's account (unless the other customer is an employee-related account and approval has been obtained from Operations).

## **6.17 Transmittals Of Customer Funds And Securities**

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Transfers of customer funds or securities</li> <li>• LOAs</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Conduct training of operations personnel regarding transmittal requirements and controls</li> <li>• Designate authorized personnel who issue checks (if applicable)</li> <li>• Designate authorized personnel who issue instructions to a clearing firm (if applicable)</li> <li>• Update designations as necessary</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Records of training including who attended, date, training subjects</li> <li>• Designated authorized persons</li> <li>• Records of transmittals, LOAs, other verifications included in procedures</li> </ul>

This section describes Infinity's procedures for transmitting funds or securities from customer accounts. The following summarizes requirements:

- All transfers require written letters of authorization (LOAs) when funds and/or securities will be transmitted to a third party. LOAs may be received by mail, fax, delivery, or other means including electronic transmission that provides for written authorization with the customer's verifiable signature.
- Where transfers to a third party are ongoing, a "standing" LOA is permitted.
- LOAs will be forwarded to the clearing firm.
- Copies of LOAs are retained in the Firm's records.
- When funds or securities are sent to a third party, notification will be sent to the customer confirming the transfer.
- Suspicious or questionable activity must be brought to the attention of the AML Compliance Officer who is responsible for determining whether a Suspicious Activity Report must be filed.

### 6.17.1 Checking Account Safeguards

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• N/A</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Ongoing</li> <li>• Annual - review of supervisory controls</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Train personnel regarding required procedures</li> <li>• Maintain list of authorized check signers and request additional signers as necessary</li> <li>• Review checking account safeguards as part of the annual supervisory controls review (Compliance or other reviewer)</li> </ul>



<b>Record</b>	<ul style="list-style-type: none"> <li>Records of checks issued, including approvals, are retained in files in the Operations area and/or records may be retained by a clearing firm</li> </ul>
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The following procedures must be followed to safeguard the use of checks.

- Blank checks and check registers must be kept in a secured operations area or locked location with access limited only to authorized personnel.
- At the end of the business day, all blank checks must be locked in a safe or similarly secured area.
- If using a clearing firm's account:
  - Approval must be obtained from the clearing firm prior to writing a check, and approval noted in records retained for checks issued.
  - Transmit to the clearing firm, by the end of the business day, information regarding checks issued that day
- If a clearing firm issues all checks, promptly transmit the customer's request for issuance of a check or sending of securities
- Checks must be used in numerical sequence.
- Infinity maintains a list of authorized check signers. Each business location that issues customer checks must have at least 2 designated check signers.
- Checks **must not** be signed in blank, in anticipation of a check signer's absence. The manager of Operations must be contacted if alternate arrangements are necessary in the absence of an authorized check signer.
- When an employee will personally deliver a customer check, the procedures outlined in the section *Transmittals Between Customers And Registered Representatives* must be followed.

### 6.17.2 Prepayments And Extensions

Prepayments (customer requests payment prior to settlement date on a sale) or extensions of time to make payment must be approved by the designated supervisor.

### 6.17.3 Employees Authorized To Transmit Customer Assets From Accounts

Employees who are authorized to release customer funds and/or securities include:

- Authorized Operations personnel who transmit instructions to a clearing firm (if applicable)
- Authorized Operations personnel who issue checks (if applicable)
- RRs authorized under the *Transmittals Between Customers And Registered Representatives* policy below

### 6.17.4 Issuing Checks To Customers

Checks to be paid to customers from their accounts will be paid to the order of the account as it is carried on Infinity's books and sent to the address appearing on the account. Exceptions require written authorization by the customer. When checks are to be issued to a third party or funds are transferred to a third party, the following procedures apply.

### 6.17.5 Persons Receiving Assets In Person

When someone appears in person to receive assets, a photo ID will be required before the assets are released. The person releasing assets is required to note on Infinity's records the type of ID presented and the number (driver's license, passport, *etc.*). If an authorized third party under an LOA is receiving assets, the LOA will be verified before assets are released.

### 6.17.6 Transmittals To Third Parties

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Requests to send funds/issue checks to third parties</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required - issue transmittals to third parties and send notification to the customer</li> <li>• Annual - review transmittal procedures</li> <li>• Annual - confirm standing LOAs</li> <li>• As scheduled - review branch/office procedures</li> <li>• Annual (or more frequently, as necessary) - provide training to employees</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Obtain required LOA</li> <li>• Issue check/funds in accordance with procedures</li> <li>• Send notification to the customer that funds (or securities) have been sent to a third party</li> <li>• Confirm standing LOAs still apply</li> <li>• Annually review transmittal procedures in the annual review of supervisory systems and controls (Compliance or other reviewer)</li> <li>• Review transmittals in branch/office audits including sampling of LOAs and transmittals (Compliance or other reviewer)</li> <li>• Include in employee training transmittal procedures in continuing education or other employee training</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• LOAs (in Operations and/or clearing firm's files)</li> <li>• Record of annual confirmation of standing LOAs</li> <li>• Records of annual reviews are retained with the annual review of supervisory systems and controls</li> <li>• Records of employee training</li> </ul>

When a customer wishes funds or securities to be paid to a third party in the third party's name, the customer will be required to provide a signed LOA that specifies to whom the funds are to be paid.

When funds are disbursed, Infinity (or its clearing firm) will send a notice to the customer confirming that funds were sent to a third party from the customer's account.

#### 6.17.6.1 Letters Of Authorization

A Letter of Authorization (LOA) is an important required document whenever a customer asks that funds or securities are to be sent to a third party out of the customer's account. LOAs are an important record for Infinity, both to ensure the customer's instructions are followed and to ensure Infinity has a written record in the event there is a question in the future about disbursements from an account.

#### **6.17.6.1.1 LOA Instructions**

RRs or their assistants are responsible for obtaining completed LOAs, when necessary.

- A completed LOA is required **prior to** disbursements to third parties.
- All blanks must be completed on the LOA.
- The customer's original signature is required. In the case of a joint account, all joint owners must sign the LOA. For corporations, trust accounts, and other accounts, the authorized person must sign the LOA.
- Completed LOAs are submitted to Operations and should accompany the request to disburse funds or send securities to a third party.

#### **6.17.6.1.2 Standing LOAs**

Customers who have a need for regular third party disbursements should be encouraged to apply for a Firm account that provides checking account privileges.

To accommodate customers (on an exception basis), Infinity permits standing LOAs for regular disbursements to the same third party under the following procedures:

- The customer's signed LOA must be notarized.
- The standing LOA should be renewed annually. It is the office's responsibility to ensure standing LOAs are current.

#### **6.17.6.2 Email Instructions**

[FINRA Regulatory Notice 12-05]

Email and other electronic communications can be subject to intrusion and compromised by a third party. There have been instances of third parties sending fraudulent requests to broker-dealers to transfer customer funds to an account for the benefit of the third party. To prevent theft from customer accounts, the following apply to email or other electronic requests to transfer funds to a third party:

- The customer will be contacted by phone, mail, or another means independent of the email account to verify the accuracy of the instructions.
- The RR, assistant, or operations person receiving instructions should be aware of "red flags" (e.g., funds to be transferred to an unfamiliar third party, particularly in a foreign country; transfers that appear to be out of the ordinary for the customer; and requests that indicate urgency or otherwise appear designed to deter verification of transfer instructions).
- If Infinity processes its transactions through a clearing firm, the clearing firm will have its own procedures to prevent unauthorized third party transmittals.
- The Operations Manager or Compliance should be contacted with any questions about questionable transfer instructions.

#### **6.17.7 Authorization Records For Negotiable Instruments Drawn From A Customers Account**

The customer's written signature is required whenever Infinity obtains or submits for payment a check, draft, or other form of negotiable paper drawn on a customer's checking, savings, share or similar account; this may include the customer's signature on the negotiable instrument. Written authorization separate from the

instrument must be retained for 3 years following the date the authorization expires. No record is required when the customer signs the instrument (*i.e.*, a check).

### 6.17.8 Transmittals To An Alternate Address

Funds and securities will be sent to the customer's address of record, unless the customer provides **written** authorization to use an alternative address.

### 6.17.9 Transmittals To Outside Entities

Customers sometimes request the transfer of funds or securities in their accounts to a bank or other entity on their behalf. A signed LOA must be obtained to effect such a transfer including the customer's account number at the receiving bank or other entity.

### 6.17.10 Transmittals Between Customers And Registered Representatives

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Requests to deliver checks</li><li>• Check Delivery Log</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Approve (or disapprove) the request to deliver a check</li><li>• Send a letter to the customer on the same day as check delivery, confirming delivery</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Initials on Check Delivery Log</li><li>• Check delivery letter retained in customer account file</li></ul>

On occasion, a customer may request that the RR or other Infinity employee personally deliver a check to the customer. This is permitted under the following conditions:

- The designated supervisor must approve the check delivery. The designated supervisor should initial a record maintained by Operations.
- A same-day confirmation (letter) will be sent to the customer confirming that a check was delivered and inviting the customer to call if there are any questions.

### 6.17.11 Suspicious Or Questionable Activities

Employees are responsible for referring suspicious or questionable activities to their designated supervisor. If the activity involves the designated supervisor, the employee should bring the activity to the attention of the Compliance Officer. If the Compliance Officer is involved, the activity should be brought to the attention of someone else in senior management. Such activities may include transfers without required authorizations;

failure to obtain secondary approvals where required; a pattern of transfers that have no reasonable business basis, or any other activity the employee considers suspicious.

## 6.18 Customer Protection: SEC Rule 15c3-3

### 6.18.1 Exemption From 15c3-3

Because of the nature of Infinity's business, Infinity qualifies for an exemption under Rule 15c3-3(k). The FINOP is responsible for determining that Infinity continues to qualify for the appropriate exemptions. Infinity currently qualifies for the following exemptions: (k)(1) and (k)(2)(ii).

#### 6.18.1.1 Exemption Under (k)(1)

[Exchange Act Rule 15c3-3(k)(1)]

- i. Infinity's transactions as dealer (as principal for its own account) are limited to the purchase, sale, and redemption of redeemable securities of registered investment companies or of interests or participations in an insurance company separate account, whether or not registered as an investment company; except that where Infinity is transacting business as a sole proprietor may also effect occasional transactions in other securities for its own account with or through another registered broker or dealer;
- ii. Infinity's transactions as broker (agent) are limited to:
  - a. The sale and redemption of redeemable securities of registered investment companies or of interests or participations in an insurance company separate account, whether or not registered as an investment company;
  - b. the solicitation of share accounts for savings and loan associations insured by an instrumentality of the United States; **and**
  - c. the sale of securities for the account of a customer to obtain funds for immediate reinvestment in redeemable securities of registered investment companies; and
- iii. Infinity promptly transmits all funds and delivers all securities received in connection with its activities as a broker or dealer, and does not otherwise hold funds or securities for, or owe money or securities to, customers.

#### 6.18.1.2 Exemption Under (k)(2)(ii)

[SEC Securities Exchange Act of 1934 Rule 15c3-3(k)(2)(ii)]

Infinity clears all transactions with and for customers on a fully disclosed basis with its clearing firm which carries all of Infinity's customer accounts and maintains books and records related to carrying the accounts. Infinity promptly transmits customer funds or securities to its clearing firm.

#### 6.18.1.3 Prompt Transmission Of Customer Funds And Securities

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Customer checks or securities</li></ul>

<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Determine that timeframes for "prompt transmission" are adhered to</li> <li>• Approve or disapprove transactions for deferred variable annuities or subscription-way transactions</li> <li>• Notify RR if transaction is disapproved and return customer's check</li> <li>• Provide notice to customers of handling of checks payable to issuers for subscription-way securities transactions</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Records of checks and securities and when they are received</li> <li>• Review and approval/disapproval of applicable transactions</li> <li>• Forwarding of checks to the clearing firm, insurance company, or issuer</li> <li>• Forwarding of securities to clearing firm</li> <li>• Return of checks to customers where transactions are disapproved</li> <li>• Record of notification provided to customer of handling of checks for subscription-way securities transactions</li> </ul>

One of the requirements for an exemption under 15c3-3(k) is the prompt transmission of funds and securities. The following outlines the requirements as they apply to different securities.

1. For checks payable to an insurance company for the purchase of a deferred variable annuity product, prompt transmission is no later than 7 business days after an OSJ receives a complete and correct application package for review by the principal. (Refer to the chapter *INSURANCE PRODUCTS* for more requirements regarding variable annuities.)
2. When an RR recommends the sale of a security on a subscription-way basis:
  - a. Promptly prepare and forward a complete and correct application package to an OSJ;
  - b. Perform a suitability review and approval (or disapproval) by a registered principal within 7 business days after receipt of a complete and correct package at the OSJ;
  - c. Transmit the check to the issuer no later than noon of the business day following the date the registered principal reviews and approves;
  - d. Return the package and the check to the RR if the transaction is disapproved;
  - e. Maintain a record of the check, when received, date transmitted to the issuer if approved, or date returned to the customer if disapproved;
  - f. Customers will be notified of Infinity's process for handling customer checks payable to issuers for subscription-way securities transactions before such transactions. Notice may be included in customer statements or another form of notice.
3. For all other securities, prompt transmission of a check to the clearing firm is defined as no later than noon of the next business day after received.

#### **6.18.1.4 Inadvertent Receipt Of Customer Funds Or Securities**

Infinity does not hold funds or securities for, or owe money or securities to, its customers. In the event that funds or securities are inadvertently received by Infinity, an entry will be made in a log maintained for that purpose recording the date, the amount, and, in the case of securities, a description of the securities received, and the action taken to return such funds or securities to their rightful owner.

No later than the next business day, Infinity will return the funds or securities to the sender. If the sender cannot be immediately determined, Infinity will open a separate bank account, to be designated as "Special Account for the Exclusive Benefit of the Owner of Funds and Securities," into which the funds or securities will be deposited and held until the rightful owner has been identified.

## 6.19 Customer Confirmations And Statements

### 6.19.1 Customer Statements Only Are Provided To Customers

RRs are not permitted to create supplemental customer statements or reports for the purpose of consolidating investments not shown on customer monthly statements issued by Infinity. The customer monthly statement provided by Infinity is the only record to be provided to customers.

### 6.19.2 Control Of Blank Confirmations And Statements

Blank confirmations and statements are to be retained in a secured location. Only authorized employees are permitted access to blank documents. The FINOP will establish procedures for control of these documents.

### 6.19.3 Change Of Customer Addresses On Accounts

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Request to change address on account from customer or RR</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Change address</li><li>• Send a confirming letter to the customer's old address, notifying that the address has been changed on the account</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Copies of confirming letters are retained by Operations</li></ul>

When a customer requests a change of address, a notification confirming the change of address will be sent to the customer's old address. Customer inquiries responding to the change of address notification will be forwarded to Compliance for follow-up.

### 6.19.4 Undeliverable Mail

When customer mail is returned to Infinity as undeliverable, Operations will contact the RR's supervisor to obtain an updated address. When a new address is provided, the customer will be sent a letter at the new address asking for signed confirmation that the new address is correct. When the letter is returned, the customer's signature will be compared to other account documents on file. Signature anomalies will be referred to Compliance for follow up. If the customer fails to return the form, a second letter will be sent notifying the customer his or her account will be frozen unless an affirmation is received.

If a corrected address is not provided, the account will be frozen to preclude securities or money transactions (other than expiration of options or similar passive transactions) until a correct address is provided.

## 6.19.5 Holding Customer Mail Prohibited

Infinity will not hold mail on a customer's behalf, even for a short duration. RRs are **not** permitted to hold customer mail. A customer, who cannot receive mail at the address established on the account, must be instructed to provide a third party mailing address that is not related to Infinity or any associate of Infinity.

## 6.19.6 Confirmation Disclosures

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Trade data</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Daily</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Establish operations procedures for necessary disclosures in addition to standard information (required by SEC Rule 10b-10 and FINRA Rule 2232) included on confirmations</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Copies of confirmations</li></ul>

The designated supervisor is responsible for establishing procedures to include special required disclosures on customer confirmations. Examples of some types of special disclosures are explained in the following sections.

## 6.20 Subordination Agreements With Investors

[SEC Securities Exchange Act of 1934 Appendix D to Rule 15c3-1; FINRA Notice to Members 02-32 and 02-04; FINRA web site: <https://www.finra.org/filing-reporting/regulatory-filing-systems/subordination-agreements>]

If Infinity enters into a subordination agreement with an investor, it will provide the investor with a copy of FINRA Subordination Agreement Investor Disclosure Document and obtain the investor's signature on a copy of the Document. A copy of the signed Disclosure Document will be submitted to FINRA with the subordination agreement, for approval.

The FINOP is responsible for obtaining and submitting the required documents for subordination agreements.

## 6.21 Expense-Sharing Agreements

[SEC Letter July 11, 2003 to FINRA and NYSE Regarding Recording Certain Broker-Dealer Expenses And Liabilities; FINRA Notice to Members 03-63]

The SEC specifies requirements for incorporating an expense-sharing agreement into a broker-dealer's operations and how these agreements are recorded in the broker-dealer's financial records. The FINOP is responsible for ensuring Infinity complies with the SEC's guidelines if it enters into any such agreements.

In addition, the FINOP is responsible for notifying Infinity's Designated Examining Authority (DEA) if it enters into an expense-sharing agreement and does not record each of the expenses it incurs relating to its business on the reports it is required to file with the SEC or with the DEA. The notice will include the date of the agreement



and the names of the parties to the agreement; a copy of the agreement will be provided to the DEA upon request.

## 6.22 Electronic Delivery And Signatures

[Electronic Records and Signatures in Global and National Commerce Act; SEC Release No. 34-42728; SEC Interpretive Release No. 33-7233, 33-7856 and 33-36345; NASD Notice to Members 98-3; NASD Regulatory and Compliance Alert March 1998; SIA Legal Alert 00-12]

Federal securities law through the Electronic Signatures in Global and National Commerce Act of 2000 regulates the use of electronic media for transmitting documents and the recording and accepting of electronic signatures. This section outlines requirements when Infinity uses electronic methods of delivery between Infinity and its customers and the use of electronic signatures for internal purposes such as approval of new accounts.

### 6.22.1 Electronic Delivery To Customers

[SEC Release No. 34-42728]

If Infinity electronically transmits documents to customers and/or accepts electronic signatures from customers, the following requirements will apply:

- The customer's consent will be obtained.
- Notice will be provided to customers that the information is available electronically.
- Customers who are provided electronic delivery have access to the information substantially equivalent to the access that would be provided if the information were delivered in paper form (*i.e.*, the electronically transmitted document will convey all material and required information). Customers will have ready access to the electronic document either through downloading or ongoing access online.
- Infinity will evidence satisfactory delivery through the customer's informed consent agreeing to delivery of certain documents or obtaining actual confirmation the customer received the information.
- Electronic delivery is subject to Infinity's policies and procedures to protect confidential customer information and ongoing review of Infinity's security systems.

## 6.23 Customer Requests For References

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Requests from customers or prospective customers for reference letters</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Review requests and determine what, if any, reference letter may be issued</li><li>• If appropriate, write reference letter with a copy to the RR</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Letters retained by Compliance</li></ul>

Customers or prospective customers sometimes request letters of reference from broker-dealers regarding their accounts or future business to be done. Some of these requests in the past have been scams by unscrupulous

individuals seeking to capitalize on a broker-dealer's good name. Any such requests should be referred to Compliance for handling.

## 6.24 Audit Letters

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Letters from auditors requesting verification of balances in customer accounts</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Forward requests to Operations for response</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Operations will maintain copies of responses in customer account files</li></ul>

Auditors sometimes send letters asking Infinity to verify funds and securities on behalf of their customers who also have accounts with Infinity.

All requests should be forwarded to the manager of Operations for response. In no instance should an RR or other branch personnel respond to these requests.

## 6.25 Annual Disclosure Of FINRA BrokerCheck

[FINRA Rule 2267]

As required by FINRA rule, at least annually customers will be provided with the following information in writing about FINRA BrokerCheck (formerly known as FINRA Public Disclosure Program):

- the hotline number
- the Web Site address
- a statement regarding the availability of an investor brochure regarding FINRA BrokerCheck

## 6.26 Carrying Agreements

[FINRA Rule 4311; NASDAQ Rule 3230]

Infinity introduces its accounts and customer transactions to its carrying firm. Infinity has executed a carrying agreement consistent with regulators' requirements and will amend its carrying agreement when necessary. Any new carrying agreement or amendment will be submitted to its designated SRO for review and approval. A carrying agreement where accounts are carried on a fully disclosed basis will include the responsibilities of each party to the agreement as required by rule. Accounts introduced on a fully disclosed basis will be notified in writing at the opening of the account of the existence of the carrying agreement and the responsibilities allocated to the respective parties.

If Infinity has an agreement to act as an intermediary for another introducing firm ("piggybacking" arrangement), it will notify the carrying firm of the existence of the arrangement with the other introducing firm and disclose the identity of the firm. The carrying agreement will identify and bind every direct and indirect recipient of clearing services as a party to the agreement.

The FINOP is responsible for executing required carrying agreements; providing required notices; and retaining records.

## 6.27 Clearing Firm Exception Reports

[FINRA Rule 4311(h); FINRA web site: <http://www.finra.org/Industry/Compliance/RegulatoryFilings/ClearingNotifications/index.htm>; NYSE Rule 382]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Clearing firm lists of reports available and currently received</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Annually, at or around July 31 of each year</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Review list of reports available from clearing firm and adjust list of reports received, if appropriate</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Notice from the clearing firm and request for change to reports received are retained in a file for clearing firm exception reports.</li></ul>

In compliance with SRO rules, Infinity's clearing firm is required to provide annual notice, by July 31 of each year, as follows:

- Notice to Infinity of:
  - exception reports available, and,
  - exception reports currently supplied to Infinity.
- A copy of this notice is forwarded to Infinity's designated examining authority or other appropriate regulator by the clearing firm.

When the list of available reports is received, Compliance will review the list and contact the clearing firm regarding changes to the list of reports currently received.

## 6.28 Short Interest Report

Infinity's clearing firm is responsible for filing required short interest reports.

## 6.29 New Products

[FINRA Notice to Members 05-26]

All new products require review and approval prior to offering new products to customers. A "new product" may include a product that:

- is new to the marketplace or Infinity.
- was previously sold only to a limited segment of Infinity's customers, such as only to institutional customers and now will be offered to retail customers.
- will be offered by a category of RRs who did not previously offer the product, such as a product new to retail RRs.
- involves material modifications to an existing product including risk, product structure, or fees and costs.

- requires material operational or system changes.
- involves a new or significant change in sales practices.
- raises conflicts that have not been previously identified and addressed.

If there is a question whether a product may be a "new" product, it should be reviewed by Infinity's management before being offered to customers. Infinity's management will determine if the new products should be offered to customers and will develop the necessary procedures and training (if necessary) to meet the applicable requirements.

## **7 ANTI-MONEY LAUNDERING (AML) PROGRAM**

Infinity has developed Anti-Money Laundering written supervisory procedures under separate cover.

## **8 ACCOUNTS**

### **8.1 New Accounts**

When opening and maintaining customer accounts, Infinity and its RRs are obligated to use reasonable diligence to "know the customer" by obtaining essential facts about the customer and the authority of each person acting on behalf of the customer. Key requirements include the following:

- The new account application (which is designed to include information required by rules) must be complete prior to submission for approval. If the customer refuses to provide certain information, this must be indicated on the new account application.
- Where recommendations will be made to a non-institutional customer, account information includes the customer's financial status, tax status, investment objectives, and other information used or to be considered to determine the suitability of recommendations.
- The new account form must be signed by the RR opening the account.
- Under anti-money laundering requirements, the customer's identification must be verified.
- Required account documents, which vary depending on the type of account opened, must be obtained. Failure to obtain required documents may result in closure of the account.
- The customer's new account information will be sent to the customer for verification within 30 days of opening the account and every three years thereafter. When account information is changed, the changed information will be sent to the customer for verification within 30 days of the change.

This section provides an explanation of certain requirements that apply to new accounts.

### **Designation Of Accounts**

All accounts must be in the name of the customer except that an account may be designated by a number or symbol if the customer provides a written statement attesting to the ownership of the account.

## Anti-Money Laundering (AML) New Account Requirements

AML rules apply to the opening of new accounts. See Infinity's AML Policy.

### Accounts Requiring Approval By The AML Compliance Officer

The following accounts require review and approval by the AML Compliance Officer at the time of opening. The AML Compliance Officer may require additional information for these accounts.

- **Numbered accounts** (accounts designating a number rather than a name as the account name).
- **Any account requesting confidential handling** of its name, mailing of confirmation and statements, *etc.*
- **Accounts domiciled in high risk countries.** Accounts domiciled in countries identified by OFAC or the Financial Action Task Force on Money Laundering (FATF) as having inadequate anti-money laundering standards or representing high risk for crime and corruption.
- **Foreign public officials.** Includes individuals in high offices of foreign governments, political party officials and their families and close associates (if known and/or readily identifiable).
- **Correspondent and Private Banking accounts.** See the section *Due Diligence For Correspondent And Private Banking Accounts*.

### Customer Identification Program (CIP)

New customer accounts are subject to CIP reviews mandated under anti-money laundering rules. See AML Chapter in WSP for more details.

### Required Customer Information

Basic information required **prior to opening the account** includes:

- **Name**
- **Date of birth**, for an individual
- **Address:**
  - for an individual, residential or business street address. If no street address exists or is available, an APO or FPO box number or the residential or business street address of a next of kin or another contact individual
  - for a non-individual (corporation, trust, *etc.*) a principal place of business, local office, or other physical location.
- **Telephone number**
- **Employment status** (including occupation and whether the person is associated with a broker dealer)
- **Annual income**
- **Net worth** (excluding value of primary residence)
- Account's investment objectives
- For joint accounts, information on each joint owner (financial information may be combined)
- **Taxpayer identification number** for a U.S. person (U.S. citizen or non-individual established or organized under U.S. or state laws).
- **Identification number for non-U.S. person** which may include a taxpayer ID number; passport number and country of issuance; alien identification card number; or the number and country of issuance of any other government-issued document evidencing nationality or residence and bearing a photo or similar safeguard.

- **Beneficial owners** (see the section that follows) including information about the following:
  - the nature and purpose of customer relationships to develop a customer risk profile
  - information sufficient at the time of account opening so customer activity may be assessed for SAR requirements (may include type of customer requesting services; type of account being opened; services or products being used)

**In the case of a customer who has applied for a taxpayer identification number but has not yet received it**, notation must be made on the new account application that the taxpayer ID has been applied for. The account will be restricted to liquidating transactions if the taxpayer ID number is not received within [number of days] days of opening the account.

In addition, under FINRA Rule 4512 Infinity will retain the name of the RR responsible for the account and, if multiple RRs are assigned to the account, a record indicating the scope of their responsibilities with respect to the account. This requirement does not apply to an institutional account.

## Accounts For Individuals

When opening an account for an individual, the following information is required:

- An unexpired government-issued identification including a photo and nationality or residence such as a driver's license or passport and record information from it on the new account application, **OR**
- A copy of the photo ID with the new account application. (The photo ID [original or copy] must be seen by the employee opening the account to record the information. This information may NOT be taken from the customer over the phone.)
- If the photo ID is not available at the time the new account application is being completed, the RR is to indicate on the new account application whether the customer will provide a copy of photo ID within 60 days of account opening **OR**, if the customer cannot provide a photo ID, the reason why not.
- If the photo ID is not received within 60 days, the account will be restricted to liquidating transactions only until the ID is received.

**If the customer has not appeared in person at Infinity's office**, "non-documentary" information will ALSO be required, as explained in a section that follows.

**If the customer cannot produce the required photo ID**, an explanation must be included on the new account application AND non-documentary information will be required to open the account.

## Approval

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• New Account Form</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review new account form for:               <ul style="list-style-type: none"> <li>○ Completeness</li> <li>○ Proper styling of account</li> <li>○ Unacceptable accounts (accounts in name of minor only, fictitious accounts, numbered accounts without disclosure of owner, <i>etc.</i>)</li> <li>○ Potential improper addresses (post office boxes, addressed to RR or Infinity, <i>etc.</i>)</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>○ Consistency of investment objectives with financial status, prior investment experience, <i>etc.</i></li> <li>○ Initial transaction consistent with investment objectives</li> <li>○ RR registration in state of customer's residency</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Supervisor's signature on New Account Form</li> <li>• New account forms are retained by Operations</li> </ul>

A completed new account form, signed by the RR, is required for each new account opened. The designated supervisor is responsible for reviewing the new account form for the necessary information and will promptly approve each new account.

## Customer Account Information

Within 30 days of opening an account (or with the next scheduled account statement), the clearing firm will send the customer a copy of new account information for verification. In addition, account information will be verified with the customer every three years. In the event there is a change to the customer's account (including changes in investment objectives), the changed account information will be sent to the customer for verification within 30 days of submission of the change.

Compliance will review customer responses that revise new account information and will notify the RR, the RR's supervisor, and New Accounts of the changes.

## Addresses On Customer Accounts

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• New account forms</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Identify improper address on new account forms at time of approval</li> <li>• When approving new accounts, ensure beneficial owner of the account will receive confirmations consistent with the policy</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Supervisor's signature on New Account Form</li> </ul>

Confirmations and statements and other account information will be transmitted to the customer at the address requested by the customer. Infinity or an employee may not be the sole addressee for a customer's account unless the account is for the direct benefit of Infinity or employee.

Acceptable addresses include:

- **for an individual:** residential or business street address. If no street address exists or is available, an APO or FPO box number or the residential or business street address of a next of kin or another contact individual
- **for a non-individual (corporation, trust, etc.):** a principal place of business, local office, or other physical location.



- **for a P.O. Box address:** a legal address for the customer must also be provided.

Accounts **may not** be addressed to Infinity, an RR or other employee of Infinity with the exception of accounts for the beneficial ownership of the RR or employee. Accounts **may not** be addressed care/of (c/o) someone else unless the customer provides written authorization requesting such an address.

Address changes require written instructions from the customer. Upon notification of a change of address, a notice will be sent to the customer's old address confirming that an address change has been made to the account. Compliance will follow up regarding questions about address changes.

Where the account is opened by a fiduciary such as an investment adviser on behalf of the fiduciary's customer, Infinity will provide either confirmations or periodic account statements to the underlying beneficial account holder. Infinity will make a good faith effort to obtain the information necessary to send confirmations directly to the beneficial owner; however, if this information is not provided by the fiduciary, Infinity will forward confirmations to the owner's custodian or, if there is no custodian or Infinity is the custodian, Infinity will send the confirmation directly to the fiduciary.

## Account Documents

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• New Account Form</li> <li>• Missing Documents Report</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Establish procedures to ensure required account documents are obtained for each new account</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Most current Missing Documents Report retained for follow up</li> <li>• New account files in Operations include documents obtained</li> </ul>

Additional account documents may be required depending on the type of account opened. The designated supervisor is responsible for establishing procedures outlining the necessary account documents and follow-up regarding missing documents.

## Predispute Arbitration Agreements With Customers

Customers will be provided with copies of any signed agreements that include a predispute arbitration agreement within 30 days of signing; the customer will acknowledge receipt of the arbitration agreement on the agreement itself or on a separate document.

In addition, within 10 days of request by a customer, Infinity will provide a copy of any predispute arbitration agreement the customer has signed as well as relevant arbitration forum rules, if requested. The customer will be notified if the signed agreement cannot be located.

## Accounts Requiring Notification To Customer's Employer

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• New Account Form</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Code account for duplicate confirmations and/or statements as requested by other broker-dealers or financial services firms</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Record of duplicate confirmations and statements is included with new account records</li> </ul>

### **Employees Of Other Broker-Dealers**

When opening an account for a person employed by another broker-dealer (including accounts where the employee has control or a personal financial interest), the other broker-dealer must be notified. Infinity will provide duplicate confirmations, statements, or other information requested by the employing broker-dealer.

### **Post Office Addresses**

If the customer opens an account using a post office address, the street address must also be provided on the new account form. The only exception is for customers who reside in rural areas where the post office address is the only address, which should be noted on the new account form.

### **Unacceptable Accounts**

The following are examples of accounts that are unacceptable. Questions regarding whether new accounts may be opened should be referred to Compliance.

Unacceptable accounts include:

- Fictitious accounts in a name other than the name of the legal owner
- Accounts in the name of a minor
- Margin accounts for minors

## **8.2 Transferring Accounts**

### **Accounts Transferring In**

When new accounts are transferred from another broker-dealer, a transfer form must be completed by the customer authorizing the transfer and provided to the receiving firm. Most accounts transfer via ACATS which expedites validation and transfer from the other BD.

Orders to sell securities to be transferred from the other firm may not be entered until validation is received. RRs should contact Operations to confirm whether the transfer has been validated.

## Accounts Transferring Out

When validated instruction has been received to transfer a customer's securities account assets to another firm, the account will be "frozen," *i.e.*, all open orders (with the exception of option positions that expire within 7 business days) must be canceled and no new orders taken.

Infinity and its employees may not interfere with a customer's request to transfer his or her account unless there is a *bona fide* reason for doing so, such as a lien for money owed.

## 8.3 Updating Account Information And Periodic Affirmation

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• RR</li> <li>• Compliance</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Information obtained from customer</li> <li>• Responses from customers</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required: update account information based on information provided by customer</li> <li>• Within 30 days of changes: send written information about changes to account</li> <li>• At least every 36 months: send customers a copy of new account information</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• RR: Record changes to customer information reported by customer</li> <li>• Send information to customers</li> <li>• Compliance: follow up customer responses (contact RR, RR's supervisor, New Accounts)</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• New account records</li> <li>• Record of furnishing information within 30 days</li> <li>• Notation of action by Compliance for responses received from customers</li> </ul>

R Rs should promptly update customer new account information whenever they are informed or become aware of changes. Updates may be recorded by making revisions to existing forms or completing new forms. New forms require the approval of the designated supervisor and signature of the customer, where required.

Within 30 days of changes to a customer's investment objectives, Infinity (or its clearing firm, if applicable) will send a copy of new account information, including the change, to the customer with a request for correction of any inaccurate information.

At least every 36 months customers will be provided with new account information on record for their accounts and will be asked to advise of any changes or updates. Responses will be forwarded to Compliance. This notification is not required for accounts that have been inactive for 36 months or where no recommendations are made to the customer.

## 8.4 Sweep Programs

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Proposed new programs or material changes to existing programs</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Consider net capital/customer protection implications of terminating a program or adopting a new program</li><li>• Confirm the bank's business continuity program complies with SRO business continuity rule requirements</li><li>• For programs with banks that allow the customer to make deposits and/or withdrawals, include accounts in AML reviews</li><li>• Review the new program or changes</li><li>• Prepare/provide disclosure information for customers</li><li>• Obtain customer written consents to participate before opening a sweep account</li><li>• Include required disclosures with quarterly statements</li><li>• Send 30-day prior notice of program changes</li><li>• Arrange for RR training, if necessary</li><li>• If Infinity has a web site, post interest rates</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Copies of programs, contracts with providers, records of distributing disclosures to customers when new programs are implemented or changes occur</li><li>• Copy of bank's affirmation regarding compliance with business continuity requirements</li><li>• Customer written consents and record of providing disclosures</li></ul>

Free credit balances held in a customer's securities account may be transferred to a product in Infinity's sweep program or a customer's interest may be transferred between sweep programs. Four conditions regarding customer disclosures apply:

1. The customer must give **prior** written affirmative consent to having free credit balances included in the sweep program after being notified of (a) the general terms and conditions of the Program; and (b) that Infinity may change the products available under the Program.
2. Disclosures and notices required by SROs will be provided to customers.
3. Quarterly notice is included with statements that swept funds or money market shares can be liquidated and remitted to the customer.
4. 30-day prior written notice of any changes to the sweep program and sweep products will be provided.

## 8.5 Margin Accounts

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• New account information</li><li>• Margin agreements</li><li>• Order reports</li></ul>

	<ul style="list-style-type: none"> <li>• Credit exposure or other available reports</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Ongoing review of customer transactions</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• For accounts with large positions on margin: <ul style="list-style-type: none"> <li>○ Review new account information for suitability and consistency with the customer's investment objectives</li> <li>○ Consider suitability of risk of thinly-traded margin positions</li> </ul> </li> <li>• When frequent or sizeable margin transactions are identified, review account information for suitability</li> <li>• Consider contacting the customer where questions of suitability are not resolved</li> <li>• Refer margin accounts for fiduciary accounts to Compliance</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Review of order and other reports and actions taken</li> </ul>

This section outlines requirements for margin accounts.

## Opening Margin Accounts

Prior to engaging in margin transactions, the customer's account must have on deposit at least \$2,000 in cash or securities. Customers must sign Infinity's margin agreement which must be received within five days from the first margin trade.

## Disclosures

### Margin Disclosure Statement

Under FINRA rules, all non-institutional customers who open a margin account must be provided with a margin disclosure statement when the account is opened. Infinity's disclosure statement must be included when the margin agreement is sent to the customer for signing. In addition, all margin customers will be provided annually with a copy of the disclosure statement or an abbreviated version of the statement. RRs are responsible for providing the initial disclosure statement; Infinity (or its clearing firm, if applicable) will send annual disclosures. The margin disclosure statement also appears on Infinity's web site.

Under this requirement, the term "**non-institutional customer**" includes all customers **except**:

- A bank, savings and loan association, insurance company, or registered investment company.
- An investment adviser registered either with the SEC or with a state securities commission
- Any other entity (whether a natural person, corporation, partnership, trust, or otherwise) with total assets of at least \$50 million

The RR is responsible for providing the initial disclosure document to new non-institutional margin account customers.

The Clearing Firm is responsible for providing the annual disclosure document.

## **Disclosure Of Credit Terms**

Upon opening a margin account, the customer will be provided a written statement explaining the operation of a margin account and the calculation of interest charges on debit balances. It is the FINOP's responsibility to establish procedures for providing the required disclosure.

The Clearing Firm is responsible for providing credit disclosures to margin customers.

## **Securities Loan Transactions**

Infinity (or its clearing firm) may engage in borrowing and lending customers' fully paid or excess margin securities. The customer's agreement is included in Infinity's margin agreement and disclosures will be provided as described in the next section.

There must be reasonable grounds for believing that the customer's loan(s) of securities are appropriate for the customer, including consideration of (but not limited to) the customer's financial situation and needs, tax status, investment objectives, investment time horizon, liquidity needs, risk tolerance, and any other information disclosed by the customer in connection with entering into securities loans. Determining the appropriateness of customer loans of securities is not required for institutional customers under Rules 4512(c) and 2111(b).

## **Other Disclosures**

Prior to entering into a securities borrowing arrangement with a customer, the customer will be provided with written (which may include electronic) notice stating that the provisions of the Securities Investor Protection Act of 1870 may not protect the customer with respect to the customer's securities loan transaction and that the collateral delivered to the customer may constitute the only source of satisfaction of Infinity's obligation in the event Infinity fails to return the borrowed securities. Other required disclosures (such as loss of proxy voting rights on margined shares and risk of receiving payments-in-lieu of dividends) will be provided in customer margin agreements, by separate notice, in customer monthly statements, and/or on Infinity's web site.

## **Equal Credit Opportunity Act Requirements**

Infinity will not discriminate in the extension of credit to customers. Where credit is denied, Infinity will provide information to the credit applicant in accordance with the provisions of the Equal Credit Opportunity Act.

## **Arranging Credit**

RRs are not permitted to assist a customer in making credit arrangements to purchase securities outside Infinity, other than on terms consistent with those permitted by Regulation T and other rule requirements.

## **Suitability**

Margin accounts may involve more risk than cash accounts, depending on a number of factors including leverage used and types of transactions. The RR is responsible for determining the suitability of margin trading in a customer's account including understanding the customer's investment objectives and financial profile.

## **New Issues**

Margin on new issues are not permitted for a period of 30 days from the effective date of the distribution.

## **Credit On Restricted Securities**

Extension of credit or margin transactions in securities for corporate insiders require the prior approval of Operations. If a customer who holds restricted securities wishes to deposit those securities in a margin account, Operations should be notified to determine the marginability of the securities.

## **Fiduciary Accounts**

Margin transactions are permitted for accounts controlled by an administrator, conservator, custodian (not including UTMA/UGMA accounts), executor, guardian or trustee as follows:

- when such person holds explicit power to engage in margin transactions
- after review of the appointment and applicable document (trust agreement, trust certification, will, *etc.*) explaining investment powers and approval by Compliance

RRs should submit the appropriate enabling document (trust agreement, *etc.*) to Compliance prior to engaging in margin transactions.

## **Portfolio Margin Accounts**

Customers with portfolio margin accounts must be provided with a special written disclosure describing the nature of, and risks associated with, portfolio margining. Customers must sign and acknowledge that they have read and understand the disclosure statement and agree to the terms of maintaining a portfolio margin account. RRs are responsible for providing the disclosure and obtaining signed acknowledgment which will be retained in the customer's account file.

Portfolio margining is a margin methodology that sets margin requirements for an account based on the greatest projected net loss of all positions in a product class or group using computer modeling to perform risk analysis using multiple pricing scenarios. It is applicable to all margin equity securities, listed options, security futures products, unlisted derivatives, warrants, index warrants and related instruments.

There are eligibility requirements for customers (other than broker-dealers):

- Meet basic standards for having an account approved for uncovered writing
- Have and maintain at all times account net equity of at least \$5 million (waived for accounts solely limited to listed security futures contracts and listed single stock options) aggregated across all accounts under identical ownership at the clearing broker

Portfolio margining generally permits greater leverage resulting in greater risk for loss. The time limit for meeting margin calls is shorter than for a standard margin account. Operations procedures should be consulted for more detailed information regarding portfolio margining requirements.

## **8.6 Third Party Accounts**

When a third party who is not the principal or named person on the account will give instructions regarding orders, disposition of funds, or other actions involving an account, Infinity must have a signed third-party trading authorization. The authorization is signed by the principal of the account and the third party, giving the third party authority to act on behalf of the principal. An example of a third party account is an account for a wife whose husband will give instructions regarding his wife's account. The signed trading authorization must be received BEFORE accepting instructions from the third party.

Infinity has two types of trading authorizations:

- Limited trading authorizations limit the third party to giving instructions regarding the purchase and sale of securities and does NOT give authority regarding the disposition of funds or securities.
- Full trading authorizations give the third party authority to give instructions regarding purchases and sales as well as the disposition of funds or securities in the account.

## 8.7 Discretion For Orders And Accounts

Infinity does **not** permit discretionary accounts where the customer signs a discretionary trading authorization and permits the RR to make decisions for the account without consulting with the customer first.

This prohibition does not include temporary or limited discretion in the following examples:

- Price and time discretion for an order.
- Isolated or infrequent discretion, such as when a customer is unavailable for a limited period of time. The customer must sign a trading authorization in advance, an expiration date must be noted on the agreement, and the limited discretion must be approved by the RR's supervisor.
- Exchanging one money market fund for another or its cash equivalent.
- Transactions to satisfy margin requirements.
- Selling bonds and buying similar bonds permitting the customer to take a tax loss on the original purchase.
- Buying a bond with a specified credit rating and maturity.
- Buying or selling a security or type of security within limited specific parameters established by the customer (requires the customer's instructions in writing).
- The RR acts as conservator, trustee, attorney-in-fact, or other agent as a result of a family or personal relationship with the account.

## 8.8 Accounts For Minors

There are a number of requirements and restrictions that affect minors' accounts:

- A custodian must be named in and handle the account
- Only one custodian is permitted for each account
- Custodians generally may not delegate authority to another person
- Only one minor may be named in each account
- Margin transactions are not permitted
- Gifts to minors are irrevocable, *i.e.*, the custodian may not direct distribution of assets from the account except for the benefit of the minor
- The minor's social security number must be used when opening the account
- Minors may not be a party to a joint account, investment club, or partnership

## 8.9 Coverdell Education Savings Accounts



A Coverdell Education Savings Account (ESA) is an account created as an incentive to help parents and students save for education expenses. An alternative is the 528 College Savings Plan which is included in the *MUNICIPAL SECURITIES* chapter in the section *528 College Savings Plans (Municipal Fund Securities)*. For more information, refer to the IRS site above; plan sponsors; and the customer's tax adviser.

The following summarizes some of the key features of Coverdell accounts.

- The maximum annual contribution is \$2,000 subject to limits on the donor's modified adjusted gross income.
- Contributions are made from after-tax dollars; there is no tax deduction for contributions.
- ESAs are available for beneficiaries (students) who are under the age of 18 when the account is established. There are exceptions for beneficiaries with special needs.
- The funds are controlled by the account owner (e.g., the parent) at all times.
- Investment choices are broad but may not include life insurance contracts.
- Assets may be used for elementary- and secondary-school tuition as well as for higher education.

The following compares some features of Coverdell and 528 plans.

Feature	Coverdell Account	528 Plan
Contribution limits	\$2000 annual	No restrictions up to maximum lifetime contribution
Allowable investments	Allows almost all types of investments including stocks, bonds, and mutual funds (parallels rules for IRAs)	Limited to state-run allocation programs
Distribution of assets	Must be disbursed on qualified education expenses by the beneficiary's 30th birthday or given to another family member below the age of 30	No age limit
	Federal tax-free if used for qualified education expenses; some states offer tax benefits	Same
	Income tax and penalties may apply for ineligible distributions	Same
Qualified education	Elementary and secondary schools; higher education	Does not allow elementary and secondary education expenses
Income limits affecting contributions	Limits on modified adjusted gross income at certain levels	No limits
Ownership of assets	Owned by person establishing the account, not the child	Same
Designation of new beneficiary	Must be eligible family member of the previous beneficiary to avoid taxes or penalties	Same

## 8.10 Accounts For Senior Investors

Responsibility	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
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<b>Resources</b>	<ul style="list-style-type: none"> <li>• New account information</li> <li>• Order records</li> <li>• Daily Transaction Report</li> <li>• Customer monthly transaction records</li> <li>• Advertising targeting senior investors</li> <li>• Seminar materials</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Training - as scheduled</li> <li>• Ongoing - other actions</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Conduct training on dealing with senior investors</li> <li>• When reviewing investments for seniors, take into particular consideration the factors included in the subsection <i>Recommendations To Senior Investors</i></li> <li>• Review product-specific guidelines when reviewing for suitability of investments</li> <li>• Refer to new account information when necessary to identify investment objectives and other customer information</li> <li>• Review account activity when appropriate</li> <li>• For escalated issues: <ul style="list-style-type: none"> <li>○ Consider direct contact with the investor</li> <li>○ Notify state or other authorities (after conferring with Compliance) regarding potential elder abuse</li> </ul> </li> <li>• Confer with RR regarding suitability questions</li> <li>• Confer with Compliance when necessary</li> <li>• Contact customer when necessary to confirm customer's understanding of and agreement with transactions</li> <li>• Modify or restrict future transactions, as appropriate</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Initials and comments of action taken on order records, Daily Transaction Report, monthly transaction records, and other available account information</li> </ul>

## General Requirements

When opening and handling accounts for senior investors, there are certain considerations in addition to usual account handling procedures. There is no benchmark for what constitutes a "senior" or "older" investor, but generally these are individuals who are approaching or have achieved retirement.

## Opening Accounts For Senior Investors

When opening accounts, the following should be considered when serving senior investors:

- encourage customers to identify a 3rd-party emergency contact and obtain permission to contact that person in the event there is an issue or event that requires clarification (such as the customer suffers diminished mental capacity in the future)
- indicate "retired" on the new account form to assist in evaluating the investor's status as someone potentially withdrawing from investments vs. accumulating assets
- obtain "lifestyle" information such as when the investor plans to retire, if not already retired; how much money will be needed after retirement; whether there are prospects for future employment; whether a dependent is supported by the investor; other expenses including healthcare expenses anticipated by the investor; the existence of a will and financial power of attorney

Accounts must NOT be opened for a senior investor if there is evidence of financial abuse or diminished capacity; orders should not be accepted under such circumstances, either.

## **Recommendations To Senior Investors**

Suitability considerations are a concern for all types of accounts. While suitability requirements do not specifically refer to age or life stage, these factors should be considered when making recommendations to older investors. Considerations when dealing with senior investors include:

- Current and future prospects for employment
- Primary expenses including whether the customer still has a mortgage
- Sources of income and whether it is fixed or will be in the future
- Income needed to meet fixed or anticipated expenses
- Savings for retirement and how they are invested
- Liquidity needs
- Financial and investment goals (income needs, preservation of capital, accumulation of assets for heirs)
- Health care insurance and future needs to fund health costs

## **Diminished Mental Capacity**

A difficult issue is a customer who appears to be suffering from diminished mental capacity. If a customer's behavior suggests reduced capacity, it is important to take steps to protect the customer, the RR, and Infinity. Relatives or estate beneficiaries may file a complaint or lawsuit if they believe the customer was unable to understand what was occurring in his or her account.

There are a number of steps that may be taken to address the issue:

- Have a conversation with the customer with the branch manager or other supervisor present to assist in making a determination.
- Raise the issue with family members and determine if the customer has given power of attorney to another person.
- Document meetings, conversations, and other exchanges with relatives about the situation.
- Document communications with the customer about investments.
- As a final alternative, decide not to continue doing business with the customer.

Contact Compliance with questions about a proper course of action.

## **Potential Indication Of Elder Financial Exploitation**

This section includes an excerpt from a FinCEN advisory. This information provides guidance to RRs and other employees when handling accounts for elderly customers. Questions regarding potential elder abuse should be referred to your supervisor or Compliance.

The following red flags could indicate the existence of elder financial exploitation. This list of red flags identifies only possible signs of illicit activity. Financial institutions should evaluate indicators of potential financial exploitation in combination with other red flags and expected transaction activity being conducted by or on behalf of the elder. Additional investigation and analysis may be necessary to determine if the activity is suspicious.

Financial institutions may become aware of persons or entities perpetrating illicit activity against the elderly through monitoring transaction activity that is not consistent with expected behavior. In addition, financial institutions may become aware of such scams through their direct interactions with elderly customers who are

being financially exploited. In many cases, branch personnel familiarity with specific victim customers may lead to identification of anomalous activity that could alert bank personnel to initiate a review of the customer activity.

- Erratic or unusual banking transactions, or changes in banking patterns:
  - Frequent large withdrawals, including daily maximum currency withdrawals from an ATM;
  - Sudden Non-Sufficient Fund activity;
  - Uncharacteristic nonpayment for services, which may indicate a loss of funds or access to funds;
  - Debit transactions that are inconsistent for the elder;
  - Uncharacteristic attempts to wire large sums of money;
  - Closing of CDs or accounts without regard to penalties.
- Interactions with customers or caregivers:
  - A caregiver or other individual shows excessive interest in the elder's finances or assets, does not allow the elder to speak for himself, or is reluctant to leave the elder's side during conversations;
  - The elder shows an unusual degree of fear or submissiveness toward a caregiver, or expresses a fear of eviction or nursing home placement if money is not given to a caretaker;
  - The financial institution is unable to speak directly with the elder, despite repeated attempts to contact him or her;
  - A new caretaker, relative, or friend suddenly begins conducting financial transactions on behalf of the elder without proper documentation;
  - The customer moves away from existing relationships and toward new associations with other "friends" or strangers;
  - The elderly individual's financial management changes suddenly, such as through a change of power of attorney to a different family member or a new individual;
  - The elderly customer lacks knowledge about his or her financial status, or shows a sudden reluctance to discuss financial matters.

## Escalating Issues Involving Senior Investors

When dealing with senior investors, there may be changes or events that require escalation of an issue to the RR's designated supervisor and/or Compliance. Following are some issues that may require escalation for handling. Any questions regarding dealing with senior investors should be referred to Compliance.

- Suspected elder abuse including financial abuse (contacting appropriate state or other authorities may be necessary; confer with Compliance regarding such referrals)
- Suspected diminished capacity

Having the RR's designated supervisor or Compliance make direct contact with the investor may be appropriate.

## Use Of Titles Inferring Expertise

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• RR requests to use titles</li><li>• Information regarding outside organizations that confer titles</li><li>• Correspondence and retail communications</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required - review requests</li><li>• Daily and ongoing - review of correspondence/communications</li></ul>

<b>Action</b>	<ul style="list-style-type: none"> <li>• Review requests for use of special titles/designations: <ul style="list-style-type: none"> <li>○ Review any outside organization conferring designations for appropriate qualifications such as internal ethics policies, criteria for conferring designations</li> <li>○ Review the RR requesting the title for qualifications including experience, completion of continuing education with Infinity and regulatory/compliance history</li> <li>○ Determine state requirements that regulate the use of designations</li> </ul> </li> <li>• For those approved to use titles, notify the RR's supervisor who is responsible for review of correspondence and retail communications to determine proper use of title</li> <li>• Notify RR and supervisor if approval is withdrawn due to failure to complete necessary education requirements or other requirements</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Review of outside organizations</li> <li>• Review of RRs</li> <li>• Approval or disapproval of correspondence and retail communications, other actions taken</li> </ul>

RRs may use special titles indicating expertise when dealing with senior investors under the following requirements:

- A request to use a title must be provided to Compliance **prior to use** including the name and address of any outside organization conferring such titles based on meeting the organization's requirements.
- Titles may not be self-conferred, *i.e.*, the title must be based on some criteria or qualification met.
- The RR must be in good standing with the organization that confers the designation.
- The RR must be current on any continuing education requirements of the outside organization.
- The RR must complete firm training specifically relating to dealing with senior investors which may include retirement planning; ethics when working with senior investors; and the proper use of senior designations in correspondence, retail communications and seminars/luncheons.
- Business cards/letterhead are limited to that which is centrally issued by Infinity; RRs may not create their own cards or letterhead.
- Compliance will review the request and notify the RR and the RR's supervisor if the request is approved or disapproved.
- Titles may be used only after Compliance approval.
- RRs who use senior designations must attest on the *Annual Employee Certification* their compliance with requirements.

## Luncheon Programs And Seminars

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> <li>• Compliance</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Public Speaking/Seminar/Luncheon Request</li> <li>• Materials to be provided to attendees</li> <li>• Proposed advertising of the event</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required when the form is submitted</li> </ul>

<b>Action</b>	<ul style="list-style-type: none"> <li>• The designated supervisor is responsible for: <ul style="list-style-type: none"> <li>○ reviewing the form and making changes, if needed, to the proposed event and related materials or advertising</li> <li>○ submitting the form and attached materials to Compliance for review</li> <li>○ attending or designating someone to attend meetings randomly at least once every two months to confirm compliance with Infinity requirements</li> <li>○ if non-compliance or questionable activities are identified, confer with the RR and Compliance regarding corrective action</li> </ul> </li> <li>• Compliance reviews and revises the submitted materials and responds to the designated supervisor, approving or disapproving</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Designated supervisor retains: <ul style="list-style-type: none"> <li>○ copy of request form and related materials</li> <li>○ record of randomly attending luncheons/seminars and corrective action taken, if necessary</li> </ul> </li> <li>• Compliance retains: <ul style="list-style-type: none"> <li>○ the form and all related materials including notations of changes and approval or disapproval</li> <li>○ record of corrective action taken when necessary</li> </ul> </li> </ul>

Luncheon programs and seminars are a common approach to reach investors and have become particularly popular in soliciting senior investors. These programs, as for all public speaking, require the approval of the designated supervisor including submission of the invitation, any related advertisement, an outline of subjects to be covered and copies of materials to be distributed or shown in presentations (slide shows, Powerpoint presentations, *etc.*). Advertising must be approved by Compliance.

Luncheon programs cannot infer that no products will be sold or mislead invitees as to the purpose of the luncheon. Products offered must be suitable for the target audience and the suitability of any recommendation must be considered for each investor individually.

- Complete the Public Speaking/Seminar/Luncheon Request form and submit to the designated supervisor at least 3 weeks prior to the event, to ensure timely review.
- Attach materials to be provided to attendees as well as proposed advertising of the event.

## 8.11 Trust Accounts

New accounts for trusts require a copy of the trust agreement or a trust certification signed by the authorized trustee. The following activities in trust accounts require **prior** approval as follows:

- Margin trading requires approval by Compliance
- Option trading requires approval by Compliance
- Discretionary accounts require approval by Compliance (if Infinity permits discretionary accounts)

Fiduciaries (executors, trustees, guardians, administrators, conservators, *etc.*) may not be able to delegate their duties to a third party (whether the RR or an outside person) to manage the account unless the trust or other authorizing instrument specifically permits delegation. Some states require the fiduciary to obtain a court order to delegate authority to a third party.

## 8.12 Pension And Retirement Accounts

This section is divided into four areas:

1. A general explanation of ERISA requirements
2. General guidelines when offering retirement plans
3. Individual plans established and funded by the investor
4. Employer-sponsored plans

Because of frequent changes to laws affecting contribution levels and other requirements or limitations, some details are not included in these general explanations; individual plans should be referenced for details.

Questions regarding retirement accounts should be referred to the appropriate marketing specialist or to Compliance.

### Employee Retirement Income Security Act (ERISA)

This section provides a general overview of ERISA and how it affects pension and retirement accounts; it does not deal with the complex legal requirements of the Act. Legal counsel should be consulted regarding questions about ERISA and its effect on pension or retirement accounts.

#### Introduction

The Employee Retirement Income Security Act of 1974 (ERISA) is a federal law that sets minimum standards for most voluntarily established pension and health plans in private industry and provides protection for individuals in these plans.

ERISA applies to all Internal Revenue Service-qualified pension and profit sharing plans and employee welfare benefit plans. Most IRA accounts, while not covered by ERISA, are subject to the prohibited transaction penalties. Limited exemptions apply to governmental (public employee) plans and certain offshore and church plans.

This section provides a general overview of ERISA. Because of the technical and legal nature of ERISA, questions should be referred to Compliance or legal counsel.

#### Key Definitions

A "fiduciary" is generally anyone with discretionary authority or control over the management of a plan, the administration of the plan, or the disposition of plan assets. Fiduciaries must comply with certain statutory duties which include prudence and diversification of investments and the duty to act in accordance with the governing instruments of the plan.

A person or entity providing services to an ERISA plan is considered a "party-in-interest" to the plan. This status generally applies to broker-dealers providing traditional brokerage services to ERISA plans. Infinity's role in relation to ERISA plan accounts generally is as a party-in-interest unless Infinity contracts to provide investment management services or other services where Infinity would become a fiduciary to an ERISA plan.

#### Permissible Transactions

Generally, trading in ERISA accounts is subject to the "Prudent Investor Rule" which is discussed in the next section. Allowable transactions are governed by ERISA (and related Department of Labor and IRS rulings), the investment policy of the ERISA plan, and trading guidelines in a managed account program or other trading program if such a program is used.

Some types of transactions (such as margin or certain option transactions) are associated with added risk, and it may be necessary for Compliance to review the plan to determine whether the type of transaction is permissible.

### **Prudent Investor Rule And Diversification**

Trading in ERISA accounts is subject to the "prudent investor" rule (also known as the Prudent Man Rule) which is a standard that is generally understood to mean that individuals involved with investment decision-making act with the same care, skill, prudence and diligence as a prudent man in the same capacity. This measure is not judged on the risk of a single investment but by the investment's relationship to the overall portfolio.

ERISA also requires that investments in a covered plan be diversified to minimize the risk of large losses unless it is clearly prudent not to do so.

### **Prohibited Transactions**

Federal laws prohibit plan assets from being used by a fiduciary for certain transactions (known as "prohibited transactions"). Fiduciaries are prohibited from dealing in plan assets for their own benefit or for the benefit of a third party with whom the fiduciary is affiliated. The Department of Labor (and other government agencies) has issued exemptions from the prohibited transaction rules which allow plans and broker-dealers to engage in some but not all types of securities transactions. The range of permissible transactions varies depending on whether the broker-dealer is a fiduciary to the plan.

### **General Requirements When Dealing With ERISA Plans**

Because of substantial legal liability, RRs are not permitted to become fiduciaries when dealing with ERISA accounts (unless Infinity has a specific program designed to meet legal requirements in offering those services). The following summarizes requirements and limitations:

- RRs may not accept responsibilities regarding administration of a plan (other than following instructions for contributions, distributions and investments from authorized persons acting on behalf of the plan).
- RRs may not be named trustees to plans (unless specifically authorized by Compliance).
- Recommendations to ERISA plans must be consistent with investment policies of the plans.
- Trading on margin does not generally occur in ERISA accounts; Compliance approval is required prior to engaging in margin transactions in an ERISA account.

### **Disclosures To Plans**

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Plan contracts or arrangements</li> <li>• Information regarding services provided and charges for services</li> </ul>



<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Disclosures - reasonably in advance of the date the contract or arrangement is entered into and extended or renewed</li> <li>• Changes or errors in disclosures - as required (see below)</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Identify plans and services subject to 408(b)(2) requirements</li> <li>• Assemble information necessary to make required disclosures</li> <li>• Provide disclosures at time of initial contract/arrangement and when changed, errors are identified, or contracts/arrangements are terminated</li> <li>• Respond to fiduciaries/plan administrators when additional information is requested</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Covered plans</li> <li>• Disclosures provided including dates provided</li> </ul>

Under ERISA, "covered service providers" are required to provide fee disclosures to covered plans to enable the plan fiduciary to make an informed decision about the reasonableness of fees as required under ERISA Section 404(a)(1). Infinity's obligation to provide disclosures depends on Infinity's role in dealing with a covered plan. This section provides a general explanation of the requirements which are complex; the ERISA section should be consulted for specific requirements.

## Definitions

**Covered plan:** An ERISA-covered defined benefit and defined contribution pension plan. Does not include simplified employee pension plans (SEPs), SIMPLE retirement accounts, IRAs, employee welfare benefit plans, and certain annuity contracts and custodial accounts described in ERISA Code section 403(b).

**Covered service provider:** A service provider that enters into a contract or arrangement with the covered plan and expects \$1,000 or more in direct or indirect compensation that is received in connection with providing services defined in Section 408(b)(2) including:

- ERISA fiduciary service providers to a covered plan or to a "plan asset" vehicle in which such plan invests
- Investment advisers registered under Federal or State law
- Record-keepers or brokers who make designated investment alternatives available to the covered plan (e.g., a "platform provider")
- Providers of one or more of the following services to the covered plan who also receive "indirect compensation" in connection with such services:
  - Accounting, auditing, actuarial, banking, consulting, custodial, insurance, investment advisory, legal, recordkeeping, securities brokerage, third party administration, or valuation services

## Required Disclosures

Disclosures include:

- Description of services
- If applicable, that the services are provided in the role of fiduciary
- Compensation, including:
  - Description of all direct compensation either in aggregate or by service to be received
  - Indirect compensation expected to be received

- Description that compensation will be paid among related parties including identification of payers and recipients of compensation
- Description of any compensation to be received in connection with termination of the contract or arrangement and how any prepaid amounts will be calculated and refunded upon termination
- Recordkeeping services, if applicable, including direct and indirect compensation related to such services or, if not explicitly compensated, a reasonable and good faith estimate of the cost to the covered plan of such services
- Manner of receipt of the compensation
- Fiduciary services provided and related compensation
- Recordkeeping and brokerage services with respect to each designated investment alternative for which recordkeeping or brokerage services are provided

### Timing Of Disclosures

- Required disclosures must be provided reasonably in advance of the date the contract or arrangement is entered into and extended or renewed.
- Changes must be provided as soon as practicable but no later than 60 days from the date on which the covered service provider is informed of the change.
- In the event of an error in a disclosure, the covered service provider must correct the information as soon as practicable but no later than 30 days after knowing of the error or omission.
- Requests for other compensation information from the fiduciary or covered plan administrator must be provided within 30 days following receipt of a written request.

### Disclosures To Plan Participants

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Plans for participant-directed individual account plans</li> <li>• Performance and cost information required to be disclosed</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Determine if Infinity and any firm-prepared materials for plan participants are subject to disclosure requirements</li> <li>• Assemble information necessary to make required disclosures</li> <li>• If subject investments are investment companies, contact Compliance to determine whether materials must be filed with FINRA (written materials that conform to the ERISA rule requirements are not required to be filed per the SEC no-action letter)</li> <li>• Provide disclosures to participants or to plan administrator for distribution to participants</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Disclosures provided including when and to whom provided</li> </ul>

ERISA Rule 404(a)(5) requires the disclosure of certain plan and investment-related information, including performance information, to participants and beneficiaries in participant-directed individual account plans. Information is required to be presented in a comparative chart format to enable participants to make an informed decision when managing their accounts.

If Infinity compiles and/or provides the required information, it will comply with the requirements of Rule 404(a)(5). Where the investment alternatives include investment companies subject to other SEC and FINRA rules regarding communications with the public, the disclosures will comply with those requirements or exemptions to requirements.

## General Guidelines When Offering Retirement Plans

Plans differ depending on the law under which they are established. Differences include limits on contributions, tax deductibility, costs, types of plan sponsors (employer or otherwise), and who may participate. The following sections provide general explanations of various types of common retirement accounts. Some of the general guidelines that apply to retirement plan sales include the following. Specific plans should be consulted for limitations and requirements.

- Avoid tax-sheltered investments such as annuities and municipal securities, which generally are not suitable for retirement plans since plans already provide tax benefits.
- Consider the cost of investments recommended for retirement plans vs. the benefits.
- Consider the customer's risk profile and investment objectives when considering securities for recommendation for a retirement plan.
- Consider surrender or exit fees or tax penalties if they apply to the potential transaction.
- Understand the type of plans being discussed or recommended.
- Encourage investors to contact their tax counsel to resolve any tax-related questions.

## Individual Retirement Accounts (IRAs)

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Plan applications</li> <li>• New account applications</li> <li>• Transaction reports</li> <li>• Proposed marketing presentations</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required - opening accounts</li> <li>• As required - review and approve/disapprove marketing presentations</li> <li>• Daily - review of transactions</li> <li>• Ongoing - provide training</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review applications/new account forms for consistency of investment objectives with proposed investments/rollovers</li> <li>• Review transactions for consistency with investment objectives and take corrective action when necessary which may include contact with RR to discuss transactions vs. objectives; contact with customer; contact with Compliance; adjustments to current or future investments</li> <li>• Review marketing presentations/seminar presentations regarding accuracy of information to be presented, experience/knowledge of RR making presentation and approve (making adjustments if necessary or disapprove)</li> <li>• Provide training when new plans/products are offered to retirement accounts and when 401(k) plan participants will be targeted for marketing efforts</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Plan/new account documents</li> <li>• Transactions reviewed including notes of action taken, if any</li> </ul>

	<ul style="list-style-type: none"> <li>• Marketing presentations/seminars with approval or disapproval</li> <li>• Records of training regarding products/services, who attended, and when training was provided</li> </ul>
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IRAs are established by individuals through a plan sponsor; following are key features:

- Annual contributions are limited by law
- Older investors have higher contribution limits under a "catch-up" provision
- Contributions may or may not be tax deductible, depending on the IRA owner's income level
- Contributions are from earned income (other than contributions to a non-working spouse's IRA)
- Certain types of investments such as precious metals are not permitted in an IRA
- Early withdrawals (prior to age 59 1/2) may result in tax penalties
- Owners of traditional IRAs are required to begin withdrawing by the year following the year the owner turns 73

There are multiple types of IRAs including:

- Traditional IRAs; contributions may or may not be tax deductible depending on the IRA owner's income
- Roth IRA:
  - all contributions are in after-tax dollars
  - withdrawals are not taxed at the time of withdrawal if the IRA owner is at least 59 1/2 years old and the Roth IRA has been open 5 years or longer
  - some high wage earners are not eligible to open Roth IRAs
  - no mandatory withdrawals after age 73
- Individual retirement annuity; a traditional or Roth IRA set up with a life insurance company through the purchase of a special annuity contract
- Simplified Employee Pension (SEP-IRA); a traditional IRA set up by an employer for employees; limitations on contributions apply
- Spousal IRA; traditional or Roth IRA funded by a married taxpayer in the name of a spouse (who has limited earnings)
- Rollover IRA: funded with money that is already in a qualified retirement plan; allows moving the money without owing any tax at the time of the rollover (assuming the requirements for a rollover are met)

## Rollovers

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Rollovers</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Ongoing</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review rollovers for:               <ul style="list-style-type: none"> <li>◦ Conflict of interest earning commissions vs. fees and what is more appropriate for the customer</li> <li>◦ Suitability</li> </ul> </li> <li>• Include in training</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Review of rollovers and action taken</li> <li>• Training including content and attendance records</li> </ul>

Infinity and its RRs have responsibilities when recommending a rollover or transfer of assets in an employer-sponsored retirement plan to an IRA and when marketing IRAs and associated services. A plan participant leaving an employer has typically four options (which may include a combination of options):

- Leave the money at the employer's plan, if permitted
- Roll over assets to a new employer's plan, if available and permitted
- Roll over to an IRA
- Cash out the account value

When recommending a rollover to an IRA, some considerations include the following:

- Investment options may be broader in an IRA, but the customer may be satisfied with options under an employer plan.
- Fees and expenses may be higher for an IRA; an employer may pay fees and expenses in its plan; IRA fees may include administrative, account set-up and custodial fees.
- Services may differ between employer plans and various IRAs; such services include planning tools, telephone help lines, workshops, educational material, *etc.*
- Penalty-free withdrawals are available from an employer plan to an employee leaving a job between age 55 and 59 1/2, and it may be easier to borrow from the plan. Such withdrawals may be made from an IRA only after the investor reaches the age of 59 1/2.
- Unlimited protection from creditors and legal judgments is available to plan assets under federal law. IRA assets are protected in bankruptcy only; state laws vary in protecting IRAs in lawsuits.
- Required minimum distributions apply to individuals reaching the age 70 1/2 for both plans and IRAs. However, if the individual continues working past 70 1/2, minimum distributions from the current employer's plans are delayed past 70 1/2.
- Appreciated employee stock in a plan will be subject to negative tax consequences of taxation at ordinary income tax rates vs. long term capital gains if rolled into an IRA. A balancing factor is if the employee is overly-concentrated in the employer stock and is unable to reduce exposure in the plan.
- IRAs cannot be promoted as "no-fees" since the term could mislead investors who typically pay fees in some way to maintain an account. For example, the cost of a "no-fee" account may be subject to higher commissions instead of highlighted as a separate charge. This promotional strategy could attract investors into a rollover that may ultimately be more costly than staying in an employer plan.

RRs have the obligation to consider the suitability of any recommended rollover considering the above factors and others that may apply to the customer and the customer's investment objectives, tax situation, and finances. Explanation of the reason and justification for a rollover must accompany the rollover transaction.

## **Employer-Sponsored Plans**

Employers may offer different types of plans including traditional pension and profit-sharing plans that are funded entirely by the employer. All eligible employees participate and employer contributions are above and beyond the employee's salary. This section describes other types of employer-sponsored plans that give eligible employees the opportunity to put a portion of current income into a tax-deferred investment account. Participation may be voluntary or mandatory, and employers may make matching contributions.

The following sections provide a general explanation of these various plans.

### **401(k) Plans**

- Established by corporations
- Permit their employees to make contributions through payroll deductions from pre-tax income [traditional 401(k) plans]; tax is applied when withdrawals are taken

- Roth 401(k) plans permit employees to make contributions through payroll from after-tax dollars; there is no tax on withdrawals made after age 59 1/2 and if the Roth 401(k) has been open 5 years or longer
- Both traditional and Roth 401(k) plans can be rolled over to an IRA (or a new employer's plan, if the plan permits) if the investor leaves the company
- No mandatory withdrawals for Roth 401(k) plans; mandatory scheduled withdrawals apply to traditional 401(k) plans

## **Limitations On Advice**

Providing investment advice to 401(k) plan sponsors and participants is subject to strict limitations and requirements. Providing investment advice places the RR in the role of a fiduciary which creates the legal liabilities associated with fiduciaries.

RRs are limited to offering firm-approved educational material and third-party advisory plans offered through Infinity.

## **403(b) Plans**

A 403(b) plan is a salary reduction plan offered by non-profit, tax-exempt employers such as schools and colleges, hospitals, and foundations. Individual accounts in a 403(b) plan invest in two categories of investments:

- An annuity contract provided through an insurance company (fixed or variable)
- Mutual funds

Features include:

- Individuals cannot establish 403(b) accounts; only employers may set up accounts
- For non-Roth plans:
  - Employees make pre-tax contributions and employers sometimes match contributions
  - Tax on contributions and earnings and gains on investments are paid when the investor begins withdrawing funds
  - Mandatory withdrawals after age 70 1/2
- If the plan is a Roth contribution plan, tax is paid on contributions to the plan but withdrawals are not taxed; no mandatory withdrawals
- Some 403(b) plans impose steep surrender charges

## **457 Plans**

These plans are offered by a state or local government or a non-profit organization. A 457 plan is a deferred compensation plan similar to 401(k) or 403(b) plans.

- Pre-tax income is contributed
- No tax on contributions; withdrawals are subject to tax
- Technically the portion of salary contributed to the plan is not owned by the employee; the plan sponsor owns all of the 457 plan assets which are held in trust for the employee in an account set up in the employee's name
- Mandatory withdrawals after age 70 1/2
- No early withdrawal tax penalties if funds are paid to the employee when leaving the job prior to reaching age 59 1/2; withdrawal is subject to normal income tax
- May be rolled over to an IRA or a new employer's plan to retain tax-deferred status

## **SIMPLEs (Savings Incentive Match Plans For Employees)**

- Offered by small companies with 100 or fewer employees who earn at least \$5,000 each during the year
- Less complicated to set up and administer than 401(k) or 403(b) plans
- Two types: SIMPLE IRA and SIMPLE 401(k), both with same contribution limits and catch-up contributions for people 50 or older
- Employer must contribute to the plan in one of two ways, a fixed contribution or a matching contribution
- Account must be open for 2 years before the employee can move the money or take it out; early withdrawal is subject to significant tax penalties

## **8.13 Payments to Unregistered Persons**

FINRA rules prohibit firms or associated persons from directly or indirectly paying compensation, fees, concessions, discounts, commissions or other allowances to:

- any person that is not registered as a broker-dealer under Exchange Act Section 15(a); or
- any registered person unless such payment complies with all applicable federal securities laws, FINRA rules and Exchange Act rules and regulations.

Rule 2040(a) directs firms to look to SEC rules to determine whether the activities in question require registration as a broker-dealer under Exchange Act Section 15(a).

## **Referrals**

Referrals are an important part of our business. Satisfied customers may refer others to Infinity and may also seek referrals from employees when they need services not provided by Infinity. It is important that referrals to others are based on sound knowledge about the other person or company. In addition, FINRA rules restrict compensation to unregistered persons or entities.

Key requirements regarding referrals include the following:

- Employees are expected to make referrals involving investments or investment advisory services only to persons or companies included in a firm-sponsored program or on a list of firm-approved providers.
- Employees are prohibited from receiving compensation for referrals except through firm-sponsored programs.
- Any proposed compensation, whether for referring or receiving referrals, must be approved **in advance** by Compliance.
- Referrals involving compensation may require disclosure to the customer of potential conflicts of interest.
- Non-cash compensation is subject to the policy described in the chapter *ORDERS*.

## **Referrals To Others**

Employees **may not** accept compensation from someone outside Infinity for providing referrals. Compensation may be paid by Infinity under firm-sponsored programs such as wrap fee programs.

## 8.14 Death Of A Customer

When a customer dies, the account assets owned by the deceased person may become subject to a will, estate laws, and other governing laws or documents. The assets are, therefore, frozen in the account until necessary documents are received and legal distribution has been determined. Joint accounts and other accounts where the deceased person is a joint owner with others may be subject to certain distribution requirements depending on the styling of the account.

When a customer dies, the RR should:

- immediately notify Operations
- consider assets in the deceased person's account as "frozen" until distribution of assets has been determined, *i.e.*, accept no orders and do not authorize sending of securities or funds from the account
- cancel all open orders

## 8.15 Customer Portfolio And Cross-Reference Records

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Electronic customer portfolio and security cross-reference records</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Semi-annually</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Review records for:<ul style="list-style-type: none"><li>○ Completeness</li><li>○ Patterns of accumulating securities (cross-reference)</li><li>○ Suitability (customer portfolio)</li></ul></li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>•</li></ul>

Infinity provides electronic customer portfolio and security cross-reference information to RRs. The customer portfolio is a cumulative, chronological record of securities transactions, by customer. The security cross-reference is a cumulative, chronological record of transactions, by security, that identifies the customers and details of each transaction.

## 8.16 Concentrations

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Order records</li><li>• Transaction reports</li><li>• Margin records</li><li>• New account records</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Depending on frequency of available reports</li></ul>



<b>Action</b>	<ul style="list-style-type: none"> <li>• Identify concentrated positions, particularly in margin accounts</li> <li>• If the security is a low-cap or other unknown security, check blue sky status</li> <li>• Identify excessive concentration in a particular type of product or industry sector, <i>i.e.</i>, long-duration fixed instruments subject to interest rate shifts</li> <li>• Review the customer's new account profile, particularly the investment objectives</li> <li>• Confer with the RR about concentrations, if necessary</li> <li>• Confer with the customer, if appropriate</li> <li>• Restrict future purchases for individual or all customers, if appropriate</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Reviews of concentrated positions including action taken</li> </ul>

Accounts that are concentrated in certain security positions may increase risk for the customer, particularly if the security is purchased on margin. RRs must consider the following factors for concentrated customer accounts:

- Is the concentrated position in a margin account?
- Do trading characteristics (thinly-traded, limited markets) create added risk to the customer?
- If the concentrated position is higher-risk, is the customer aware of this risk and suitable for such a position or positions?
- Should the concentrated position be mitigated by reducing margin exposure or selling off some of the position?

## 9 ORDERS

This chapter provides policies and guidelines for the entry and handling of customer orders. References to "order records" in this chapter includes manual order tickets and electronic order records, where appropriate.

### 9.1 Acceptance And Prompt Entry Of Orders

Orders should be accepted only from the beneficial owner of an account or their authorized agent. Authorized agents would include anyone holding third-party power to act on the customer's behalf such as a trustee, court-appointed guardian, authorized investment adviser, *etc.* Orders accepted from an unauthorized third party may result in rescission of the transaction and assigning the loss to the RR. For example, orders should not be accepted from a husband, on behalf of his wife's account, unless the wife has signed a trading authorization giving her husband authority to act on her behalf.

If an employee receives a telephone order from someone they do not recognize or know to be the owner of the account or person authorized to act on behalf of the account, identity should be requested before accepting the order. Identity verification information would include:

- account number; and
- social security number; or
- other identifying information on record such as mother's maiden name.

RRs are obligated to transmit customer orders to the appropriate order execution desk or order facility promptly after receipt. Orders cannot be held for future entry; a limit order should be entered if the customer does not want to effect the transaction at the current market price.

### 9.2 Orders Requiring Approval

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Order records</li><li>• Daily Transaction Report</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Daily</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Instruct wire operator or other order entry person of orders requiring approval</li><li>• Have wire operator or order entry person post list in the order entry area</li><li>• Review and approve or disapprove orders</li><li>• In review of daily order records or Daily Transaction Report, identify orders requiring approval but not submitted for approval</li><li>• Remind RRs and order entry person of requirement for order approval when exceptions are noted</li><li>• If problem persists, take additional corrective action</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Initials on order records</li><li>• Initials on Daily Transaction Report</li></ul>

	<ul style="list-style-type: none"> <li>Notes of action taken on Daily Transaction Report, if appropriate</li> </ul>
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Certain orders require approval because of rule requirements or Infinity policy. This section summarizes the orders requiring approval, when approval is required, and the designated supervisor.

#### ORDERS REQUIRING APPROVAL

Type of Order	When Approval Required	Designated Supervisor
First order for new account	Prior to entry	Branch Manager
Buy or sell order for 10,000 or more shares	Prior to entry	Branch Manager
Buy or sell order for \$1,000,000 or more par value of bonds	Prior to entry	Branch Manager
Buy of non-NASDAQ OTC security priced less than \$5.00/share	Prior to entry	Branch Manager
Mutual fund switch orders	Same day as entry	Branch Manager
Mutual fund multiple purchases (purchases of multiple unrelated funds in same account)	Same day as entry	Branch Manager
Short sales	Prior to entry	Branch Manager
Discretionary (if applicable)	Same day as execution	Branch Manager
Discretionary option orders (if applicable)	Same day as execution	Compliance
Buy of 25 or more short-term options (options expiring within same month as order entry)	Prior to entry	Branch Manager
Buy of \$10,000 or more short-term options	Prior to entry	Branch Manager
Opening option transaction of 100 or more contracts	Prior to entry	Branch Manager
Spread order of 100 or more contracts on the same day (includes group orders)	Prior to entry	Branch Manager
Buy or sell orders for research employee accounts (if applicable)	Prior to entry	Research Manager
Buy or sell orders for Investment Banking employee accounts	Prior to entry	Investment Banking Manager
Buy or sell orders for trading personnel (if applicable)	Prior to entry	Designated Trading Manager

## 9.3 Solicited And Unsolicited Orders

For additional details please see chapter on Reg BI

### Definition Of Solicited Order

When a transaction is recommended to a customer and the customer enters an order as a result of that recommendation, the resulting order is considered to be solicited. Other actions that may result in an order being deemed solicited include the mailing of a research report or other written communication for the purpose of encouraging the customer to act on the information provided or sending a prospectus on a new issue.

## Solicited Orders Should Be Indicated

Customer orders that are solicited should be so marked on the order ticket for the transaction.

### Prohibited Solicitations

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Order records</li><li>• Daily Transaction Report</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Daily</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Instruct wire operator or other order entry person to watch for orders in restricted securities or other prohibited solicited orders</li><li>• Identify orders contrary to solicitation limitations</li><li>• If prohibited solicitations are identified, take corrective action:<ul style="list-style-type: none"><li>○ Solicitations contrary to Infinity's Restricted List may require cancellation; contact Compliance for guidance</li><li>○ Other exceptions may require different actions including cancellation of the transactions, removal of commissions, reminder to RRs, <i>etc.</i></li></ul></li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Initials on order records</li><li>• Initials on Daily Transaction Report</li><li>• Records of cancelled trades maintained with daily orders</li><li>• Other records as appropriate (reminder memo to RR, notes to Branch Manager Log, <i>etc.</i>)</li></ul>

RRs may NOT solicit transactions listed below:

- When securities are being sold under rule 144, purchasers may not be solicited

## 9.4 Suitability Of Recommendations

For additional details please see chapter on Reg BI

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• New account records</li><li>• Order records</li><li>• Transaction reports</li><li>• Other available reports</li><li>• Customer monthly transaction records</li><li>• Institutional Suitability Certificates</li></ul>

<p><b>Frequency</b></p>	<ul style="list-style-type: none"> <li>• Daily - review transactions</li> <li>• Monthly - review of accounts</li> <li>• When required - review/approve new accounts</li> <li>• Periodically - training for RRs</li> </ul>
<p><b>Action</b></p>	<ul style="list-style-type: none"> <li>• Obtain Institutional Suitability Certificates from institutional customers <ul style="list-style-type: none"> <li>◦ Where an institutional account fails to provide the Certificate, flag the account noting the form is not on file</li> <li>◦ Where the institution does not affirm its independence for all investments, flag the account regarding what investments are or are not affirmed</li> </ul> </li> <li>• Review customer orders for suitability (other than those excepted) which includes factors among those listed below and other information known about the customer: <ul style="list-style-type: none"> <li>◦ Customer new account information</li> <li>◦ Other securities held in the customer's account</li> <li>◦ Other information regarding the account such as whether the account is managed by an investment adviser or uses other advisers or consultants in making investment decisions</li> <li>◦ Transaction information from daily transaction reports and monthly transaction records</li> <li>◦ Information obtained from the RR</li> <li>◦ Information obtained by contacting the customer</li> <li>◦ Improper trading including excessive trading (also see the section <i>Churning</i> in this chapter) and excessive/short-term trading of long-term products</li> <li>◦ Concentration of a security in one account or multiple accounts (also see the section <i>Concentrations</i> in the chapter <i>ACCOUNTS</i>)</li> </ul> </li> <li>• Refer to new account records when necessary to identify investment objectives and other customer information</li> <li>• Review suitability documentation recorded by the RR and pertaining to a recommended investment or strategy</li> <li>• Where investment profile information is incomplete, contact the RR to obtain further information or if none is available, determine whether there is a reasonable basis for making recommendations</li> <li>• For "hold" recommendations, confirm the RR has included adequate documentation</li> <li>• Where there are suitability questions: <ul style="list-style-type: none"> <li>◦ Confer with RR regarding suitability questions</li> <li>◦ Confer with Compliance when necessary</li> <li>◦ Contact customer when necessary to confirm customer's understanding of and agreement with transactions</li> <li>◦ Modify or restrict future transactions, as appropriate</li> </ul> </li> <li>• Compliance: if Infinity uses portfolio or analytic tools or models, review and confirm whether the tools make recommendations subject to the suitability rule, and communicate obligations to RRs</li> <li>• Train RRs regarding suitability obligations</li> </ul>
<p><b>Record</b></p>	<ul style="list-style-type: none"> <li>• Initials or other record of review on order records and reports</li> <li>• Institutional Suitability Certificates</li> <li>• Suitability documentation on order records or in RR records</li> <li>• Compliance: record of reviews of portfolio or analytic tools and communications with RRs about suitability obligations (if applicable)</li> <li>• Training including who attended, when it occurred, and subjects included</li> </ul>

## General Requirements

RRs must have a reasonable basis for believing that a recommended transaction or investment strategy involving a security or securities is suitable for the customer. Recommendations should be based on information obtained through reasonable diligence to ascertain the customer's investment profile which is recorded in the account records, generally at the time the account is opened and updated when necessary. The customer's investment profile includes, but is not limited to, the customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information the customer may disclose in connection with the recommendation.

There are exceptions to suitability obligations when dealing with certain institutional accounts as discussed in the following section *Institutional Accounts*.

## Investment Strategy

"Investment strategy" is defined in FINRA rules to include, among other things, an explicit recommendation to hold a security or securities. However, the following communications are excluded as long as they do not include (standing alone or in combination with other communications) a recommendation of a particular security or securities:

- a. General financial and investment information, including (i) basic investment concepts, such as risk and return, diversification, dollar cost averaging, compounded return, and tax deferred investment, (ii) historic differences in the return of asset classes (e.g., equities, bonds, or cash) based on standard market indices, (iii) effects of inflation, (iv) estimates of future retirement income needs, and (v) assessment of a customer's investment profile;
- b. Descriptive information about an employer-sponsored retirement or benefit plan, participation in the plan, the benefits of plan participation, and the investment options available under the plan;
- c. Asset allocation models that are (i) based on generally accepted investment theory, (ii) accompanied by disclosures of all material facts and assumptions that may affect a reasonable investor's assessment of the asset allocation model or any report generated by such model, and (iii) in compliance with FINRA Rule 2214 (Requirements for the Use of Investment Analysis Tools) if the asset allocation model is an "investment analysis tool" covered by FINRA Rule 2214; and
- d. Interactive investment materials that incorporate the above.

As excerpted from the suitability rule, there are three main obligations when making a recommendation: reasonable-basis suitability, customer-specific suitability, and quantitative suitability. Additionally, all recommendations must be in the client's best interest.

- a. The reasonable-basis obligation requires a reasonable basis to believe, based on reasonable diligence, that the recommendation is suitable for at least some investors. In general, what constitutes reasonable diligence will vary depending on, among other things, the complexity of and risks associated with the security or investment strategy and Infinity's or RR's familiarity with the security or investment strategy. Reasonable diligence must provide an understanding of the potential risks and rewards associated with the recommended security or strategy. The lack of such an understanding when recommending a security or strategy violates the suitability rule.
- b. The customer-specific obligation requires a reasonable basis to believe that the recommendation is suitable for a particular customer based on that customer's investment profile which includes the customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information the customer may disclose.
- c. Quantitative suitability refers to avoiding excessive activity and requires a firm or RR who has actual or de facto control over a customer account to have a reasonable basis for believing that a series of

recommended transactions, even if suitable when viewed in isolation, are not excessive and unsuitable for the customer when taken together in light of the customer's investment profile. No single test defines excessive activity, but factors such as the turnover rate, the cost-equity ratio, and the use of in-and-out trading in a customer's account may provide a basis for a finding a violation of the quantitative suitability obligation.

Another approach to suitability is portfolio-based that considers the entirety of an investor's investments (or at least those known to the RR). Where a customer has multiple accounts with Infinity and those accounts have inconsistent investment objectives, it is necessary to confirm the customer's intent to use different investment profiles or factors for the different accounts. Notation should be made to the customer's account record and on the order record or the recommendation.

## **Customer Financial Ability**

Rule 2111 prohibits recommending a transaction or investment strategy involving a security or securities or the continuing purchase of a security or securities or use of an investment strategy involving a security or securities unless the member or associated person has a reasonable basis to believe that the customer has the financial ability to meet such a commitment.

## **Specific vs. General Recommendations**

Suitability obligations apply to specific recommendations as opposed to general investment advice (*i.e.*, a recommendation generally to invest in fixed income securities vs. recommending a specific bond). However, recommending a specific strategy (such as use of a bond ladder, day trading, margin, *etc.*) would be subject to suitability obligations. The narrower the scope of the recommendation, the more likely it is subject to suitability obligations.

## **Hold Recommendations**

Suitability and best interest obligations apply to recommendations to hold a security or securities or to continue to use an investment strategy, even if the RR did not recommend the original purchase. RRs should disclose and document (on the order record or the RR's records) that the hold recommendation is based on relevant factors known at the time of the recommendation only, and that continued monitoring or recommendations will not occur (if that is the case). Some hold recommendations should be documented including those for shorter-term investments; those that have a periodic reset or similar mechanism that could alter the investment's character over time; those that are particularly vulnerable to market conditions; or those that are otherwise potentially risky when the recommendation is made. For example, risky investments may include leveraged ETFs, mortgage REITs, an issuer facing significant financial or other material risks, an over-concentrated position, and a security inconsistent with the customer's investment profile. These hold recommendations should be documented in the RR's records.

## **Improper Trading Of Long-Term Products**

It is improper to recommend the short-term trading of long-term products (such as mutual funds, closed-end funds, variable annuities and UITs). Recommending early UIT rollovers to increase sales credits is a violation of suitability requirements and would not be in the client's best interest.

## **Documenting Suitability and Best Interest**

It is important to document suitability, particularly where there may be differing investment profiles when a customer has multiple accounts and when recommending a complex product. RRs should document the basis of their recommendations on the order record and/or in the RR's records such as Daytimers, electronic records, *etc.*

## Understanding Recommended Investments

It is important that the RR understands the investment being recommended. Infinity provides training and/or other materials to describe the features of certain investments offered by Infinity.

If the RR does not understand a security or investment strategy, it is the RR's obligation to contact his or her supervisor, the product manager, or Compliance to receive further information before making a recommendation.

## Institutional Accounts

There is an exemption from customer-specific suitability and best interest obligations when recommendations are made to institutional customers defined by Rule 4512(c). Factors to consider when determining the scope of Infinity's suitability obligation when making recommendations to institutional customers include: (1) the customer's capability to evaluate investment risk independently both in general and with regard to particular transactions and investment strategies involving a security or securities, and (2) the institutional customer's affirmation indicating that it is exercising independent judgment in evaluating the recommendations. An institutional customer may indicate that it is exercising independent judgment on a trade-by-trade basis, on an asset-class-by-asset-class basis, or in terms of all potential transactions for its account. Institutional accounts will be requested to provide the Institutional Suitability Certificate to comply with the exemption.

Where an institutional customer has delegated decision making authority to an agent, such as an investment adviser or a bank trust department, these factors are applied to the agent.

Where an RR has reason to believe an institutional investor is not capable of understanding an investment or making an independent decision, the RR is obligated to make a specific suitability determination and should note this action on order records, in the RR's records, or in the account's records.

## Recommendations Of OTC Equity Securities

Principal approval is required prior to soliciting OTC Equity Securities.

## 9.5 Fair Prices

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Order records</li> <li>• Transaction reports</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review orders and available reports to identify commission or mark-ups/mark-downs that are inconsistent with Firm guidelines</li> </ul>



	<ul style="list-style-type: none"> <li>Where necessary, take corrective action which may include canceling/rebiling the transaction to correct charges, consult with the RR if charges were initiated by him/her, notify trading personnel of inconsistent charges, or consult with Compliance</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>Orders records/reports with notations of review and any corrective action taken</li> </ul>

Infinity is required to make a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions.

For mark-ups/mark-downs of debt securities (other than municipals), refer to the section *Mark-Up Policy* in the chapter *CORPORATE FIXED INCOME SALES AND TRADING*.

## Mark-Up Policy

Following is FINRA's Mark-Up Policy in Rule 2121.

### General Considerations

Infinity has implemented a flat 5% mark-up policy. If circumstances require deviation from this policy, Infinity will evidence how the commission charges are fair and reasonable for the customer. Infinity will use the ProSurv system to supervise daily trade activity. The system will automatically flag any trade activity that exceeds the 5% policy. Compliance will review all flags and either clear the activity or escalate it for additional review. Escalated items will be reviewed to ensure that proper evidence was created to justify the increase in commission or the commission will be adjusted back to 5%.

### Relevant Factors

Relevant factors to consider when determining the fairness of a mark-up are as follows:

- The Type of Security Involved:** Some securities customarily carry a higher mark-up than others. For example, a higher percentage of mark-up customarily applies to a common stock transaction than to a bond transaction of the same size. Likewise, a higher percentage applies to sales of units of direct participation programs and condominium securities than to sales of common stock.
- The Availability of the Security in the Market:** In the case of an inactive security, the effort and cost of buying or selling the security, or any other unusual circumstances connected with its acquisition or sale, may have a bearing on the amount of mark-up justified.
- The Price of the Security:** While there is no direct correlation, the percentage of mark-up or rate of commission generally increases as the price of the security decreases. Even where the amount of money is substantial, transactions in lower priced securities may require more handling and expense and may warrant a wider spread.
- The Amount of Money Involved in a Transaction:** A transaction which involves a small amount of money may warrant a higher percentage of mark-up to cover the expenses of handling.
- Disclosure:** Any disclosure to the customer, before the transaction is effected, of information which would indicate (A) the amount of commission charged in an agency transaction or (B) mark-up made in a principal transaction is a factor to be considered. Disclosure itself, however, does not justify a commission or mark-up which is unfair or excessive in light of all other relevant circumstances.
- The Pattern of Mark-Ups:** While each transaction must meet the test of fairness, FINRA believes that particular attention should be given to the pattern of a member's mark-ups.

7. **The Nature of the Member's Business:** FINRA recognizes there are differences in the services and facilities which are needed by, and provided for, customers of members. If not excessive, the cost of providing such services and facilities, particularly when they are of a continuing nature, may properly be considered in determining the fairness of a member's mark-ups.

### **Applicability Of Policy**

The Policy applies to all securities, whether oil royalties or any other security, in the following types of transactions:

1. A transaction in which a member buys a security to fill an order for the same security previously received from a customer. This transaction would include the so-called "riskless" or "simultaneous" transaction.
2. A transaction in which the member sells a security to a customer from inventory. In such a case the amount of the mark-up would be determined on the basis of the mark-up over the bona fide representative current market. The amount of profit or loss to the member from market appreciation or depreciation before, or after, the date of the transaction with the customer would not ordinarily enter into the determination of the amount or fairness of the mark-up.
3. A transaction in which a member purchases a security from a customer. The price paid to the customer or the mark-down applied by the member must be reasonably related to the prevailing market price of the security.
4. A transaction in which the member acts as agent. In such a case, the commission charged the customer must be fair in light of all relevant circumstances.
5. Transactions wherein a customer sells securities to, or through, a broker/dealer, the proceeds from which are utilized to pay for other securities purchased from, or through, the broker/dealer at or about the same time. In such instances, the mark-up shall be computed in the same way as if the customer had purchased for cash and in computing the mark-up there shall be included any profit or commission realized by the dealer on the securities being liquidated, the proceeds of which are used to pay for securities being purchased.

The Mark-Up Policy is not applicable to the sale of securities where a prospectus or offering circular is required to be delivered and the securities are sold at the specific public offering price.

### **Prohibition Against Trading Ahead Of Customer Orders**

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Order records/reports</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Reviews: daily, weekly or monthly depending on reports available</li><li>• Disclosures: when account opened and annually</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Review for order protection</li><li>• Provide disclosures (institutional accounts, no-knowledge exception) at account opening and annually thereafter</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Order records/reports including date reviewed, reviewer's initials, action taken, if appropriate</li><li>• Records of providing disclosure at account opening and annually</li><li>• Equity Trading Manager Checklist</li></ul>

A FINRA member firm that accepts and holds an order in an equity security from its own customer or the customer of another broker-dealer without immediately executing the order is prohibited from trading that security on the same side of the market for its own account at a price that would satisfy the customer order, unless it immediately executes the customer order up to the size and at the same price or better price at which it traded for its own account. Pending orders are executed on a first-in/ first-out basis (FIFO). "Customer order" in this section applies to orders for Infinity's customers as well as customers of other broker-dealers.

The rule restrictions apply to orders handled during normal market hours and outside normal market hours (if Infinity and customer agree to processing the order outside normal market hours).

## Exceptions

There are certain exceptions to the prohibition against trading ahead of customer orders.

**Large orders and institutional accounts.** Regarding orders for institutional accounts [as defined in FINRA Rule 4512(c)] or orders of 10,000 shares or more (unless the orders are less than \$100,000 in value), Infinity may trade a security on the same side of the market for its own account at a price that would satisfy the customer order providing Infinity has provided clear and comprehensive written disclosure to the customer when the account is opened and annually thereafter that:

- Discloses that Infinity may trade proprietarily at prices that would satisfy the customer order, and
- Provides the customer with a meaningful opportunity to opt in to the Rule 5320 protections with respect to all or any portion of the order. If the customer doesn't opt in to the Rule 5320 protections, Infinity will presume the customer has consented to the exception. In lieu of written disclosure Infinity may provide oral disclosure and obtain the customer's consent on an order-by-order basis, which will be documented on the order for which consent is obtained.

Instead of written disclosure at account opening and annually after, oral disclosure may be made and consent obtained on an order-by-order basis and recorded on the order.

**No-knowledge exception.** Regarding NMS stocks and where Infinity has effective internal controls and information barriers that prevent one trading unit from obtaining knowledge of customer orders held by a separate trading unit, the other trading units may, in a proprietary capacity, continue to trade at prices that would satisfy the customer orders held by the separate trading unit. A description of how customer orders are handled and when Infinity's proprietary account may trade at prices that would satisfy the customer's order will be provided at account opening and annually thereafter. For OTC equity securities where Infinity has similar controls to prevent a non-market-making trading unit from obtaining knowledge of customer orders held by a separate trading unit, the non-market-making trading unit may trade in a proprietary capacity at prices that would satisfy the customer's order.

**Riskless principal exception.** Rule 5320 obligations do not apply to Infinity's proprietary trades if the trades are for the purpose of facilitating the execution, on a riskless principal basis, of an order from a customer ("facilitated order") providing that Infinity:

- Identifies the order as riskless principal when reporting to FINRA (or other SRO); and
- Has written policies and procedures for compliance with FINRA rules regarding riskless principal transactions. Refer to the section *Riskless Principal Transactions* in this chapter.

**ISO exception.** The restriction against proprietary trades ahead of customer orders does not apply to trading for Infinity's account that is the result of an ISO (Intermarket Sweep Order) routed in compliance with Regulation NMS where the customer order is received after Infinity routed the ISO.

**Odd lot and bona fide error transaction exceptions.** The restrictions do not apply to a proprietary trade that is (1) to offset a customer order that is in an amount less than a normal unit of trading; or (2) to correct a bona fide error.

## **Front Running Of Block Transactions**

Knowingly trading ahead of block orders is a manipulative activity that violates securities rules. Infinity and its employees are prohibited from entering or executing an order to buy or sell a security or related or underlying financial instrument when Infinity or employee has knowledge of material, non-public information about an imminent block transaction in that security or related or underlying financial instrument (stock, option, warrant, *etc.*). The prohibition applies until the information has been made publicly available or has otherwise become stale or obsolete.

This applies to executions in any account where Infinity or employee has an interest, has discretionary authority, or for accounts of customers or affiliates of Infinity when the customer or affiliate has been provided the block information by Infinity or an employee.

"Related financial instrument" means any option, derivative, security-based swap, or other financial instrument overlying a security where the value of the security is materially related to, or otherwise acts as a substitute for, the security, as well as any contract that is the functional equivalent of a position in the security.

"Block transaction" means a transaction involving 10,000 shares or more of a security, underlying security, or related financial instrument.

Exceptions include:

- Transactions where Infinity has information barriers to prevent disclosure of information
- Transactions in the same security related to a prior customer order in that security
- Transactions to correct bona fide errors
- Transactions to offset odd-lot orders
- Facilitation of block orders (with conditions in the Rule)

Though the Rule specifically applies to block transactions, front running of other orders is not permitted where the interests of Infinity or an employee are placed ahead of the interests of the customer or where misuse of information about an imminent order violates other rules. Refer to FINRA Rule 5270 for specific details regarding the prohibition.

## **Best Execution**

### **Designated Supervising Principal**

As required under FINRA Rule 5310, our CCO, working with other principals as appropriate, will make all reasonable efforts to detect instances in which it appears that best execution was not obtained and deter future instances.

## **Supervisory Review Procedures and Documentation**

As a fully-disclosed, introducing firm, we direct all order flow to a clearing firm and the clearing firm is responsible for ensuring that all measures are taken to obtain best execution for the customer.

However, this does not relieve us from having best execution responsibilities. To this end, our CCO will ensure that the following are undertaken:

## Quarterly Reviews

Review of a “material sample” of transactions on a quarterly basis, to determine whether or not best execution has been achieved. This review will either be done in-house or we will retain an outside vendor (i.e. TAG) to undertake the quarterly review of transactions.

- Verification of receipt (on a quarterly basis) from our clearing firm evidence (numerical, statistical, other) of best execution

## Annual Reviews

- Verification of receipt (on an annual basis) of “NASD’s Best Execution Report Card” from our clearing firm. Should such “report card” not be positive, the clearing firm will be contacted for further investigation. Based on the findings of such investigation, it may be necessary to recommend to management that we consider changing clearing firms.

## Documentation

- All materials received and/or reviewed to determine the level of best execution for our clients by our clearing firm will evidence such review by initialing the document.
- Any concerns requiring further investigation will be documented and attached to the appropriate reviewed document, along with resolutions or corrective action taken.
- Documentation concerning best execution discussions with our clearing firm will be maintained, indicating the names of those involved in the discussion, and the dates, as well as detailed information concerning all such discussions.
- Copies of any correspondence with our clearing firm on this matter will be retained.
- Should we change clearing firms due to our best execution concerns, a memo to the file will be issued documenting our concerns and any follow up actions taken on our part.

## 9.6 Order Records

Certain information must be recorded for orders accepted by Infinity. Information to be recorded includes:

- Identification of the account
- Buy or sell
- If sell, long or short
- If a short sale, an indication the security can be borrowed
- If sell long, an indication that the seller will deliver the security
- If an option, put or call and open or close
- Name of security
- Quantity
- Price (if a limit order)
- Day or GTC (if not a market order)
- Other terms of the order (fill or kill, stop limit, *etc.*)
- If a discretionary account, notation whether discretion is exercised or not exercised (DE or DNE)
- Identity of RR responsible for the account, if any
- Identity of other person(s) who entered or accepted the order
- Date and time order is received and entered (pre-timing of orders for block positions is prohibited)

Other information to be recorded for the order includes:

- If the customer's order is granted a stop (*i.e.*, price protection on an order as negotiated by Infinity and the customer), the stop is to be noted on the order

- Any modification to/cancellation of order or instructions
- Execution price
- Date and time of execution or cancellation
- If the customer enters the order on an electronic system, a notation regarding electronic entry

## 9.7 Conflicts Of Interest

### 9.7.1 Precedence Of Customer Orders

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Order records</li> <li>• Daily Transaction Reports</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Identify orders where the RR has received a better price for a transaction in the same security, on the same day, and on the same side of the market (buy or sell) as the RR's customer</li> <li>• Adjust the customer's order to the better price, if appropriate</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Order adjustments are included in records of the day's orders</li> </ul>

The customer's interest has precedence over any employee's personal interest. While there is no standard that applies in every case, in general, RRs will solicit customer orders before entering orders for personal accounts in the same security. When an RR receives a better price in a security the same day the RR's customer executes an order in the same security on the same side of the market (buy or sell), the customer will generally receive the better price unless there are circumstances that justify the RR's better price (time of order entry, inability to reach customer, *etc.*).

### Disclosure Of Control Relationship

When a customer effects a transaction in a security where the issuer controls, is controlled by, or is under common control with Infinity, Infinity will provide the customer with a disclosure in writing at or before completion of the transaction. This is usually accomplished by included disclosure on the customer's confirmation.

## 9.8 Review Of Customer Transactions

### Review Of Daily Transactions

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
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<b>Resources</b>	<ul style="list-style-type: none"> <li>• Order records</li> <li>• Daily Transaction Report</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review orders for, among other possible items: <ul style="list-style-type: none"> <li>○ Completeness of order records</li> <li>○ Suitability of transactions</li> <li>○ Discretionary account orders</li> <li>○ Orders requiring approval</li> <li>○ Excessive commissions</li> <li>○ Unauthorized transactions</li> <li>○ Wash sales/prearranged trades</li> <li>○ Prohibited orders</li> </ul> </li> <li>• For orders contrary to Infinity policy or rule requirements, take corrective action which may include: <ul style="list-style-type: none"> <li>○ Confer with the RR to clarify the transaction, if necessary</li> <li>○ Cancel and rebill the transaction to reflect appropriate charges</li> <li>○ Cancel the transaction to Infinity's error account</li> <li>○ Confer with Compliance regarding additional education for the RR and/or disciplinary action</li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Initials on order records requiring approval</li> <li>• Initials on day's order records</li> </ul>

Orders are reviewed on a daily basis for compliance with order requirements.

## Review Of Account Activity By Designated Supervisors

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Customer monthly statements</li> <li>• Posting records</li> <li>• New account forms</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Semi-annually</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review customer transactions records for suitability of transactions</li> <li>• Refer to new account forms when necessary to identify investment objectives and other customer information</li> <li>• Confer with RR regarding suitability questions</li> <li>• Confer with Compliance when necessary</li> <li>• Contact customer when necessary to confirm customer's understanding of and agreement with transactions</li> <li>• Modify or restrict future transactions, as appropriate</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Initials on records reviewed</li> </ul>

	<ul style="list-style-type: none"> <li>• Branch Manager's Log</li> </ul>
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Designated Supervisors are expected to review customer account activity periodically. This may be accomplished by reviewing the monthly statements, posting records, and/or other cumulative transaction information of selected RRs on a rotating basis.

## Review Of Account Activity By Compliance

Accounts will be selected for review on a periodic basis by Compliance. Criteria for selection and frequency of review will be established by Compliance.

## 9.9 Trade Errors

Trade errors are to be immediately reported to the designated supervisor for correction. RRs are not permitted to correct errors themselves.

Infinity may not cover losses for investors by treating transactions as errors when, in fact, they are not errors. Some customers may request such an accommodation in exchange for future business. Absorbing losses is a violation of SRO rules and is not permitted.

## 9.10 Sellouts

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> <li>• Operations</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Notices from Operations regarding sellouts</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Operations: Notify the RR and supervisor that customer's payment is due</li> <li>• If the customer does not pay for the trade, sell out the customer's position</li> <li>• Remove the transactions from the customer's account through cancel/rebill</li> <li>• Review the circumstances of the sellout</li> <li>• If there is a loss, charge the RR (unless an exception is warranted)</li> <li>• Identify patterns of customer reneges which may reflect: <ul style="list-style-type: none"> <li>○ Potential unauthorized transactions</li> <li>○ A customer whose account should be closed</li> </ul> </li> <li>• Take corrective action, if necessary, which may include discussing sellouts with the RR; reviewing new account documentation; contacting the customer; closing the account; contacting Compliance regarding possible disciplinary action against the RR</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Sellouts are included in the day's order records</li> <li>• Review of sellout, cancel/rebill of transactions</li> <li>• Investigation of repeat sellouts and corrective action taken</li> </ul>



Customers who fail to pay for transactions will be subject to sellouts to close out the unpaid security position. RRs will be charged for any unpaid balance remaining after the sellout.

## 9.11 Time Clock Synchronization

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Clock Synchronization Log</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Weekly</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review Log</li> <li>• Take corrective action for failure to synchronize clocks which may include: repair or replacement of clocks (for mechanical failure); additional training of personnel; or other appropriate action in consultation with Compliance</li> <li>• If a non-member is used to record OATS times, obtain a current copy of the procedures used by the non-member to ensure their clocks are synchronized</li> <li>• Complete the annual certification by March 15 of each year</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Clock Synchronization Log that records the times when Business Clocks are synchronized and whenever a clock fails to be within the applicable tolerance</li> <li>• Non-member's OATS procedures (if applicable)</li> <li>• Certifications</li> </ul>

All time clocks (computer system or mechanical) used for recording date and time of orders must be synchronized to ensure the accuracy of recorded time. Time must be recorded in hours, minutes, and seconds and must be synchronized to a source that is synchronized to within a one-second tolerance of the National Institute of Standards' (NIST) atomic clock, except that computer system clocks that are used to record events in NMS securities, including standardized options, and OTC Equity Securities (as defined in FINRA Rule 6420) must be synchronized within a 50-millisecond tolerance of the NIST clock and maintained at that synchronization. This tolerance includes all of the following:

1. the difference between the NIST standard and a time provider's clock;
2. transmission delay from the source; and
3. the amount of drift of the Firm's clock.

The following procedures are to be followed to synchronize business time clocks used to record order entry and execution times:

- Clocks that have not been checked according to these procedures must **not** be used for recording order information.
- All clocks will be synchronized with the National Institute of Standards and Technology (NIST) system clock **each business day**:
  - prior to market opening; and
  - at pre-determined intervals throughout the business day.
- Traders or other order desk personnel must record clock synchronization on the Clock Synchronization Log and provide the Log to the designated supervisor weekly.
- Failure to conduct required synchronization may result in disciplinary action.
- The designated supervisor is responsible for reviewing and retaining the Logs and taking corrective action, when necessary (may include repair or discontinuing use of a clock; review of systems; *etc.*).

- In the future (date not yet determined), Infinity will report violations of clock synchronization requirements.

## Certification

Each year Infinity will complete the certification by March 15 of each year. The certification will be maintained in a file available to regulators upon request. Only one certification is prepared even if Infinity is a member of multiple regulatory organizations.

## Definitions

**Business Clocks:** Those clocks that currently capture time in milliseconds and that are used to record time related to "Reportable Events."

**Reportable Events:** Includes the original receipt or origination, modification, cancellation, routing, execution (in whole or in part) and allocation of an order, and receipt of a routed order in Eligible Securities (e.g., NMS Securities and OTC Equity Securities).

## Marking Orders

All sell orders are required to be identified on the order record as "long," "short," or "short exempt" (if applicable) at the time of entry.

A sell order may be marked "long" when the seller owns the security being sold and the security either is in the physical possession or control of Infinity or it is reasonably expected that the security will be in the physical possession or control of Infinity by settlement date.

A sell order should be marked "short" when the security being sold is not owned by the seller and will require it to be borrowed to make delivery by settlement date. See the section *Locate And Delivery Requirements* regarding the requirement to borrow securities.

Short sales effected in covered securities when a circuit breaker price test is triggered may be marked "short exempt" if they qualify for the exemption.

## Locate And Delivery Requirements

Prior to effecting a short sale in an equity security, there is an obligation to "locate" securities available for borrowing and delivery by settlement date. The "locate" must be determined prior to order entry. Exceptions to this requirement are listed below.

It is the RR's responsibility to contact Operations (or consult a "borrow" list if available) to confirm whether the security being sold short may be borrowed. The borrow list relied upon must be less than 24 hours old. The following locate information must be recorded on the order:

- if obtained from a person, the name of the person and the number of shares to be borrowed and the date
- if obtained from an authorized "borrow list," notation that the list was consulted and the date

If affirmation is obtained from someone outside Infinity, the order record must also include the name of the person's employer.

## **9.12 Sale Of Control Or Restricted Stock**

### **Designated Supervising Principal**

The CCO will ensure that all registered personnel receive sufficient training regarding the requirements surrounding control or restricted stock transactions.

In addition, our designated supervising principals are responsible for ongoing monitoring of all securities-related activities undertaken by the individuals under their direct supervision to ensure that we fully adhere to all rules, regulations and requirements.

### **Supervisory Review Procedures and Documentation**

Regarding control or restriction stock transactions, Infinity must do the following.

- Determine whether the client is, or ever was, an officer, director or similar official of the issuer whose certificates are deposited with the firm.
- Ask the client whether he or she has a contractual, or other, arrangement with the issuer.
- Furthermore, inquiry must also be made into how, and from whom, the client acquired the securities.
- We have an obligation to obtain complete background information for any new account, including current business connections, as well as any long-term prior business activities. The supervising principal will not approve new accounts without adequate business-related client information. We will maintain documentation of the reviews determining that sufficient information has been obtained, evidencing the principal's approval by initials and date.
- A client order to sell control or restricted securities may NOT be entered without PRIOR approval from a designated supervising principal, who will evidence review of the appropriateness of the transaction by initials and date.

The CCO will oversee periodic, at least quarterly, customer account review. This review will ascertain that orders involving the sale of unregistered stock or the purchase or sale of stock in a company in which the customer or a close relative of the customer has a control position have not been effected by a registered representative without PRIOR APPROVAL from his/her supervising principal. If any of these involve options, approval must have been obtained from an appropriately licensed Options Principal. We will maintain documentation of all reviews in the files, indicating dates, name of individual undertaking the review, scope of the review, findings and any corrective measures taken, if applicable.

It Infinity's policy to not implement a sell order for a stock without having the stock in-hand, or in an account with our clearing firm. At the time the certificate is received, the back and front of the stock will be examined for any endorsements with regard to restrictions and/or controls of the particular stock.

In addition, registered personnel are required to have COMPLETED and IN HAND - PRIOR to the trade - a signed and completed New Account Form for that client. The designated principal will review this New Account Form and either approve or return it for clarification prior to, or within two days following, the initial transaction.

Approval for the sale will be given only after the CCO, or a specifically designated principal, determines that the sale is in compliance with each provision of Rule 144 under the Securities Act of 1933. This determination will take into account, among other things, the availability of current public information regarding the issuer, limitations on the amount of securities sold and holding period

requirements. Infinity will maintain documentation regarding the appropriateness of the sale, including the name of the individual who undertook the review, the date of the review and final approval or denial.

### 9.13 Reporting Of Insider Transactions

Under Section 16(a) of the Exchange Act, directors, officers, and >10% holders of equity securities of a publicly-traded company are required to report their purchases and sales of the issuer's securities to the SEC (and, if the security is listed on a national exchange, with the exchange where listed) as follows:

- at the time the security is registered on a national securities exchange or by the effective date of the registration statement
- within 10 days of becoming a 10% beneficial owner, director or officer
- by the end of the second business day following a purchase or sale transaction

Alternate reporting period requirements apply to two categories of transactions in which the insider does not control and may not be able to predict when the transaction will occur:

- Transactions pursuant to a contract, instruction or written plan
- Discretionary transactions pursuant to employee benefit plans such as fund switching transactions

In these instances, the date the executing broker-dealer or plan administrator notifies the insider of the transaction is deemed the date of execution for reporting purposes, as long as the notification is not later than the 3<sup>rd</sup> business day following trade date. The SEC may also provide different due dates for limited types of transactions where two-day reporting is not feasible.

If the issuer maintains a corporate website, the issuer is required to post the filing on the site no later than the end of the business day following the filing.

Transactions by directors or officers that result in "short-swing" profits but that are exempt from Section 16(b) are also subject to the two-day reporting requirement.

The obligation to report is the responsibility of the insider. Customers should be encouraged to contact their counsel if they have questions, and Section 16 should be referenced for specifics regarding filing requirements.

### 9.14 Penny Stocks

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• New Account Form</li> <li>• Order Records</li> <li>• Daily Transaction Report</li> <li>• Risk Disclosure Documents</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• FINOP:               <ul style="list-style-type: none"> <li>○ Include required disclosures on confirmations</li> </ul> </li> <li>• RR's supervisor, for customers who are not "established" customers:</li> </ul>

	<ul style="list-style-type: none"> <li>○ Determine required signed risk disclosure document is received prior to effecting the first 3 penny stock purchases and the two-business-day cooling-off period has been satisfied</li> <li>○ Review new account form and determine investment objectives are consistent with penny stock purchases</li> <li>○ Review and initial signed risk disclosure document</li> <li>○ Submit document to Compliance or New Accounts</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>● Initials on the Risk Disclosure Document</li> <li>● Risk Disclosure Documents are retained in the customer's new account file</li> </ul>

## General Requirements

Securities that are identified as "designated securities" (penny stocks) are subject to certain requirements including:

- provision of risk disclosure to a customer other than an "established customer"
- a "cooling-off period" of two business days after the risk disclosure is sent before a penny stock may be purchased
- disclosure of certain price information relating to the customer's purchase
- disclosure of compensation received by the broker or dealer
- inclusion of prices of penny stock positions on the customer's monthly statement and a legend regarding the value assigned to the penny stock

There are five primary exemptions from these requirements:

1. The price of the security is \$5.00 or more per share.
2. The purchaser is either an accredited investor or established customer or is a principal affiliated with the issuer (as defined in the rule).
3. The transactions are not recommended.
4. The broker-dealer's commissions, mark-ups and mark-downs from penny stock transactions did not exceed 5% of total commissions or mark-ups and mark-downs during the 3 months immediately preceding the transaction, AND, the broker-dealer has not been a market maker in the penny stock to be purchased by the customer for the immediate 12 months preceding the transaction.
5. Any other transaction exempted by the SEC.

The following sections outline Infinity's requirements for penny stock transactions subject to the rules.

## Penny Stock Defined

Penny stocks are equity securities identified as "designated securities" under the SEC's Penny Stock Rule. Penny stocks are low-priced securities (less than \$5.00 per share) with the Rule listing securities that are **not** included in the definition, as follows.

The following are **not** considered penny stocks subject to the requirements outlined in following sections:

- A reported security as defined in Regulation NMS Rule 601.
- The stock is priced at \$5.00 or more per share.
- Shares of investment companies.
- The stock is listed on an exchange.
- Security futures.

- The issuer has net tangible assets in excess of \$2 million, if the issuer has been in continuous operation for at least 3 years, or \$5,000,000 if in continuous operation for less than 3 years; or average revenue of at least \$6,000,000 for the last 3 years.

Penny stocks include the equity securities of private companies with no active trading market if they do not qualify for one of the exclusions from the definition of penny stock.

RRs should assume that any unlisted securities priced less than \$5.00 per share may be subject to the penny stock requirements.

## **Established Customer Defined**

The requirements of the Rule do not apply to penny stock transactions for "established customers." The term established customer includes a customer who:

- has maintained an account (effected a transaction, made a deposit of funds or securities) more than one year previously, or
- has made three purchases of penny stocks that occurred on separate days and involved different issuers.

## **Suitability Information**

RRs are required to obtain information from the customer including prior investment experience, investment objectives, and financial situation. This information is recorded on Infinity's new account form which must be completed prior to effecting a transaction in a penny stock. With this information, the RR is required to reasonably determine whether transactions in penny stocks are suitable for the customer.

Prior to effecting a transaction in a penny stock, the new account form must be completed and submitted to the designated supervisor for approval. The designated supervisor should review the information included on the form to confirm the suitability of penny stocks for the customer's account.

## **Risk Disclosure Document**

Prior to effecting a penny stock transaction for a customer, the RR must furnish the customer with a copy of Infinity's penny stock disclosure document titled "Important Information On Penny Stocks" and obtain the customer's signature on the disclosure document acknowledging receipt. The disclosure document may NOT be copied on Infinity letterhead but must be reproduced on plain paper.

Furnishing this disclosure and obtaining the customer's signature evidencing receipt is required for each of the first three penny stock transactions before orders are entered.

## **Two-Business-Day Waiting Period**

Penny stock transactions may **not** be executed until at least two business days after the suitability statement and agreement to the transaction has been sent either electronically or by mail. These documents must also be signed by the customer and received by Infinity.

## **Disclosure Of Quotations And Other Information**

Rule 15g-3 prescribes certain required information that must be disclosed to the customer at or prior to the time of effecting a penny stock transaction. The designated supervisor is responsible for establishing procedures to ensure the necessary disclosures are included on customers' confirmations. Traders are responsible for including notations on order tickets that include the required information regarding bids or offers. A copy of Rule 15g-3 will be provided to traders responsible for recording the required information. The designated supervisor is responsible for establishing procedures to ensure the bid or offer information is included with customer confirmations of penny stock transactions.

## Disclosure Of Compensation

Infinity's compensation for penny stock transactions will be disclosed on customer confirmations as follows:

- For agency transactions, the amount of the compensation.
- For riskless principal transactions where Infinity is NOT a market maker, the difference between the price to the customer and the contemporaneous purchase or sale price.
- For other principal transactions, the difference between the price to the customer and the prevailing market price.

"Active and competitive" market, for purposes of calculating mark-ups or mark-downs, is defined in the penny stock rules to include a market where the market maker, in the five business days preceding the transaction, executes less than 20% of the aggregate number of all transactions in the penny stock reported to an automated interdealer quotation system. Where Infinity dominates the market, contemporaneous cost will be used to calculate mark-ups or mark-downs.

Traders are responsible for recording the required information on order records. This information is to be transmitted for inclusion on customer confirmations. The designated supervisor is responsible for establishing procedures for ensuring that required compensation disclosures are included on customer confirmations.

## 9.15 Sales Contests

### Prohibition on Sales Contests

Due to Regulation Best Interest, Infinity will not participate in any sales contests or allow any sales contests.

## 9.16 Cash And Non-Cash Compensation Policy

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Requests from RRs, managers, or outside firms regarding sponsorship of cash or non-cash compensation relating to the sale of securities</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review request and ensure compensation is consistent with rule requirements and limitations</li> <li>• Obtain Sponsor Request Form</li> </ul>

	<ul style="list-style-type: none"> <li>• Approve or disapprove compensation in writing</li> <li>• Obtain Reimbursement Form from sponsor with RR payment</li> <li>• Establish and maintain required records of approved compensation programs</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Requests</li> <li>• Sponsor Request Forms</li> <li>• Reimbursement Forms</li> <li>• Approval/disapproval of compensation arrangement</li> </ul>

Regulators' rules restrict compensation relating to the sale and distribution of debt, equity, direct participation program (DPP), REIT securities, and municipal securities. RRs may not accept (directly or indirectly) cash or non-cash compensation from outside firms or persons. The only exception includes compensation arrangements specifically approved by Infinity.

## Definitions

**Cash compensation** is defined as follows:

Any discount, concession, fee, service fee, commission, asset based sales charge, loan or override, or cash employee benefit received in connection with the sale and distribution of securities.

**Non-cash compensation** is defined as follows:

Any form of compensation received in connection with the sale and distribution of securities, other than cash compensation, which includes, but is not limited to, merchandise, gifts and prizes, travel expenses, meals and lodging.

## Approval

Any compensation as defined in this section and paid directly to the RR requires sponsor submission of the Sponsor Request Form and approval by Compliance **prior to** accepting compensation. The following section outlines types of non-cash compensation permitted without specific approval, unless otherwise noted.

## Types Of Permissible Non-Cash Compensation

The following types of non-cash compensation are allowed provided they are **not preconditioned on achieving a sales goal**:

- Gifts amounting in aggregate value not exceeding \$100 annually, per person. All gifts must be reported to Compliance under Infinity's Gifts, Gratuities and Entertainment policy.
- An occasional meal, ticket to a sporting event or show, or comparable entertainment that is not so frequent nor so extensive as to raise any question of propriety.
- Payment or reimbursement in connection with training or educational meetings, subject to several conditions. *Note:* Prior approval must be obtained from the designated supervisor before participating in such meetings.
- The location of the meeting is appropriate for its purpose, e.g., a U.S. office of the offeror or member holding the meeting, or a facility located in the vicinity of such office, or a U.S. regional location with respect to meetings of associated persons who work within that region or where a significant or representative asset of a DPP or REIT is located (inspection of real estate, oil and gas production



facilities, and other types of assets that will be held and managed by the program). The designated supervisor will determine the appropriateness of the meeting.

- Only expenses incurred by Infinity or its employees are eligible for payment. Expenses for guests of employees (spouse, *etc.*) will not be reimbursed.

## **9.17 Prohibited Transactions and Practices**

### **Introduction**

RRs are required to handle customer transactions in compliance with regulators' rules. This section highlights certain types of prohibited transactions.

### **Unauthorized Trading**

No employee may enter a transaction before contacting the owner of the account (or the authorized agent for the owner) unless the employee has specific written authorization to act on the customer's behalf. Failure to contact the customer or the customer's agent can result in the customer later rescinding the transaction because it was not authorized. Engaging in unauthorized transactions subjects the employee to regulatory and Firm discipline which may include fines and/or termination depending on the seriousness of the violation. If Infinity determines an RR engaged in unauthorized trading, any related losses will be charged directly to the RR.

RRs must also avoid "inadvertent" unauthorized transactions such as accepting an order from a husband for a wife's account where the wife has not signed a trading authorization giving her husband authority to trade on her behalf. Doing a customer a "favor" by entering an order when he or she cannot be reached may be construed as good customer service by the RR but in reality is a rule violation and subjects the RR and Infinity to potential liability for losses from unauthorized transactions.

### **Market Manipulation**

Infinity and its employees may not engage in manipulative activity to artificially affect the price of a security including entering orders at successively higher prices; creating or inducing a false or misleading appearance with respect to the market in a security; trading at the close to influence the price of a security; or participate (directly or indirectly) in the profits of a manipulative operation or knowingly manage or finance a manipulative operation. "Matched trades" where a person buys or sells a stock, with knowledge that a substantially offsetting transaction is going to be entered by someone, in order to mislead others about the extent of activity in, or the market for, a given stock is a form of market manipulation.

### **Churning**

Churning of a customer's account is prohibited. The term "churning" has a number of elements including:

- Control of the account by the RR
- Excessive transactions
- Intent to defraud which may be defined as the RR acting in the RR's own interest contrary to the customer's interest

An account that is "active" does not necessarily denote churning. An account's activity must be reviewed individually when reviewing for churning including the customer's objectives and the customer's control of the account.

Infinity also may not engage in excessive trading in a proprietary account considering Infinity's financial resources and/or considering the market for the security.

# 10 SUPERVISORY SYSTEM, PROCEDURES, AND CONTROLS

[SEC Securities Exchange Act of 1934 Section 15(f); FINRA Rule 3110, 3120 and 3130; FINRA web page: <http://www.finra.org/RulesRegulation/IssueCenter/SupervisoryControl/index.htm>; MSRB Rule G-27; NASDAQ Rule 3010]

## 10.1 Introduction

Infinity has established a supervisory system, procedures and controls reasonably designed to comply with regulators' rules.

**Supervisory system:** The internal system to oversee business includes the designation of supervisors and allocation of responsibilities; assignment of RRs to appropriate supervisors; identification of areas of business and rules that govern those businesses; and development of procedures.

**Supervisory procedures:** Procedures in this manual (and in other policies or manuals, if referenced in specific chapters) include:

- compliance procedures for RRs and others that explain rule requirements and prohibitions as well as internal policies when conducting sales and other activities; and,
- supervisory procedures that explain how supervisors are to conduct their ongoing responsibilities. Most supervisory procedures are explained in "matrixes" that appear throughout this manual and include the following:

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• WSP</li><li>• Account Statements</li><li>• Customer Complaints</li><li>• Results of Examinations</li><li>• Audit Reports</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As detailed in plan of Operation</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Review resources</li><li>• Identify Risk areas</li><li>• Conduct risk analysis</li><li>• Conduct reviews as required by risk analysis and review of reports</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Analysis of transactions</li><li>• Reports on reviews</li></ul>

**Supervisory Controls:** Controls refer to testing and evaluation of systems and procedures to measure and maintain their effectiveness. Internal controls typically involve sampling of functions to test effectiveness and identify shortcomings, gaps, or other inefficiencies in supervisory systems and procedures. Internal controls also involve the ongoing reassessment of these functions to determine whether they are serving their intended purpose.

## 10.2 Responsibility

Responsibility for Infinity's supervisory system, policies, and controls includes the following:

- Designated supervisors (line managers) are responsible for enforcing policies and procedures in their respective business areas.
- The Chief Compliance Officer (CCO) is responsible for establishing and maintaining the supervisory system, policies and procedures for all areas of the firm.
- The Chief Compliance Officer (CCO) is responsible for establishing and maintaining the supervisory system, policies and procedures other than financial and operations procedures.
- The Financial and Operations Principal (FINOP) is responsible for establishing and maintaining systems, policies and controls regarding financial and accounting procedures and reporting.
- The Chief Operations Officer (COO) is responsible for establishing and maintaining systems, policies and controls regarding operations procedures.

## 10.3 Controls

### Verification And Testing

Infinity periodically conducts reviews to test and verify its supervisory system and controls.

Testing and verification generally include:

- Identifying areas to be reviewed at least annually
- Developing reviews and a schedule for conducting the reviews
- Assigning responsibility for conducting reviews
- Preparing reports of reviews
- Providing reports to management, the audit committee, and other appropriate personnel for potential corrective action
- Following up regarding deficiencies in subsequent reviews

Records of testing are maintained by the department responsible for conducting testing and include:

- areas to be reviewed
- schedule of reviews
- reports of findings including a record of distribution of the report and responses from the supervisor of the area examined
- follow-up or corrective action taken

Testing and verification is the responsibility of:

- Compliance - compliance systems and procedures

## 10.4 Written Compliance And Supervisory Procedures

[SEC Securities Exchange Act of 1934 Rule 17a-4(e)(7); FINRA Rule 3110(b)(7) and 3110.11]

Compliance is responsible for maintaining and updating Infinity's compliance and supervisory procedures which are included in this manual.

This manual is updated and policies distributed as follows:

- New and amended rules and releases from regulators are reviewed on an ongoing basis and changes considered for written procedures and incorporated where necessary. Changes are considered at least bi-monthly.
- Changes are incorporated in written procedures including the date of the revision.
- Prior versions of the manual are archived for books and records purposes.
- When policy and procedure changes affect personnel, Compliance will distribute new or revised policies as follows:
  - In written form, where practical
  - By email
- Compliance provides manuals to new employees and obtains receipts that are maintained in employee or other compliance files.
- If a new policy manual is distributed, receipts will be requested and maintained in employee or compliance files.
- Policies may be made available to employees in electronic format. Changes will be promptly posted to the electronic version of policies and procedures.
- Electronic versions are protected to prevent changes by unauthorized persons. Compliance maintains a record of those authorized to change and post policies and procedures.

## 10.5 Chief Compliance Officer (CCO)

[FINRA Rule 3130(a)]

Infinity has designated a CCO who is listed on the *Designation Of Supervisors* chart and Schedule A of Form BD which is filed with regulators.

## 10.6 Internal Inspections

[FINRA Rule 3110(c)]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Compliance</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Records, reports, policies and procedures</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Annual (or more frequently for certain high-risk areas)</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Identify business areas subject to review</li> <li>• Prepare schedule of inspections considering the risk profile of each business area</li> <li>• Assign inspection responsibility considering any potential conflicts of interest including economic, commercial, or financial interests in the associated persons or business being inspected and ensuring the person assigned does not work in the business unit and is not directly or indirectly supervised by, or otherwise reporting to, an associated person assigned to the unit or location. Where compliance is not possible due to Infinity's size or business model, document in the report both the factors used to make this determination and how the inspection otherwise complies with the requirements of Rule 3110(c)(1)</li> <li>• Prepare draft report of review and provide to appropriate supervisory personnel for comment</li> <li>• Prepare final report and send to supervisor of the business area and senior management</li> <li>• Obtain response regarding corrective action from the supervisor</li> </ul>

	<ul style="list-style-type: none"> <li>• Follow up regarding deficiencies (at the latest at the next inspection)</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Records of internal inspections including when conducted, who conducted them, and reports and responses</li> </ul>

Infinity reviews, at least annually on a calendar-year basis, the businesses in which it engages to identify potential non-compliance with Firm policies and procedures and regulatory rules, laws, and regulations.

Reviews may be conducted through a number of resources including (but not necessarily limited to):

- Compliance
- Clearing firm (for those areas that are the clearing firm's responsibility)
- Internal audit
- Outside auditors
- Outside consultants
- Risk management

Reviews conducted internally may use different approaches:

- Review of a specific period of time
- Review based on a sampling of the activity
- Other reviews appropriate to the area of business

OSJ and branch office inspections are described in the chapter *OFFICES* in the section *Office Inspections*.

## 10.7 Review And Testing Of Procedures And Controls

[FINRA Rule 3120(a)]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Compliance</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Records, reports, policies and procedures</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Annual</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Test procedures/controls</li> <li>• Review policies and procedures</li> <li>• Sample accounts, transactions, records</li> <li>• Sample advertisements and other communications with the public</li> <li>• Identify gaps in procedures and document</li> <li>• Revise procedures where necessary</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Documentation of reviews and testing</li> <li>• Audit and testing reports and backup</li> <li>• Revised policies and procedures, as appropriate</li> </ul>

Infinity conducts reviews of its supervisory procedures and controls at least annually to confirm procedures are current and include all areas of business. Procedures and controls are also tested to determine they achieve the necessary levels of compliance. Findings from internal inspections are also considered in this review.

Reviews and testing may be conducted through a number of resources including (but not necessarily limited to):

- Compliance
- Outside auditors

## **Findings And Follow-Up**

Findings from reviews and testing are included in the CEO report and annual certification discussed in the next section. Compliance is responsible for:

- Amending policies and procedures to address gaps
- Reporting deficiencies (found in testing) to supervisors of appropriate business areas
- Follow up to determine deficiencies have been addressed
- Assembling findings for inclusion with the CEO report and annual certification (next section)

## **10.8 Annual Report And Certification Of Compliance And Supervisory Processes**

[FINRA Rule 3120 and 3130]

Compliance prepares an annual compliance report for the CEO (or equivalent officer).

### **Meetings Between CEO And CCO**

The CEO/CCO meets once or more annually with Compliance staff and consultants to review compliance matters the subject of the annual certification.

### **Annual Report**

The CCO will prepare an annual report that includes a review of Infinity's supervisory system and procedures and key compliance issues. The report will also include a summary of testing results including significant identified exceptions and any amended supervisory procedures adopted in response to the test results.

The annual report will be provided to members of the board of directors (or equivalent senior management) and the audit committee, if one has been established. The report will be provided to these governing bodies at the earlier of their next scheduled meetings or within 45 days after execution of the certification.

### **Certification**

Annually (after receipt and review of the report), the Chief Executive Officer (or equivalent) will certify that Infinity has in place processes to establish, maintain, review, test, and modify written compliance policies and written supervisory procedures reasonably designed to comply with regulators' rules. Certification does not, by itself, establish line supervisory responsibility for those involved in the certification process. If Infinity has co-CEOs, each CEO will certify as if he/she were acting as sole CEO.

## 10.9 Supervision Of Supervisors

[FINRA Rule 3110(b)(6)(c) and 3110.10]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Compliance</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Designation of supervisors</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Ongoing</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Identify and designate supervision of supervisors and include in the "<i>Designation Of Supervisors</i>" chart, confirming supervision complies with the requirements of this section ensuring supervisors do not report to someone they supervise or have compensation determined by such a person</li><li>• Identify supervisors who handle customer accounts and establish supervision in accordance with established procedures for supervising accounts</li><li>• Where compliance with these requirements is not possible because of the size of Infinity or a supervisor's position in Infinity, document the factors used in making such a determination and how an alternative arrangement complies with the requirements</li><li>• Ensure designated supervisors are aware of the designation and their responsibilities</li><li>• Include review of supervision in inspections of offices</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Designation of supervisors confirmation such designations do not conflict with requirements to exclude supervision by those reporting to the supervisor or who determines the supervisor's compensation</li><li>• Documentation of exceptions</li><li>• Reviews of supervisors' customer accounts</li><li>• Review of supervision as part of inspection reports</li></ul>

Supervisors are subject to supervision of their activities by other designated supervisors. Supervisors are not permitted to:

- supervise their own activities; and
- report to, or have their compensation or continued employment determined by, a person or persons they are supervising.

Where it is not feasible to comply with these requirements, Infinity's records will be documented justifying the exception and how supervisory requirements will be met. Rule exceptions include instances where:

- Infinity is a sole proprietor in a single-person firm;
- a registered person is Infinity's most senior executive officer (or similar position); or
- a registered person is one of several of Infinity's most senior executive officers (or similar positions).

## 10.10 Conflicts Of Interest

[FINRA Report on Conflicts of Interest October 2013]



Infinity has an obligation to mitigate potential conflicts of interest and put the customer's interest before its own.

## 11 OFFICES

This chapter describes the types of offices defined by regulators and requirements for inspections and supervision of offices. **Compliance must be notified:**

- Before a new branch office or other business office is opened (including all types of offices defined in this chapter)
- When an office address changes
- Prior to a change in the types of business conducted in an office
- When an RR changes offices
- Prior to an RR commencing work from a second location, such as a primary residence
- Prior to establishing an office-sharing arrangement with an outside person or entity

### 11.1 Office Designations

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Compliance</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Information regarding offices including new offices, address changes, office sharing arrangements</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Identify each office as to type to determine regulatory requirements, maintain list of offices and types</li><li>• Establish and document supervision for non-branch locations</li><li>• Make required regulatory filings</li><li>• Review requests for a principal to supervise more than one OSJ considering the following:<ul style="list-style-type: none"><li>○ whether the on-site principal is qualified by virtue of experience and training to supervise the activities and associated persons in each location;</li><li>○ whether the on-site principal has the capacity and time to supervise the activities and associated persons in each location;</li><li>○ whether the on-site principal is a producing registered representative;</li><li>○ whether the OSJ locations are in sufficiently close proximity to ensure that the on-site principal is physically present at each location on a regular and routine basis; and</li><li>○ the nature of activities at each location, including size and number of associated persons, scope of business activities, nature and complexity of products and services offered, volume of business done, the disciplinary history of persons assigned to such locations, and any other indicators of irregularities or misconduct.</li></ul></li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• List of offices including types of offices</li><li>• Regulatory filings</li><li>• Approval for one principal to supervise more than one OSJ and document why such a supervisory structure is reasonable</li></ul>

This section describes different types of offices and related requirements.

## Branch Office

A branch office is any location where one or more associated persons (e.g., employees, independent contractors) regularly conduct the business of effecting any transactions in, or inducing or attempting to induce the purchase or sale of any security or any location held out as such. Branch offices are required to be registered, and if the "main office" meets the definition of "branch office" (or OSJ) it is required to be registered.

Any office that is responsible for supervising associated persons at one or more non-branch locations is considered to be a branch office.

## Non-Branch Locations

There are seven exceptions from the branch office registration requirement. To qualify for an exception, all conditions must be met for the office location. All non-branch offices and their associated persons are assigned to a designated branch office for supervision.

**Non-sales locations:** Locations established solely for customer service and/or back office functions, not to be held out to the public as a branch office, and no sales activities are conducted from the location.

**Primary residences:** Any location that is the associated person's primary residence. Only one associated person, or multiple associated persons who reside at the location and are members of the same immediate family, may conduct business from the location. Requirements for primary residence offices include:

- Only one associated person, or multiple associated persons who reside at that location and are members of the same immediate family, conduct business at the location;
- The location is not held out to the public as an office and the associated person does not meet with customers at the location;
- Neither customer funds nor securities are handled at that location;
- The associated person is assigned to a designated branch office, and such designated branch office is reflected on all business cards, stationery, retail communications and other communications to the public by such associated person;
- The associated person's correspondence and communications with the public are subject to Infinity's supervision in accordance with this Rule;
- Electronic communications (e.g., e-mail) are made through Infinity's electronic system;
- All orders are entered through the designated branch office or an electronic system established by the member that is reviewable at the branch office;
- Written supervisory procedures pertaining to supervision of sales activities conducted at the residence are maintained by Infinity; and
- A list of the residence locations is maintained by Compliance.

**Locations other than primary residences:** Other locations used for securities-related activities less than 30 business days in any calendar year that meets the requirements of a primary residence office, above. This would generally include vacation or second homes and other non-primary residences. An RR operating from this type of location will be required to maintain a record of the dates when business is conducted from such a location and submit this information monthly to Compliance. When the "30-business day" exemption is exhausted, the RR is required to cease conducting business from that location or immediately submitting a request to Compliance to register the location as a branch office.

**Offices of convenience:** This is a location where an associated person occasionally and exclusively by appointment meets with customers, provided the location is not held out to the public as a branch office. An associated person may not establish business hours at the location or hold out the location in any way (except

for signage required at bank locations). Final approval and execution of transactions must be done through the designated supervisory branch office.

**Location used primarily to engage in non-securities transactions:** Locations where associated persons are primarily engaged in non-securities activities (e.g., insurance sales) and where the associated person effects no more than 25 securities transactions in a calendar year. Retail communications identifying the non-securities location must include the location of the supervising branch office. Compliance is responsible for monitoring the 25-transaction limit.

**Floor of a registered national securities exchange:** Any location on the floor of a registered national securities exchange where Infinity conducts a direct access business with public customers is exempt from the definition of "branch office."

**Temporary location:** Any temporary location established in response to the implementation of a business continuity plan is exempt from branch office registration.

Regardless of the above exceptions to the definition of "branch office," any location that is responsible for supervising activities of RRs at one or more non-branch locations is considered to be a branch office.

## Offices Of Supervisory Jurisdiction (OSJ)

An office that includes any of the following activities will be designated as an Office of Supervisory Jurisdiction (OSJ) with a resident principal responsible for supervision:

- Order execution and/or market making
- Structuring of public offerings or private placements
- Maintaining custody of customers' funds and/or securities
- Final acceptance (approval) of new accounts
- Review and approval of customer orders
- Final approval of retail communications
- Supervision of RRs at one or more other branch offices

In addition, the following factors will be considered on determining whether an office is an OSJ:

- whether registered persons at the location engage in retail sales or other activities involving regular contact with public customers;
- whether a substantial number of registered persons conduct securities activities at, or are otherwise supervised from, such location;
- whether the location is geographically distant from another OSJ of Infinity;
- whether the member's registered persons are geographically dispersed; and
- whether the securities activities at such location are diverse or complex.

Excluded from the definition of OSJ is an office that solely provides final approval of research reports.

An OSJ principal will supervise only one OSJ; exceptions must be approved by Compliance.

## Branch Offices Assigned To OSJs

Each branch office that is not an OSJ will be assigned to the supervision of an OSJ. The designated supervisor is required to visit non-OSJ branch offices on a periodic basis and record the visit in a memorandum or other record to be retained by the designated supervisor for the branch location. All business transacted by non-OSJ branch offices must be processed through the supervising OSJ. The designated supervisor is responsible for supervision of the branch office's activities and maintaining files for complaints, communications, new accounts, option accounts, advertising, and transactions originating from the branch office.

A branch office may be a "supervisory branch office" that has responsibility to supervise one or more other offices or a "non-supervisory branch office" that has no supervision over other offices.

## 11.2 Approval Of Persons To Operate In Non-Branch Locations

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Requests for RRs to conduct business at non-branch locations</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review the request considering: <ul style="list-style-type: none"> <li>○ Business to be conducted</li> <li>○ RR disciplinary or complaint history</li> <li>○ Requirements to supervise, including the need for heightened supervision</li> <li>○ RR engagement in outside activities that may conflict with Firm business</li> <li>○ Technology requirements</li> </ul> </li> <li>• Approve or disapprove request and notify RR's supervisor</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Records of request reviews, action taken, notices to RR and supervisor</li> </ul>

Because of the remote nature of some non-branch locations, approval is required **prior to** allowing an RR to operate from a non-branch location. Requests must be submitted on the form "Office Locations - Request For Approval."

### Primary Residence Offices

**On a case by case basis**, an RR's request to conduct business from their primary residence may be considered provided that, at a minimum, the RR is currently employed by Infinity and is in good standing with both Infinity and supervising regulatory authorities. Compliance must approve any such arrangement. The form "Office Locations - Request For Approval" must be submitted to Compliance. The RR must submit a signed acknowledgment that he/she has read and understands this policy.

R Rs approved for working from their primary residences may do so as long as the residence is not held out to the public as a branch office, and that they adhere to all relevant policies and procedures of Infinity. The following requirements must also be met:

- only one Firm RR may conduct business from the location (unless otherwise approved by Compliance)
- the RR does not meet with customers at the location
- customer funds and securities are not handled at the location
- the RR is assigned to a designated branch office, and such office is reflected on all business cards, stationery, advertisements, and other communications to the public
- the RR's outgoing customer communications sent from the primary residence are **pre-approved** by his/her designated supervisor
- all electronic business communications (*i.e.*, e-mails, faxes) are transmitted through Firm systems
- all customer orders are entered through the designated branch office or, if approved, via a Firm-approved system

- all required branch records are maintained at the designated branch office location

Other requirements:

- the RR may not use his/her personal e-mail accounts (*i.e.*, yahoo, gmail, *etc.*) to communicate with existing or potential clients; only Firm electronic systems may be used for customer communications
- all Firm system installations must be supervised by the Information Officer or IT department and in accordance with all Firm policies

## 11.3 Supervision Of Non-Branch Locations

Each non-registered location will be assigned for supervision to a designated supervisor in a registered branch office. Compliance will determine the scope of supervision and notify the designated supervisor considering factors including the number of RRs, types of business conducted, volume of business, qualification and history of on-site personnel (*e.g.*, whether there is a registered supervisor at the location, whether RRs have disciplinary or complaint histories), and the nature and extent of RRs' outside business activities.

The designated supervisor will conduct ongoing reviews and retain records of the reviews at the designated branch location, which is subject to inspection, including records of non-branch office supervision.

## 11.4 Office Records

Each office is required to maintain or have access to certain records relating to the business conducted in the office. "Office," for records purposes, means any location where an associated person conducts business (not including a home office or the office of a customer that a RR visits regularly). "Conducting business" includes handling funds or securities or soliciting/accepting orders. Each office is required to designate someone who can explain the office records to regulators.

There are two aspects to records requirements: *retention* and *access*. Documents (paper or electronic) regarding Infinity's business ("books and records") must be retained for periods of time specified by regulators. Where Infinity's required books and records (such as order tickets, communications, *etc.*) are not retained at the office that created the records, there is a requirement that the records must be produced within a reasonable period of time upon request from a regulator that visits the office.

This section describes both types of requirements. All questions regarding books and records should be referred to Compliance.

### Retention Of Records At The Office

Offices are required to retain the following records:

- Order records (3 years, 2 recent years in an accessible location)
- New account records (6 years after account closing, in an accessible location)
- Communications, incoming and outgoing (3 years, 2 recent years in an accessible location)
- Advertising (3 years, 2 recent years in an accessible location)
- Operations records including records of receipt/delivery of securities or funds (3 years, 2 recent years in an accessible location)
- Complaints (3 years, 2 recent years in an accessible location)

## Forwarding Records To Home Office

The following records must be forwarded to home office for retention:

- Order records
- New account records
- Communications, incoming and outgoing
- Advertising
- Operations records including records of receipt/delivery of securities or funds
- Copies of complaints

## Access To Records

For records that are **not** maintained at the office location, the following records for the most recent two-year period will be produced at the office location promptly upon request of a regulator. **Regulators' requests should immediately be referred to Compliance for response.** "Promptly" is generally understood to mean within 24 hours of the request.

- Order records (daily trade blotters, order tickets/memoranda, including for the firm account)
- Receipts/deliveries of securities, receipts/disbursements of cash, all other debits/credits
- Employee records (U4, employment application, compensation agreements, CRD numbers, internal identifying numbers, offices where RR conducts business)
- Customer account records
- Complaints
- Transactions, by RR, including compensation earned, commission schedules, method by which compensation is determined
- Communications with the public: originals of communications received, copies of communications sent; approval of outgoing communications including correspondence, retail communications, and (if applicable) institutional communications
- Record naming the person in the office who can explain records
- Record listing the person responsible for policies and procedures
- Compliance and supervisory manuals, including updates and revisions, until three years after termination of use of the manual

## Regulatory Requests For Records

If a regulator (SEC, SRO, state regulator, or other) requests office records (in person or by another means), Compliance should be contacted immediately. Infinity is obligated to provide prompt response to regulators' requests for information, therefore it is important the record retrieval process begin immediately or as soon as possible after receipt of the request.

## 11.5 Changes In Branch Offices

Compliance is responsible for filing the uniform branch office registration form (Form BR) with the CRD to reflect changes to existing offices or to register new offices. Compliance retains records of branch registration filings.

In addition, Compliance will verify state requirements before an office is opened and will file any necessary application or documents with state authorities which may include the secretary of state, taxing authorities, and/or broker-dealer licensing authorities.

## 11.6 Cybersecurity

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Branch computers and other devices</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Ongoing: testing and update devices</li> <li>• Annual: train RRs</li> <li>• As scheduled: branch reviews</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Designated supervisor: <ul style="list-style-type: none"> <li>○ Determine what software is required and notify branches</li> <li>○ Provide instructions regarding installation of required firewalls, virus protections, and other cybersecurity defenses</li> <li>○ Approve devices to be used</li> <li>○ Notify branch of approved cloud services if applicable</li> <li>○ Conduct ongoing monitoring to identify breaches <ul style="list-style-type: none"> <li>▪ See the section <i>Cybersecurity</i> in the chapter FINANCIAL AND OPERATIONS PROCEDURES regarding breach procedures</li> </ul> </li> </ul> </li> <li>• Branch supervisor: <ul style="list-style-type: none"> <li>○ Confirm updates to virus, malware, and other protection software are made to branch devices</li> </ul> </li> <li>• Include cybersecurity in RR training</li> <li>• Include cybersecurity in branch reviews</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Records of approved software, devices, required malware/virus protection, cloud services and notifications to branches</li> <li>• Records of ongoing testing and updating</li> <li>• Records of breaches and actions taken</li> <li>• Training including when conducted, subjects covered, those who attended</li> <li>• Branch review reports</li> </ul>

Branch offices are required to comply with Infinity's requirements to protect customer and Firm information including the following. Refer to the section *Cybersecurity* in the chapter FINANCIAL AND OPERATIONS PROCEDURES and contact Compliance for further information. Branch office cybersecurity practices are subject to branch reviews. Computers and other devices that access or maintain confidential customer or Firm information must:

- be password-protected and use encryption of data where required
- be secured to prevent stealing
- use only authorized Firm devices, software and cloud services
- have current required firewall, virus, malware, and other protection software

Breaches or loss of computers or other devices containing confidential information must be reported immediately to Compliance.

## 11.7 Office Inspections

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Compliance</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Various reports/information regarding office activities</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Annual: inspect OSJs and any branch office supervising one or more non-branch locations</li> <li>• Annual: conduct risk-based review to determine inspection cycle of other offices (no less than every 3 years for branch offices)</li> <li>• Annual: prepare inspection schedule</li> <li>• Annual: assign responsibility for conducting inspections</li> <li>• Per inspection schedule: conduct inspections</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Conduct risk-based review to determine inspection cycle for non-supervisory offices</li> <li>• Prepare schedule including an explanation of the factors used in determining inspection cycles for non-supervisory offices</li> <li>• Assign inspection responsibility considering any potential conflicts of interest including economic, commercial, or financial interests in the associated persons or business being inspected and ensuring the person assigned is not assigned to the business unit and is not directly or indirectly supervised by, or otherwise reporting to, an associated person assigned to the unit or location. Where compliance is not possible due to Infinity's size or business model (only one office; business model where small or single-person offices report directly to an OSJ-manager who is also considered the office's branch office manager), document in the report both the factors used to make this determination and how the inspection otherwise complies with the requirements of Rule 3110(c)(1)</li> <li>• Conduct inspections</li> <li>• Prepare draft and final reports and provide final report to office supervisor and senior management</li> <li>• Obtain response from office supervisor and follow up regarding corrective action (no later than next inspection)</li> <li>• For an office with significant risk profile changes or regulatory/complaint issues, review the need for an immediate "for cause" inspection or acceleration of the inspection cycle</li> <li>• Maintain inspection program (and revise, as needed)</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• The inspection program, schedule of inspections, reports, review of those conducting inspections, reports</li> <li>• Determinations of whether a branch's inspection cycle should be accelerated or a "for cause" inspection should be conducted</li> </ul>

All OSJs, branch offices, and non-branch offices are inspected in accordance with FINRA Rule 3110(c). "Non-supervisory office" in this section refers to branch offices that do not supervise other offices and non-branch offices.

### "For Cause" Inspections



At any time, a branch office may be identified for an immediate "for cause" inspection, as determined by Compliance. A "for cause" inspection may be initiated considering serious regulatory or disciplinary actions against branch personnel; serious or a pattern of complaints; thefts; fraud; suspected money laundering activities; or other malfeasance by branch personnel.

## Conducting Inspections

Inspections generally include the following:

- Assignment of inspection responsibilities to a qualified person
- Pre-inspection document/information review including review of prior report(s) for the office
- Scheduling a visit on either an announced or unannounced basis
- For branch offices, scheduling reviews at the supervising office to examine records of supervision
- During a physical inspection, reviewing records and interviewing personnel in accordance with the inspection program
- Preparing a draft report of findings
- Submitting the draft to the appropriate supervisor for comment and response
- Preparing a final report incorporating the supervisor's responses
- Submission of the final report to management

Compliance, at its discretion, initiates unscheduled inspections (when potential significant problems are identified, a change in office management warrants a special review, at the request of senior management, *etc.*).

## Reports

Written reports of inspections will include:

- the name of the person who conducted the inspection and prepared the report
- the date(s) of the inspection
- areas reviewed which will include, at minimum (depending on types of business conducted in the office)
  - safeguarding customer funds and securities;
  - maintaining books and records;
  - supervision of supervisory personnel;
  - transmittals of funds (*e.g.*, wires or checks, *etc.*) or securities from customers to third party accounts; from customer accounts to outside entities (*e.g.*, banks, investment companies, *etc.*); from customer accounts to locations other than a customer's primary residence (*e.g.*, post office box, "in care of" accounts, alternate address, *etc.*); and between customers and registered representatives, including the hand-delivery of checks; and
  - changes of customer account information, including address and investment objectives changes and validation of such changes.
- for any of the above areas **not** included in the report, an explanation of why they were not included (*i.e.*, the office does not accept funds or securities, the office does not have a producing manager, *etc.*) and a statement that the office may not engage in these activities until policies and procedures for these activities are in place at that location
- observations and exceptions regarding compliance with policies and procedures
- the office supervisor's response regarding exceptions and corrective action

Final reports will be distributed to senior management and the audit committee, if a committee has been appointed.

## **11.8 Display Of Certificates**

Branch offices are required to display certificates on their premises, including:

- SIPC symbol

## **11.9 Availability Of Rules**

Each office will make available a current copy of the FINRA manual for examination by customers upon request. This requirement is satisfied by providing customers electronic access to the rules published on the regulators' web sites.

## 12 MUTUAL FUNDS AND OTHER INVESTMENT COMPANY PRODUCTS

### 12.1 Introduction

This chapter includes policies and procedures for investment company products (mutual funds, closed-end funds, unit investment trusts (UITs), exchange-traded funds, *etc.*) with emphasis on mutual funds. The initial sections address mutual funds, and other investment company products are addressed in sections identifying them.

Key points for consideration when offering mutual funds include the following:

- RRs must consider sales charges when recommending mutual funds and determine the most advantageous cost structure for the customer including class types.
- Customer suitability determination includes consideration of investment objectives, other investments held, financial and tax status, and risk tolerance.
- Fund characteristics to consider include investment objectives, risk, cost structure, and underlying investments and strategies.
- Switching from one fund to another requires the customer's signed acknowledgment.
- RRs cannot "sell dividends" or facilitate customer "late trading" or "market timing."
- Required disclosures are included in prospectuses or summary prospectuses (open-end funds only) which must be provided to purchasers.

### 12.2 Mutual Funds Offered By The Firm

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Prospectuses and other information provided by mutual fund companies or other distributors</li><li>• Selling agreements</li><li>• Records regarding commission earned from sales of funds and revenue received from revenue sharing agreements or directed brokerage</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required - signing selling agreements</li><li>• As required - review potential revenue sharing agreements for compliance with anti-reciprocal rules</li><li>• Quarterly - compare mutual fund commissions against revenue sharing or directed brokerage, if applicable</li><li>• Annually - training for marketing, sales, and trading staff, as appropriate, regarding anti-reciprocal prohibitions</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Review information on mutual funds</li><li>• Determine which fund companies' products to offer</li><li>• Review dealer agreements for:<ul style="list-style-type: none"><li>○ restrictions or obligations that may affect Infinity's sales of the mutual fund and issue instructions to RRs, if necessary</li><li>○ representation by the mutual fund company that it uses reasonable criteria when selecting Selling Brokers and has reasonable policies and procedures to avoid formal or informal directed brokerage arrangements</li></ul></li><li>• Execute dealer agreements with mutual fund companies</li></ul>

	<ul style="list-style-type: none"> <li>• Provide education regarding mutual fund sales including prohibitions under the anti-reciprocal rule</li> <li>• Review special sales programs and promotions outside the standard commission schedule to determine compliance with the anti-reciprocal rule</li> <li>• Review for potential correlation between fund sales and directed brokerage commissions that may indicate violations of anti-reciprocal rules</li> <li>• Refer potential directed brokerage arrangements to Compliance for review and determination of corrective action</li> <li>• Review revenue sharing agreements: <ul style="list-style-type: none"> <li>○ At time of proposal to determine compliance with anti-reciprocal rules</li> <li>○ To develop and provide disclosure to customers</li> <li>○ To determine ongoing compliance with anti-reciprocal rules</li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Information used to determine which funds to sell</li> <li>• Signed dealer agreements</li> <li>• Notices to RRs of special restrictions or requirements included in dealer agreements</li> <li>• Records of special sales programs and promotions including the date of review, reviewer's signature/initials, and notes of action taken, if appropriate</li> <li>• Revenue sharing arrangements and disclosures to customers (Initial and quarterly reviews)</li> </ul>

Mutual funds with a range of investments and objectives will be available for investment by customers.

## Dealer Agreements

Infinity executes dealer agreements with mutual fund underwriters. Many agreements include restrictions against activities such as late trading or market timing, which are discussed later in this chapter. Any special requirements or restrictions included in dealer agreements and not already covered in this chapter will be communicated to sales personnel.

## Anti-Reciprocal Rule

Infinity is prohibited from favoring the sale of mutual funds based on revenues earned (directly or indirectly) from the investment company issuing the mutual fund. This includes:

- *Directed brokerage*, which is a practice where the investment company directs brokerage business to a broker-dealer to reward or compensate the dealer for selling its funds. This includes, directly referring brokerage transactions to the dealer that sells its funds and also "step-out" arrangements where brokerage is directed to another firm and then revenue is shared with the dealer selling the funds.
- *Undisclosed revenue sharing*, where the mutual fund company pays incentives to the broker-dealer to secure a prominent place in the selling dealer's distribution network ("shelf space").

If an employee becomes aware of a prohibited activity, it should be reported immediately to Compliance.

The selection and offer of mutual funds will comply with anti-reciprocal prohibitions. Specifically, Infinity will not:

- Sell shares of, or act as underwriter for, any investment company where Infinity is aware that the investment company or its investment adviser or underwriter have directed brokerage arrangements in place that are intended to promote the sale of investment company securities.

- Favor or disfavor sales of investment companies based on commissions received or expected and tied to sales
- Require such commissions to sell the funds or offer commission to another broker-dealer relating to their sale of funds
- Circulate information about commissions received from an investment company, other than to senior managers for purposes of managing Infinity's business
- Sponsor or encourage an incentive campaign or special sales effort of another dealer financed by commissions received related to the sale of the funds
- For retail sales, provide incentive or special compensation based on the amount of commissions expected to be received from the fund or another source
- Establish recommended, selected, or similar preferred lists of investment companies if based on brokerage commissions
- Allow RRs and other sales personnel to participate in commissions received from investment company portfolio transactions
- Use the sale of investment company shares to negotiate the price or amount of brokerage commissions paid on investment company portfolio transactions

These prohibitions do not prevent execution of investment company portfolio transactions that are not tied to sales of the investment company's shares. RRs and managers may be compensated for sales attributable to them including the use of overrides, accounting credits, or other compensation, provided the extra compensation does not violate anti-reciprocal prohibitions.

### Disclosure Regarding Revenue Sharing

If Infinity engages in revenue sharing, it will clearly disclose such an arrangement to customers purchasing the applicable funds.

## 12.3 Sales Charges

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Order records</li> <li>• Daily Transaction Report</li> <li>• Fund information (<i>i.e.</i>, prospectus, Statement of Additional Information)</li> <li>• Exception reports (as available)</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review Breakpoint Worksheets for completeness, determination of sales charge discounts available to purchaser</li> <li>• Review order records to determine that discounts and waivers have been considered</li> <li>• Review daily transactions to determine same-day mutual fund purchases are considered for LOI and ROA discounts</li> <li>• Review orders for improper breakpoint sales (near but below common breakpoint levels [\$25,000, \$50,000, <i>etc.</i>])</li> <li>• Review orders for purchases of multiple funds with similar investment objectives and confer with RR about the suitability of multiple purchases</li> <li>• Letter of Intent (LOI) reviews for:</li> </ul>

	<ul style="list-style-type: none"> <li>○ Notation on Worksheet/order record whether an LOI will apply (including retroactive LOIs if permitted by the fund)</li> <li>• Rights of accumulation (ROA) review for indication on order record whether ROA applies</li> <li>• Where a customer has not been provided an available discount: <ul style="list-style-type: none"> <li>○ Confer with the RR</li> <li>○ Notify the customer and correct the purchase to include the discount</li> </ul> </li> <li>• Provide training to RRs on mutual fund purchases and sales charge discounts</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Breakpoint Worksheets</li> <li>• Order records</li> <li>• Daily transaction reports</li> <li>• Exception reports (as available)</li> </ul>

When investors purchase mutual funds (other than no-load funds), they incur sales charges that may be front-end or back-end charges. Mutual funds offer investors discounts to sales charges, which are explained in the fund's prospectus. This section describes different types of discounts available to mutual fund purchasers.

**RRs are responsible for understanding the availability of sales charge discounts to provide the customer the opportunity to purchase a mutual fund under the most favorable terms available.** RRs are required to use the Breakpoint Checklist and Worksheet for every mutual fund purchase involving a sales charge. The Checklist and Worksheet are discussed at the end of this section. Customers also are provided, at the time of first purchase, with a Breakpoint Disclosure Statement explaining breakpoints and other available discounts.

## Breakpoints

For some mutual funds, front-end sales charges decrease as the dollar amount invested increases. These thresholds for reduced sales charges are called breakpoints. Different fund families establish different opportunities to link accounts, transactions, and share classes to qualify purchasers for reduced sales charges.

The RR has an obligation to disclose the existence of breakpoints to enable the customer to evaluate the desirability of making a qualifying purchase. The RR also must indicate on the mutual fund order if the customer qualifies for a breakpoint because of linked accounts, transactions, or share classes or other basis for meeting a breakpoint by linking the customer's transaction with another.

"Improper breakpoint sales" is a term that denotes selling mutual funds to maximize commissions earned, *i.e.*, selling an amount close to, but below a breakpoint. The customer will, therefore, pay a higher sales charge. This practice is prohibited.

Recommending diversification among several funds with similar investment objectives, particularly if sales occur in amounts just below the breakpoints of one or more funds sold, may not be in the best interests of the customer. If multiple purchases of different mutual funds is appropriate, but will preclude the customer from qualifying for a breakpoint, the customer should sign a letter acknowledging his or her understanding that a breakpoint is being given up by purchasing multiple funds.

Purchases of mutual funds under a breakpoint are not subject to breakpoint violations if the purchases are made as part of a bona fide asset allocation program sponsored by Infinity. Customers who participate in a Firm-sponsored program are notified, as part of the agreement to participate in the program, that they may not receive breakpoint reductions that otherwise would be available.

## Breakpoint Checklist And Worksheet

When selling a front-end load fund (Class A) to a customer, the RR is required to review the Breakpoint Checklist and complete the Breakpoint Worksheet, which is submitted with the mutual fund purchase order. The purpose of the Worksheet is to document required information about the customer's holdings to determine whether the customer qualifies for a reduced sales charge, including:

- Total holdings at Infinity in the fund, or a related fund in the same family
- Total holdings outside Infinity in the fund, or a related fund in the same family
- Total holdings of related parties (some funds provide discounts when related persons own the same fund, or funds in the same family of funds)

## Breakpoint Search Tool

A Breakpoint Search Tool is available from FINRA online. The tool provides breakpoint schedules and linkage rules for mutual funds with sales charges.

## Breakpoint Disclosure Statement

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Mutual fund purchases</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• A customer's initial mutual fund purchase</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Provide the disclosure statement</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Record of providing the disclosure statement is included in customer account records</li></ul>

Customers who purchase Class A mutual funds, will be provided a Breakpoint Disclosure Statement that explains breakpoints and other discounts available to mutual fund purchasers.

## Letters Of Intent

A letter of intent (LOI) is an investor's written statement of intent to purchase a specified dollar amount of a single mutual fund or funds within a single fund group over a specific period of time. The aggregate investment over time may qualify for a breakpoint and a lower percentage sales charge.

The mutual fund purchase should indicate if the customer will execute a letter of intent so the lower sales charge will apply. Some funds allow investors to use an LOI retroactively to include the value of past purchases in the LOI period. The RR should determine whether the customer made a prior purchase within the allowable period and whether the fund allows backdated LOIs.

## **Rights Of Accumulation**

Aggregating purchases of a particular fund or family of funds by one investor (and sometimes family-related purchases) may qualify for rights of accumulation. A lower sales charge may apply, based upon the total dollar amount invested. The RR should ask the customer whether the customer has other holdings in the fund or fund family, to determine whether rights of accumulation may be available to the customer.

Mutual funds follow different rules to determine the value of existing holdings and when a customer qualifies for a breakpoint discount. Most funds use current net asset value (NAV) of existing holdings, and a small number of funds use historical cost (cost of the initial purchase). If historical cost is used, it may be necessary for the investor to provide account records to qualify for the breakpoint discount.

The mutual fund purchase should indicate rights of accumulation, if available, and the customer's desire to aggregate purchases to qualify for a lower sales charge.

## **Reinstatement Privilege**

Some funds offer shareholders a "reinstatement privilege" allowing the shareholder to reinvest some or all of the proceeds from a prior liquidation of the fund within a specified period of time (for example, 180 days) at a reduced sales load or no sales load. The RR should determine whether the customer qualifies for a reinvestment privilege and, if he or she qualifies, note this on the order at time of entry.

## **Sales Charge Reductions/Waiver Or NAV Transfer Program**

Some mutual funds waive fees for eligible retirement plans and charities. RRs are obligated to apply waivers where they are available.

A limited number of mutual funds offer a sales charge discount in the form of a waiver or NAV transfer. Investors may purchase Class A shares of a mutual fund without paying a front-end sales charge, if investing some or all of the proceeds from the sale of a mutual fund in a different mutual fund family for which the investor paid a front-end or back-end sales charge within a specified period of time. The period when the discount is available is generally 30 to 90 days from the date the investor purchased the other fund. This type of discount is explained in the fund prospectus and Statement of Additional Information.

Generally, customers will not make short-term sales of mutual funds. In those unusual circumstances, where the customer is making such a sale, the RR should investigate whether a waiver is available on the new purchase.

## **Deferred Sales Charges**

If a customer purchases shares of a mutual fund that imposes a deferred sales charge on redemption, the front of the confirmation will include the following legend: "On selling your shares, you may pay a sales charge. For the charge and other fees, see the prospectus."

## **Direct Application And Wire Order Accounts**

Mutual funds allow investors to purchase funds directly (sometimes called "application way" or "wire order" purchases or accounts). RRs are not permitted to recommend, or to direct, that a customer make a direct purchase of mutual funds. All such purchases must be made through Infinity.



## Sales Charge Discounts Must Be Marked On Mutual Fund Orders

Because automated mutual fund order processing systems do not generally provide the ability to monitor application of an available sales charge discount, it is important that all pertinent information be recorded on the order and entered to the system, including whether the customer's purchase qualifies for a sales charge discount. Incomplete mutual fund orders will not be accepted and will be returned to the RR for completion of necessary information about available sales charge discounts.

Order entry procedures, including completeness of orders and proper application of available discounts, will be reviewed as part of the periodic review of sales practices in the office.

## 12.4 Switching

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Order records</li><li>• Daily Transaction report</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Daily</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Review mutual fund orders for transactions where the customer sells one mutual fund to buy another mutual fund</li><li>• When switching is identified, ensure the customer provides a signed switch letter</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Initials on order records and Daily Transaction Report</li><li>• Switch letters signed by the customer and maintained in the office files</li></ul>

Switching is the selling or redemption of one mutual fund with a sales charge to buy another mutual fund with a sales charge. Recommended switches may not be based on the compensation to be received by the RR or Infinity as a result of effecting the switch. As for all recommendations, the RR must have a reasonable basis for believing the switch is suitable for the customer.

The customer may incur multiple sales charges by changing from one fund to another or may be subject to an extended holding period, and there may also be tax consequences because of the switch. The concern is whether the switch is justified and whether the customer understands the consequences of the switch.

Switches between mutual funds that result in potential additional sales charges for the customer (whether front-end or back-end load) require that a letter be obtained from the customer acknowledging an understanding of the consequences of the switch. It is the designated supervisor's responsibility to ensure switch letters are obtained for switch transactions. The letter will be retained with the record of the order and/or in a file for the customer or for switch letters. FINRA prohibits the use of "negative consent letters," which are used to advise a customer that there will be a switch from one fund to another unless the customer responds before a specified date.

## 12.5 Market Timing Transactions

FINRA has stated that recommendations to fund investors to engage in market timing transactions should be made, if at all, within a single family of funds or where there are no transaction costs associated with the trades. Transactions that do not adhere to this standard may raise suitability questions.

## 12.6 Selling Dividends

Selling dividends is a practice of recommending the purchase of a mutual fund based on an imminent dividend distribution.

Since the price of a mutual fund is reduced by the amount of the dividend, there is no benefit to the customer unless there are specific tax or other advantages to the customer. In fact, there may be increased tax liability for the investor. A related concern is representing that distributions of long term capital gains by the mutual fund are or could be viewed as part of the income yield from the mutual fund.

## 12.7 Misrepresenting "No-Load" Funds

Certain funds impose a sales charge when the customer redeems or liquidates an investment ("back-end load" or contingent deferred sales charge). These charges are generally on a decreasing basis the longer the mutual fund is held. For example, a mutual fund may charge 5% if the shares are sold prior to being held 5 years, 4% if after 5 but before 6 years, etc. Other funds have a combined asset-based sales charge and/or service fee exceeding .25 of 1% of average annual assets.

Mutual funds with back-end loads or asset-based sales or service fees exceeding .25 of 1% may not be sold as "no-load" funds.

## 12.8 Suitability

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Order records</li> <li>• Daily Transaction report</li> <li>• Customer monthly statements</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review mutual fund transactions for suitability with particular attention to the following: <ul style="list-style-type: none"> <li>○ Funds with high risk objectives: is the investment consistent with the customer's investment objectives?</li> <li>○ Is the transaction in the customer's best interest?</li> <li>○ Purchasing multiple funds in different families that may result in higher sales charges: is diversifying funds justifiable and does the customer understand the higher cost, if applicable, and would a lower priced fund be in the client's best interest?</li> <li>○ Suitability of a particular class</li> <li>○ Large purchases of class B shares that may qualify for lower sales charges if purchased as class A shares</li> <li>○ Confer with RRs regarding any transactions that raise questions</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>Follow up action may include: <ul style="list-style-type: none"> <li>Requesting written acknowledgement from the customer that the higher costs are understood</li> <li>Canceling transactions that appear to be inappropriate</li> <li>Ensuring all fees are disclosed to customer.</li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>Initials on order records and Daily Transaction Report</li> <li>Notes on Daily Transaction report and/or Branch Manager's Log of follow up action, if appropriate</li> <li>Customer's signed acknowledgement filed in the customer file, if appropriate</li> </ul>

When recommending that a customer purchase, sell, or exchange a mutual fund, the following should be considered:

- Customer information including financial and tax status, investment objectives, other investments including other mutual funds
- Information regarding the fund to be recommended including sales charges, historical performance and volatility, risk, investment objective, and nature of the securities and investment strategies in the fund (use of leverage, investments in hedge funds or derivatives, *etc.*)
- Risk (fund investment risk and customer's risk tolerance)
- Appropriateness of high concentrations in any particular type of fund or investment
- Types of classes available and appropriateness of a particular class for the customer

## Multi-Class Mutual Funds

Mutual funds often offer three classes of shares that are based on the same mutual fund portfolio but differ regarding costs incurred by the customer.

**Class A shares:** Generally impose a front-end sales load and no (or a low) ongoing fee to pay for sales and marketing expenses (Rule 12b-1 fees). Usually the front-end sales load will decrease at certain breakpoints depending on the size of the purchase and whether the purchase qualifies for a letter of intent or rights of accumulation which also may result in a lower sales charge. A front-end sales charge means a portion of the customer's funds are not invested and instead pay the front-end charge.

**Class B shares:** Generally do not impose a front-end sales charge but may impose a contingent deferred sales charge (CDSC) on share redemption and relatively high 12b-1 or other asset-based fees. The amount of the CDSC usually declines the longer the shares are held. Class B shares often automatically convert to Class A shares (with lower asset-based fees) after a period of time, usually after the CDSC declines to zero. All of the customer's funds are invested at the time of purchase. These funds may not be referred to as no-load funds since they impose a back-end contingent charge.

**Class C shares:** Have different expense features than A and B shares; may include no front or back-end load or a small back-end load; and higher 12b-1 or other asset-based fees. Class C shares are often used for managed accounts and asset allocation purposes.

**Class D shares:** Usually no-load shares available through mutual fund supermarkets with possible transaction and other fees.

**Class R shares:** Created for retirement plans and available through an employer-sponsored retirement plan and with a wide range of fees.

In addition, some mutual funds offer other classes that impose no front-end or back-end sales charges and relatively low asset-based fees. These may be offered to limited types of purchasers such as retirement plans or institutional investors.

The following are guidelines for determining which class of shares is in the customer's best interest:

- The cost advantages of one class versus another must be considered.
- Class B or C shares generally should not be recommended to customers making purchases in large amounts that may qualify for lower costs because of breakpoints, letters of intent, or rights of accumulation available through the purchase of class A shares.
- Class B shares should not be purchased for a customer if the RR knows or has reason to know that the customer will be purchasing additional shares that would take a purchase over a Class A breakpoint within 13 months of the initial purchase.
- Class B shares should not be purchased if potential additional purchases would qualify for a NAV price.
- Class A shares may be more appropriate for a customer who intends to remain invested in the fund for a longer period of time. Over time the higher continuing sales charges of Class B and C shares may exceed the initial load and smaller 12b-1 fees of Class A shares.
- Class C shares may be appropriate for a customer who does not qualify for a reduced Class A initial sales charge and who does not intend to remain invested in the fund for a period during which the fund's Class B shares are subject to a CDSC.
- Some funds waive the sales charge under circumstances specified in the prospectus (e.g., purchases by employees of broker-dealers and their immediate family members). If a Class A sales charge waiver is available, Class A shares will be less costly than Class B or C shares. A CDSC may be imposed on early fund redemptions of Class A shares where a waiver is granted; the prospectus should be consulted.

## Considerations For Newly-Hired RRs

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Information about transferring customers' investments in investment company products</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required for proposed switching of investments</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Review existing investments against proposed substitute investments</li><li>• Prepare and provide information to customers regarding investment options including that the customer may have to hold the existing investment at the prior firm, the cost of switching to another investment, and other considerations before changing investments</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Records of accounts reviewed and suitability determination, action taken including information provided to customers</li></ul>

There are considerations when a newly-hired RR transfers customers who hold investment company products (mutual funds, variable annuities). If Infinity cannot or will not service the customer's existing investment (inability to transfer products, Infinity does not have a dealer or servicing agreement), the appropriateness and suitability of recommending a new investment company product must be determined by the RR and Infinity. Before liquidating existing investments and reinvesting in new products, disclosure must be made to the customer regarding the costs and benefits of any proposed change in investments and proposed replacement investments must be suitable. A change of employment is not by itself a suitable basis for recommending a switch from one product to another.

## 12.9 Late Trading And Market Timing

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Records of mutual fund transactions</li><li>• Reports available to track mutual fund transactions</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Daily</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Review transactions for patterns of late trading</li><li>• Identify patterns of "as-of" trades in mutual funds that may indicate late trading</li><li>• Review transactions for indications of market timing (frequent in-and-out transactions in a mutual fund)</li><li>• Determine whether market timing is permitted for the fund</li><li>• Consult with Compliance when potential violations of late trading or market timing are identified</li><li>• Take corrective action which may include contact with the fund, fund sponsor, or other person potentially engaging in the prohibited activities; limiting trading activity; closing the account; or other corrective action appropriate to the situation.</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Records reviewed for trading (whether order records or reports) are retained in supervision files including the date reviewed, the initials of the reviewer, and notes of corrective action, if appropriate.</li></ul>

There are two mutual fund trading activities that may violate SRO rules whether initiated by the RR or the RR facilitates the prohibited activity by assisting a fund manager, an investment adviser, a fund sponsor, a customer, or someone else in engaging in these activities.

**Late trading** is the practice of effecting an after-close mutual fund purchase or redemption at the same day's net asset value (NAV). NAV is usually calculated at 4:00 p.m. E.T., the close of the trading day, and orders received after the close are effected at the next day's closing NAV. Late trading is a violation of fair practices because it potentially permits someone to take advantage of market movements known after the 4:00 deadline and gives the person an advantage in determining whether to buy or sell a fund based on an already established price. **Engaging in late trading or enabling someone else to engage in late trading is prohibited.**

**Market timing** is rapid and repetitive in-and-out trading to take advantage of market movements such as buying an international mutual fund one day and selling it the next day because of movements in foreign markets that impact the fund's value. While trading a mutual fund is not, in itself, illegal or violates a rule, it often violates restrictions established by the fund on short-term market timing trades. **Engaging in market timing or knowingly aiding someone in activity that violates a mutual fund's internal trading guidelines is prohibited.**

There are valid reasons why an occasional mutual fund trade may be entered late and should be processed at the current day's NAV. There may also be funds that do not prohibit market timing. However, RRs must not engage in or assist someone else in engaging in prohibited late trading and market timing. Compliance should be contacted if someone proposes to engage in either activity.

## 12.10 Block Letter Restrictions

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Mutual fund block letters</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required when letters are received</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Notify the RR and the RR's supervisor</li> <li>• Monitor the account for potential violations of restrictions</li> <li>• Take corrective action if violations are detected; action will include notifying the RR and the RR's supervisor; potentially closing the account and disciplinary action against the RR as determined by Compliance</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Mutual fund block letters</li> <li>• Reviews of blocked accounts and action taken</li> </ul>

Mutual fund companies sometimes issue "block letters" that limit the trading activity of a particular customer. This may occur if the fund detects trading that violates trading restrictions imposed by the fund such as late trading or market timing.

When a block letter is received, the RR and the RR's supervisor will be notified, and the RR is responsible for complying with the restriction. Orders may not be entered for the customer in another account that is beneficially owned by the customer to circumvent any restrictions.

## 12.11 Communications

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Outgoing communications</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review for the following: <ul style="list-style-type: none"> <li>○ Use of pre-approved letters without change other than updating data where required</li> <li>○ Selling dividends (not permitted)</li> <li>○ Representing a back-end load fund as "no-load" (not permitted)</li> <li>○ Representing a fund with an asset-based sales or service fee exceeding .25 of 1% as "no-load" (not permitted)</li> <li>○ Representations regarding yield (there are specific requirements regarding quotation of yields; RRs should use materials provided by the fund or pre-approved by Infinity)</li> <li>○ Recommendations that include switching or appear to recommend unsuitable diversification among funds</li> <li>○ Letters that include excerpts from the prospectus that would be misleading when taken out of context</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>○ Disclosures, as applicable (see explanation in the section <i>Disclosure Of Material Facts</i>)</li> <li>○ Performance is represented accurately and consistent with rule requirements regarding yield and return</li> <li>○ Language that indicates a prospectus is enclosed</li> <li>• Contact Compliance for review of questionable communications</li> <li>• Correct unapproved content</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Initials on communications</li> <li>• Compliance retains communications it reviews</li> </ul>

RRs should use letters pre-approved by Infinity and include a prospectus or limit communications to stating that a prospectus is enclosed and the RR will be in contact with the customer. Questions should be referred to Compliance.

## 12.12 Disclosure Of Material Facts

FINRA has stated that there are material facts that should be disclosed to a customer when recommending a mutual fund to help ensure the transaction is suitable and in the client's best interest. Items to be disclosed, if applicable or appropriate, include:

- the fund's investment objective
- the fund's portfolio
- historical income or capital appreciation
- the fund's expense ratio and sales charges
- risks of investing in the fund relative to other investments
- the fund's hedging or risk management strategy
- information regarding the structure of multi-class and master-feeder funds sufficient so the customer may understand and evaluate the structure
- potential tax consequences including tax on distributions and capital gains subject to tax
- potential risks if a fund invests in financial derivatives
- if an expense ratio is represented as an advantage of a particular fund, it is explained in the context of and compared with other mutual fund expense ratios

The mutual fund's prospectus generally includes many if not most of these disclosures.

## 12.13 Disclosure Of Fees, Expenses And Performance

Many firms prohibit generally all written discussion of a fund's performance and simply refer to the prospectus. When presenting performance information, an explanation of total return should explain that total return measures overall performance while current yield represents only the interest or dividend paid by the fund. Where appropriate, RRs should explain the difference between return of principal and return on principal. When providing information regarding distribution rates, the RR is responsible for explaining the difference between distribution rate and current yield.

Correspondence and retail communications including performance about mutual funds (other than money market funds) must disclose:

- The standardized performance information required by '34 Act Rule 482 and Rule 34b-1; and
- If applicable:

- The maximum sales charge on purchases or the maximum deferred sales charge included in the current prospectus; and
- The total annual fund operating expenses, gross of any fee waivers or expense reimbursements, as stated in the fee table of the current prospectus.

This information must be prominent in the communication, and in any print advertisement in a prominent text box that may also include comparative performance and fee data and disclosures required under Rules 482 and 34b-1.

## 12.14 Prospectuses

RRs should provide a copy of the prospectus when recommending a mutual fund purchase to a customer. A summary prospectus may also be provided (if available from the investment company) for open-end funds. The summary prospectus includes reference to an internet site where the complete statutory prospectus is available along with other required information.

A copy of the fund prospectus will also be sent to each purchaser of a mutual fund. The designated supervisor is responsible for establishing procedures to ensure a prospectus is provided to each mutual fund purchaser.

## 12.15 Retail Communications

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Compliance</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Firm-approved retail communications</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review and approve/disapprove retail communications are used in conjunction with sales of mutual funds</li> <li>• Notify RRs/supervisors of approved communications</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Records of approved/disapproved retail communications</li> </ul>

There are specific requirements for retail communications regarding mutual funds. Advertising must be filed with FINRA within prescribed periods (see the chapter *COMMUNICATIONS WITH THE PUBLIC* and the section *Special Filing Or Approval Requirements* for details). There also are mandated guidelines on representations regarding performance and yield, including specific requirements when retail communications include a TIPs fund's current yield.

RRs may use materials provided by the fund or firm-approved materials. Any other retail communications must be approved by Compliance prior to use.

## 12.16 Sales Material Provided By Third Parties

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Compliance</li> </ul>
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<b>Resources</b>	<ul style="list-style-type: none"> <li>Proposed sales material from third parties</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>For all third-party sales material review for: <ul style="list-style-type: none"> <li>Clear indication the material is advertising if Infinity or the RR paid for it</li> <li>Suggestions or inferences the RR authored the material when in fact that is not the case</li> <li>Acceptable RR titles, if titles are included</li> <li>Pre-determined interviews (written or otherwise) are identified as such and include disclosure the Q&amp;A is pre-determined and not a spontaneous interview</li> </ul> </li> <li>For third-party material previously filed with and approved by FINRA: <ul style="list-style-type: none"> <li>Obtain a copy of FINRA approval</li> <li>Allow use if no material changes are made</li> </ul> </li> <li>For third-party material NOT previously filed with FINRA: <ul style="list-style-type: none"> <li>Review the material for consistency with FINRA standards</li> <li>File with FINRA, if required <ul style="list-style-type: none"> <li>Upon receipt of review letter, make necessary changes</li> <li>Indicate approval including date of approval</li> </ul> </li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>Copy of sales material with notations, as necessary</li> <li>Copy of FINRA review letter, if one has been obtained</li> <li>Record of date first use and (if applicable) date of last use</li> <li>Retain for three years from date of last use</li> </ul>

Sales material provided by outside (third) parties such as newspaper or magazine articles, books or pamphlets, handouts, and other third-party provided material **must be reviewed and approved by Compliance prior to use**. Materials made available by Infinity may be presumed to have been reviewed and approved. When participating in an interview (written or otherwise) where the questions are pre-determined by the third party, disclosure must be made that questions and answers were pre-determined and the interview was not spontaneous. Some sales material requires the prior approval of FINRA.

The following guidelines apply when using third-party sales material:

- RRs may **not** suggest or infer that they authored investment-related books, articles, or other sales material not written by them.
- If Infinity or RR has paid for the publication, production, or distribution of any communication that appears to be a magazine, article or interview, then the communication must be clearly identified as an advertisement.
- Sales material may **not** include RR titles other than those normally conferred by Infinity (account executive, financial consultant, etc.) unless previously approved by Compliance. RRs particularly may **not** use titles inferring expertise in dealing with senior investors.

## 12.17 Dealer-Use-Only Material

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>Outgoing communications</li> </ul>

<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Ensure the branch does not distribute dealer-use-only materials to the public</li> <li>• Review communications to identify inclusion of restricted materials</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Initials on communications</li> </ul>

Materials provided by fund distributors for dealer-use only may not be provided to customers and must not be displayed in a public area such as a reception area where customers obtain written information regarding investments. Dealer-use-only material is often provided as educational material for dealers and their RRs. There is no requirement to file this material with FINRA because it is for internal use only.

All dealer-use-only material will be marked as such with limited distribution.

## 12.18 Seminars And Other Public Presentations

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Outlines of proposed seminars and other public presentations that include mutual funds</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review outlines for appropriateness of presentation</li> <li>• Make necessary changes and approve (or disapprove, if appropriate)</li> <li>• Remind the RR of the requirement to provide prospectuses and compile a list of attendees who received prospectuses if specific mutual funds will be offered</li> <li>• If wholesaler sales materials will be included, ensure Compliance approves prior to use</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Initials on outlines which are retained in the office Public Speaking file</li> <li>• List of attendees who received prospectuses (if appropriate) retained in the office Public Speaking file</li> </ul>

The following guidelines apply when an RR or Infinity sponsors a seminar for customers or prospective customers and where mutual funds are the subject of the seminar:

- An outline of the seminar must be provided to the designated supervisor prior to conducting the seminar.
- If specific mutual funds are recommended, prospectuses must be provided to those who attend and a list retained of to whom prospectuses were provided. A copy of the list is to be provided to the designated supervisor after the seminar.
- If a wholesaler makes a presentation at the seminar, the sales materials used (*i.e.*, story boards, scripts, handouts, *etc.*) must be approved by Compliance prior to the seminar.

The designated supervisor is responsible for approving and filing the outline of the seminar and the copy of the prospectus list, if applicable. Compliance is responsible for approving any wholesaler sales materials and filing it with FINRA's Advertising Department within 10 days of use.

## 12.19 Sales Contests And Incentive Programs

Due to Regulation Best Interest, Sales Contests and Incentive Programs are not allowed. RRs should consult with compliance about any potential sales contests and incentive programs.

## 12.20 Prompt Transmission Of Applications And Payments

RRs are obligated to promptly transmit mutual fund applications and customer payments to the designated office/application processor. Infinity is obligated, by FINRA rule, to transmit customer payments to the payees (*i.e.*, underwriters, investment companies or their designated agents) by the end of the third business day following receipt of a customer's order to purchase or by the end of one business day following receipt of a customer's payment, whichever is the later date.

For sales of securities on a subscription-way basis, RRs must safeguard each check and promptly prepare and forward a complete and correct application package to the designated OSJ. The Principal at the OSJ will perform a suitability review and determine whether to approve each subscription-way sale within seven business days after receiving a complete and correct application package. Checks will be transmitted no later than noon of the business day following the date the Principal reviews and approves the transaction.

Failure to transmit applications and payments promptly is a violation of FINRA rules. RRs who do not comply with prompt transmission requirements may be subject to disciplinary action.

## 12.21 Redemption Of Outside Funds

If the customer requests liquidation of an outside open-end mutual fund held by the fund, the RR should obtain the customer's signed letter authorizing liquidation. Required signature guarantees should be obtained from Operations, if required, prior to forwarding the letter to the fund.

## 12.22 Closed-End Funds

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Transaction reports that include closed-end funds</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Daily</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Review CEF trading for:<ul style="list-style-type: none"><li>○ Short-term trading, particularly involving IPOs</li><li>○ Suitability of recommendations</li></ul></li><li>• Take corrective action, if appropriate, which may include:<ul style="list-style-type: none"><li>○ Conferring with the RR</li><li>○ Contacting the customer</li><li>○ Consulting with Compliance</li><li>○ Cancelling trades</li></ul></li></ul>

	<ul style="list-style-type: none"> <li>• Include CEFs in training, particularly the disadvantages of short-term trading</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Reviews of transactions including date reviewed, initials of reviewer, and actions taken, if any</li> <li>• Records of training including who attended, date conducted, and subjects included</li> </ul>

Closed-end funds (CEFs) are investment companies that issue a finite number of shares that trade in the open market, usually on a stock exchange. Because they trade like other stocks, requirements that apply to open-end mutual funds such as switch letters and prospectuses provided to all purchasers generally do not apply to CEFs. Certain features of mutual funds such as breakpoints, letters of intent, and rights of accumulation are not features of closed-end funds.

Since CEFs trade like stocks, requirements regarding handling orders in the chapter *ORDERS* apply. For example, RRs may not recommend or engage in excessive trading of CEFs, and recommendations are subject to suitability requirements.

Recommendations to purchase an IPO for a CEF may not be appropriate for short-term investors since there is a built-in sales charge. After the offering, CEFs typically trade at a discount from the IPO price. Recommending the sale of a CEF IPO after the penalty bid period (during which the RR would not earn commissions on the purchase) at a loss and then recommending the purchase of another CEF would be unsuitable.

The high distribution rates may be composed of dividends, interest income, capital gains and/or return of capital. RRs should consider and communicate to investors, where it applies, that a high rate of return may be a return of capital and not actual income for the investor and the funds trade at a high premium compared to NAV.

## 12.23 Unit Investment Trusts (UITs)

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Order records</li> <li>• Available reports</li> <li>• Information regarding charges and discounts</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required when UIT transactions are effected</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review transactions for: <ul style="list-style-type: none"> <li>○ appropriate sales charges including discounts available</li> <li>○ Suitability, particularly patterns of sales, switching and early rollovers</li> </ul> </li> <li>• Provide training for RRs regarding suitability of recommendations and costs of UIT investments including discounts available and the obligation to provide available discounts</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Order records including record of review, action taken</li> <li>• Reports reviewed including record of review, action taken</li> <li>• Records of training including who attended, when provided, and subjects covered</li> </ul>

UITs are investment company securities that invest in a fixed portfolio of securities such as corporate, municipal, or government bonds, mortgage-backed securities, common or preferred stock, or other investment company shares. Unit holders receive an undivided interest in both the principal and the income portion of the portfolio in proportion to the amount of money invested.

Unit investment trusts have a finite life that ends when all securities in the portfolio have matured or are liquidated per the terms of the trust.

## **Sales Charges**

UITs impose sales charges including front-end and back-end loads and management fees. In addition, like mutual funds, discounts may be available through breakpoints, letters of intent, and rights of accumulation. Some UIT sponsors offer rollover and exchange discounts for purchases made with the proceeds from a UIT originally purchased from the same sponsor **as well as UITs purchased from a different sponsor**.

RRs are required to consider charges and discounts available to determine that the customer will receive the best available price.

## **Primary Offerings**

While UITs are not "mutual funds," they have some features similar to mutual funds, particularly in the initial offering of a UIT. The purchaser of a new UIT pays a load or other charges as described in the prospectus. Purchasers are provided a prospectus describing the UIT.

## **Secondary Market Transactions**

A secondary market exists for many UITs. Investors may liquidate or purchase a UIT by placing an order to sell or buy it in the secondary market, if one exists. The price the investor pays to purchase in the secondary market may include a premium based on the market value of the securities in the portfolio. The customer may not recover that amount when the trust matures or is called.

Prospective UIT investors must not be misled regarding the potential return of UITs purchased in the secondary market. Any communication regarding the estimated current return should be accompanied by a quotation of the UIT's long-term yield or internal rate of return.

Secondary market purchasers are provided a copy of the UIT prospectus at time of purchase.

## **Sales Charges And Discounts**

RRs are responsible for understanding the proposed investment and related sales charges and available discounts and inform customers. There is an initial sales charge applied to the purchase and many UITs assess a deferred sales charge. The deferred sales charge is generally deducted in periodic installments following the end of the initial offering period. Many UITs assess a creation and development fee that compensates the UIT sponsor for creating and developing each UIT, including determining the UIT's investment objectives, selecting portfolio securities and other administrative functions. This fee is deducted at the end of the initial offering period.

Typical discounts include:

- Discounts based on the size of a single transaction (price breaks or breakpoints)
- Rights of accumulation
- Rollover or exchange discounts that provide a reduced sales charge

## 12.24 Exchange-Traded Funds (ETFs)

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Descriptions of proposed ETF products to be sold</li> <li>• Transactions and proposed transactions in ETFs</li> <li>• Transaction reports</li> <li>• New account information</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Subject new ETFs to new product review including determination of the type of investor for whom the product is suitable and include this in training and marketing materials</li> <li>• Review for suitability of recommended ETFs, particularly non-traditional ETFs</li> <li>• Consult with RRs, where appropriate, when non-traditional ETFs are sold to individual investors</li> <li>• Include ETFs in training, particularly for non-traditional ETFs. Leveraged and inverse ETFs require the selling RR complete training on complex securities (including ETFs). Completion of training is required prior to an RR recommending a leveraged or inverse ETF. Once training is complete, there is no requirement for RRs to receive pre-approval on a transaction-by-transaction basis.</li> <li>• Determine if prospectuses or product descriptions are required and provide, if necessary (refer to Sections 3 &amp; 4 of the '33 Act for exemptions)</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Records of review of proposed products and determination of for whom the product is suitable.</li> <li>• Order records including notation of action taken, if any</li> <li>• Records of providing prospectuses or product descriptions where required</li> <li>• Records of RR training on complex securities prior to recommendation.</li> </ul>

An ETF is a type of exchange-traded investment product that must be registered as an investment company under the Investment Company Act of 1940 and as a security under the Securities Act of 1933. An ETF is a method for investors to pool their money in a fund that makes investments in stocks, bonds, or other assets. Retail investors may purchase and sell ETF shares only in market transactions (*i.e.*, they may not purchase from the sponsor). ETF sponsors enter into contractual relationships with one or more financial institutions known as "Authorized Participants" (APs) which typically are large broker-dealers. Only APs may purchase and redeem shares directly from the ETF, and they do so in large aggregations or blocks (*e.g.*, 50,000 ETF shares) called "Creation Units."

A typical ETF is based on specific domestic and foreign market indexes. Multifactor ETFs are based on multiple models to accomplish a particular investment goal. An index-based ETF tracks the performance of an index by holding in its portfolio either securities replicating the index or a representative sample of the securities in the index. ETFs also track non-traditional investments such as commodities and currencies. Some ETFs track

indexes inversely (*i.e.*, the ETF rises when the index falls) and new ETFs are continually evolving. Some ETFs are actively managed and not based on a market index.

Following are considerations when recommending ETFs:

- RRs must understand the complexities of ETFs before making a recommendation to determine the suitability of the recommendation.
- Purchasers must be provided with a prospectus or "product description." Some ETFs have obtained exemptive relief from the SEC allowing provision of a description instead of a prospectus.
- Purchasers of Portfolio Depository Receipts must be provided with a written description of the terms and characteristics of the securities, no later than the time a confirmation of the first transaction in such series is delivered to such purchaser. The description must also be included with any sales material provided to customers or the public. Any other written materials making specific reference to a series of Portfolio Depository Receipts as an investment vehicle must include a statement: "A circular describing the terms and characteristics of [the series of Portfolio Depository Receipts] has been prepared by [Trust name] and is available from your broker or NASDAQ. It is recommended that you obtain and review such circular before purchasing [the series of Portfolio Depository Receipts]. In addition, upon request you may obtain from your broker a prospectus for [the series of Portfolio Depository Receipts]." Non-NASDAQ members participating in an omnibus agreement are also subject to this obligation.
- Recommendations must consider what the ETF tracks to determine suitability for the proposed investor.
  - Where a commodity such as oil underlies the fund, it is important that the customer understands how the ETF is impacted by changes in price of the underlying commodity.
  - ETFs that track narrow sector or foreign market indexes can be highly concentrated and highly volatile or might fail to track their indexes properly. They also may have higher fees than ETFs based on broader indexes.
  - An ETF that invests in a sampling of the tracked index may not perform consistent with the index.
- Some ETFs sell short, others use leverage, and others use a combination of the two. Some ETFs are more complex financial instruments that offer leverage or are designed to perform inversely to the index or benchmark they track, or both. Leveraged ETFs amplify daily index moves; short selling provides the inverse daily return of market indexes. Targeted leverage levels don't necessarily meet targets over long periods due to compounding returns. Investors in these types of ETFs must be willing to assume higher risk.
- RRs are not permitted to sell leveraged or inverse ETFs without prior approval by a supervisor. Supervisory approval is contingent on representatives completing training on complex securities. After training is complete, representatives may solicit leveraged products.
  - Training may be the firm, third-party education agency, or other reasonable source. RRs receiving training from sources other than the Firm must provide the Firm with training materials to review for sufficiency and record keeping.
    - Resources
      - <https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins-2>
      - <https://www.sec.gov/investor/pubs/leveragedetfs-alert>
- Some inverse ETFs track broad indices, some are sector-specific, and still others are linked to commodities or currencies.
- Most leveraged and inverse ETFs "reset" daily, meaning that they are designed to achieve their stated objectives on a daily basis. The effect of compounding affects their performance over longer periods of time when their performance can differ significantly from the underlying index or benchmark during the same time period. Volatile markets can magnify this effect.
- ETFs are generally not suitable for a customer who wants to make regular periodic investments since each transaction will generate a commission cost. ETFs are more appropriate for larger lump-sum investments.
- Some ETFs allow investors to cash out their investment with the issuer.
- ETFs may be subject to temporary price disparities during times of highly volatile markets when ETF shares may trade for significantly less than the value of underlying assets. This risk is of particular concern to short-term traders.
- ETF shares can be sold short and bought on margin.

- For most ETFs, holdings are transparent, *i.e.*, an investor will know what is being held by the ETF by the makeup of the tracked index. However, in the case of an actively-managed ETF, knowledge of investments may not be available to investors.
- ETFs may have lower annual expenses than traditional funds; however, investors incur commission costs for each purchase and sale in the market.
- ETFs may be more tax efficient than regular mutual funds. Since shares are traded in the secondary market, the ETF is not required to liquidate its portfolio to satisfy fund sales and therefore reduces generation of capital gains distributions to investors that result in tax liabilities each year.
- ETFs do not offer dividend reinvestment plans which are available from regular mutual funds.
- Funds of ETFs (complete portfolios of multiple ETFs) may be considerably more expensive than buying the underlying ETFs directly.



## 13 OPTIONS

This chapter outlines requirements when offering options to customers. Key requirements include the following:

- RRs and supervisors must be registered to sell and supervise options.
- Customers must submit an option agreement, and accounts must be approved for options trading levels.
- Writing uncovered options requires a separate disclosure and approval.
- Customers will be provided with a standard options disclosure document when option trading is approved.
- Customers are subject to position limits and methods of exercise disclosed in the agreement.
- Options communications require inclusion of the special risks associated with options.
- Compliance must approve discretionary accounts that will trade options.

### 13.1 Option Registration

RRs must be qualified to engage in the sales of options contracts. Anyone who has successfully completed the Series 7 General Securities Representative examination is qualified to sell options.

RRs engaged in the sale of options are required to be supervised by a qualified Registered Options Principal (ROP). Supervisors are qualified as ROPs by passing prerequisite supervisor exams and the Registered Options Principal examination or by passing the General Securities Sales Supervisor (Series 10) examination.

### 13.2 Supervision Of Option Activities

ROPs are responsible for approval of accounts, review of transactions and communications, and other supervision required by rule. The designated supervisor for each office that conducts options business will be qualified as an ROP, except for offices with three (3) or fewer RRs which may be supervised by an ROP or General Securities Sales Principal in another location.

Where secondary approval is required (discretionary accounts, accounts requesting trading levels where the customer does not meet minimum requirements, *etc.*), a qualified ROP in Compliance will review and approve such accounts.

If Infinity has only one ROP, it will promptly notify FINRA if that person terminates and Infinity may be required to limit or terminate options activities until a new ROP is appointed.

### 13.3 Opening Option Accounts

#### Option Agreements And Approval Of Option Accounts

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li><li>• Compliance</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Customer Option Agreement</li><li>• Order records</li></ul>

	<ul style="list-style-type: none"> <li>• Daily Transaction Report</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review option agreements and approve for appropriate trading level</li> <li>• Ensure option agreements are submitted for approval prior to the customer's first option transaction</li> <li>• Restrict accounts from further opening transactions where the customer's signed option agreement has not been received within 15 days of the first option transaction</li> <li>• Compliance: A qualified ROP will review accounts where the customer does not meet minimum criteria for the level of trading requested and approve or disapprove.</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Customer's signed Option Agreement signed and dated by the approving supervisor</li> <li>• Records of providing option disclosure document</li> <li>• Records of providing uncovered short options disclosure</li> <li>• Compliance written justification if an account is approved for a level of trading for which the customer does not meet minimum criteria</li> </ul>

Prior to the first option trade, a completed option agreement must be approved by a ROP or qualified sales supervisor (Series 10). In offices where no qualified supervisor resides, a local supervisor may approve the option account but a qualified supervisor must approve the account within 10 days of the local supervisor's approval.

RRs are responsible for obtaining the required information on Infinity's customer option agreement. The customer must sign the option agreement confirming the information included on the form and agreeing to abide by the requirements included on Infinity's agreement.

The customer's signed option agreement must be submitted to Infinity within 15 days of approval. Failure to receive the customer's signed option agreement within 15 days will result in restricting the customer's account to closing option transactions until the agreement is received.

## Levels Of Option Trading

The following guidelines apply to accounts requesting approval to trade at various levels:

- Covered call writing: no minimum requirement
- Short puts: no minimum requirement

Accounts approved for these trading levels that do not meet the minimum criteria require the review and written notation by Compliance to explain why the account was approved for that level.

## Requalifying An Account's Approved Option Levels

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
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<b>Resources</b>	<ul style="list-style-type: none"> <li>• Customer Option Agreement</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review and approve (or disapprove) new option agreements that revise a customer's approved level of trading</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Customer's Option Agreement signed and dated by the ROP</li> <li>• Copy of Customer Option Agreement retained in branch customer file and Firm's new accounts file</li> </ul>

When a previously-approved option account is to be approved for a higher level of option, a new option agreement is required. The new agreement is to be approved by a ROP or qualified sales supervisor and sent to the customer for verification of account information on the form.

## Uncovered Short Options

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> <li>• Compliance</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Customer Option Agreement</li> <li>• Special Statement for Uncovered Option Writers</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Compliance: For accounts not meeting minimum criteria for approval but submitted for approval, review and, if approved, a qualified ROP will document why the account is approved for uncovered short option trading</li> <li>• For accounts approved for uncovered short options, provide the Statement</li> <li>• When the Special Written Statement is revised, provide the revised copy to existing customers approved for uncovered short option trading before or with the confirmation of the next uncovered short option transaction</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Copy of customer's acknowledgement of receiving the Statement retained in the customer file</li> <li>• Documentation of approving an account that does not meet minimum criteria is included with option account approval documentation</li> </ul>

All accounts that are approved for uncovered short options will be provided with the Special Statement for Uncovered Option Writers ("Statement") before or with the confirmation of the first uncovered short option transaction. If the Statement is revised, the revised version will be provided before or with the confirmation of the next uncovered short option transaction.

Following are the minimum criteria for approval of an account to trade uncovered options:

- Minimum net equity of \$25,000

If the account does not meet the above criteria and the account wishes to trade uncovered short options, Compliance review and approval is required.

## Option Disclosure Document (ODD)

All customers will be provided the required disclosure document at or prior to the time the account is approved for option trading.

In addition, whenever the disclosure document is revised, a revised copy will be provided to customers no later than the time of delivery of a confirmation of a transaction in a category of option the subject of a revision.

### Hyperlink Delivery Of The ODD

- Communications that contain clear and prominent hyperlinks to the ODD are considered to have been preceded or accompanied by the ODD.
- The ODD may be delivered via hyperlink to that document if the customer has consented to receive documents electronically from Infinity.

## 13.4 Option Orders

### Suitability Of Option Transactions

When recommending opening option transactions, RRs should have a reasonable basis for believing the customer has the knowledge and experience in financial matters that he/she may be reasonably expected to be capable of evaluating the risks of the recommended transaction, and financially able to bear the risks of the recommended position. Suitability determinations are based on the information provided by the customer including the RR's understanding of the customer's ability to evaluate the risk and financial ability to bear the risk.

### Orders Requiring Prior Approval

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Order records</li><li>• Daily Transaction Report</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Daily</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Provide wire operator or other order entry person with list of transactions requiring approval prior to entry</li><li>• Approve (<i>or disapprove</i>) orders requiring prior approval</li><li>• Identify orders not previously approved as required</li><li>• Remind wire operator or other order entry person of requirement</li></ul>

	<ul style="list-style-type: none"> <li>• Remind RR that order required prior approval</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Initials on order records</li> <li>• Initials on Daily Transaction Reports</li> </ul>

The following option transactions require the approval of the designated supervisor prior to entry:

- Opening spread transactions greater than [insert size] contracts

## Review Of Option Orders And Accounts

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Order records</li> <li>• Daily Transaction Report</li> <li>• Customer monthly transaction records</li> <li>• Option Agreements</li> <li>• Other available reports</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily (order records, Daily Transaction Report)</li> <li>• Periodically (customer monthly transaction records)</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review for completeness of orders (open or close, put or call, <i>etc.</i>)</li> <li>• Review for orders requiring prior approval and prohibited transactions</li> <li>• Review daily transactions and customer monthly statements for suitability of option transactions, including the following: <ul style="list-style-type: none"> <li>○ Compatibility of option transactions with investment objectives and approved trading levels</li> <li>○ Size and frequency of option transactions</li> <li>○ Commission activity</li> <li>○ Profit or loss in the account</li> <li>○ Undue concentration in any options class or classes</li> <li>○ Compliance with Reg T</li> </ul> </li> <li>• Take corrective action which may include consulting with the RR and/or Compliance, requalifying an option account, canceling the order, education for the RR, or other appropriate action</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Initials on order records, Daily Transaction report, and monthly transaction records</li> <li>• Supervisor's log or other record recording review of accounts</li> </ul>

The designated supervisor is responsible for review of option orders to identify transactions inconsistent with policy requirements including incomplete orders and transactions that appear to be unsuitable for the customer. Supervisory offices will have available (electronically or in hard copy) records enabling review of option accounts.

## Accounts Trading Outside Approved Levels

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Customer Option Agreement</li> <li>• Order records</li> <li>• Daily Transaction Report</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• If a customer is trading outside the approved level on the customer's option agreement:</li> <li>• Confer with the RR regarding whether the customer's trading level should be amended</li> <li>• If yes, require a new option agreement from the customer and review for higher level of trading</li> <li>• If no, immediately inform the RR trading outside approved levels must cease</li> <li>• Consider contacting the customer to determine whether the violative transaction should be canceled, and cancel if appropriate</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Initials on order records and Daily Transaction report</li> <li>• Notes of action taken on Daily Transaction Report or supervisory log or other written record</li> </ul>

Infinity has established procedures to identify accounts that trade outside approved option levels. RRs may be required to complete a new option agreement to re-qualify the customer or orders may be canceled if deemed inappropriate for the customer.

## Prohibited Trading To Evade Short-Sale Requirements

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Option transaction reports</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review option transactions for indicators of attempts to circumvent Regulation SHO: <ul style="list-style-type: none"> <li>○ Trading exclusively or excessively in hard-to-borrow securities or threshold list securities, or in near-term listed options on such securities</li> <li>○ Large short positions in hard-to-borrow securities or threshold list securities</li> <li>○ Large failure to deliver positions in an account, often in multiple securities</li> <li>○ Continuous failure to deliver positions</li> <li>○ Using buy-writes, married puts or both, particularly deep in-the-money buy-writes or married puts, to satisfy the close-out requirement</li> <li>○ Using buy-writes with little to no open interest aside from that trader's activity, resulting in all or nearly all of the call options being assigned</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>○ Trading in customizable Flexible Exchange (FLEX) Options in hard-to-borrow securities or threshold list securities, particularly very short-term FLEX Options</li> <li>○ Purported market makers trading in hard-to-borrow or threshold list securities claiming the exception from the locate requirement of Regulation SHO (often these traders do not make markets in these securities, but instead effect trades only to take advantage of the option mispricing)</li> <li>○ Multiple large trades with the same trader acting as a contra party in several hard-to-borrow or threshold list securities (often traders assist each other to avoid having to deliver shares)</li> <li>● If potential violations are identified, take corrective action which may include consulting with the trader, RR, and/or customer; reversing the transaction; closing the account or restricting dealing with another firm's trader engaged in such activity; consulting with Compliance</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>● Record of transaction reviews, questionable trades, and action taken</li> </ul>

Regulation SHO governs short sales to ensure that trades settle promptly, reducing settlement failures. Short sellers who fail to deliver securities are required to close out their position immediately, unless an exception applies. Some options trading strategies have been used to evade those requirements, particularly in hard-to-borrow securities.

Option strategies to circumvent Regulation SHO requirements are prohibited.

## Prohibited Transactions

The following transaction(s) is/are not permitted:

- Option rules prohibit the entering of a transaction for the sale (writing) of a call option contract for an account of any corporation which is the issuer of the underlying security.
- An opening covered short position in a call option contract may not be established if the underlying stock is restricted and not free to sell.

## Disclosure Of Option Order Routing

Infinity is obligated to publish statistics regarding customer agency orders in options. Procedures for publishing the required information are detailed in the chapter *ORDERS* in the section *Disclosure Of Order Routing*.

## 13.5 Option Operations Procedures

This section describes some of the operations procedures relating to options. The Operations Department is responsible for these areas.

## Reporting Positions

The designated operations supervisor is responsible for reporting option positions in accordance with SRO requirements.

When Infinity is not a member of the options exchange upon which the standardized options are listed and traded, Infinity is required to file a report with FINRA regarding the following accounts which have established an aggregate position of 200 or more option contracts (whether long or short) of the put class and the call class on the same side of the market covering the same underlying security or index:

- each account in which Infinity has an interest
- each account of a partner, officer, director or employee of Infinity
- each customer, non-member broker, or non-member dealer account

Reporting combines long positions in put options with short positions in call options and short positions in put options with long positions in call options.

## **Position Limits**

Customers are subject to limits on how many contracts may be accumulated in a particular option at any one time. Total positions include all accounts under "common control" by one party. An example of common control would be a registered investment adviser who manages multiple accounts and establishes option positions in accounts under the adviser's management. Position limits also include accounts "acting in concert" to accumulate a position. Infinity (or its clearing firm or other firm executing transactions on its behalf) has systems to prevent entry of orders that would violate position limits.

Some qualified hedge strategies and positions are exempt from position limits, including a delta hedging exemption for FINRA members and non-member affiliates. The designated supervisor is responsible for applying the Permitted Pricing Model to all positions in or relating to the security underlying the relevant options position that are owned or controlled by such member or non-member affiliate and providing FINRA with written certification that Infinity or its affiliate are using the Permitted Pricing Model and that the affiliate will provide immediate notice to Infinity if it ceases to hedge stock positions; Infinity is responsible for carrying all option positions relying on the exemption.. Infinity is responsible for reporting any positions. [FINRA Rule 2360(b)(A)(vii)]

The designated operations supervisor is responsible for identifying positions that exceed allowable limits under SRO rules. When a position limit violation is identified, the SRO will be notified as required by rule and the customer will be notified and asked to reduce the position to within the permitted levels.

## **Liquidation Of Positions And Restrictions On Access**

When FINRA determines that a person or group of persons acting in concert holds or controls, or is obligated in respect of, an aggregate position in option contracts covering any underlying security or index in excess of position limits, it may direct a member or all members carrying a position in option contracts covering such underlying security or index for such person or persons to liquidate such position or positions, or portions thereof, as expeditiously as possible and consistent with the maintenance of an orderly market, to bring such person or persons into compliance with the position limits. When directed by FINRA, Infinity will liquidate positions and will not permit such person or persons to execute an opening transaction and will not accept and/or execute for any person or persons named in such directive, any order for an opening transaction in any option contract, unless in each instance express approval is given by FINRA, the directive is rescinded, or the directive specifies another restriction appropriate under the circumstances.

FINRA will notify the subject person or persons who have the right to appeal the decision.



## Exercise Of Options

The exercise of options is subject to regulatory rules; the method used for exercising options is disclosed on Infinity's option agreement.

The following records will be retained by the designated supervisor regarding exercise of options:

- Memorandums of exercise instructions received from customers showing the time the instruction was received
- Memorandum if Infinity receives and acts on exercise instructions after set cut-off times because of some unusual circumstances (including the details explaining the exception), as required under option rules

The designated supervisor is responsible for ensuring the exercise of options does not exceed limitations specified in options rules. If Infinity has reason to believe someone acting alone or in concert with others has exceeded or is attempting to exceed position or exercise limits, Infinity will promptly contact FINRA.

The exercise cut-off is established by regulators or Infinity may establish an earlier time which is communicated to customers trading options. Exercise instructions will not be accepted after the cut-off time. Submission of exercise instructions may be submitted electronically in which case the instructions will include an electronic record of the time it is submitted to comply with the cut-off time. If not submitted electronically, a manual record will be maintained of the time when the exercise instructions are submitted. Mistakes or errors in submitted exercise instructions will be reviewed and resolved by Operations (at Infinity or its clearing firm).

## Tendering Procedures

Special procedures apply to the exercise of standardized equity options on the last business day before their expiration ("expiring options"). Unless waived by The Options Clearing Corporation, expiring standardized equity options are subject to the Exercise-by-Exception ("Ex-by-Ex") procedure under The Options Clearing Corporation Rule 805. This Rule provides that, unless contrary instructions are given, standardized equity option contracts that are in-the-money by specified amounts are automatically exercised. In addition to The Options Clearing Corporation rules, the following FINRA requirements apply with respect to expiring standardized equity options. Option holders desiring to exercise or not exercise expiring standardized equity options must either:

- take no action and allow exercise determinations to be made in accordance with The Options Clearing Corporation's Ex-by-Ex procedure where applicable; or
- submit a "Contrary Exercise Advice" by the deadline.

For both customer and proprietary positions (as well as positions of other firms where Infinity has accepted responsibility to exercise options), Infinity is responsible for confirming that final exercise decisions are properly indicated to the relevant national options exchange with respect to such positions. Infinity may establish a cut-off time prior to FINRA's specified cut-off.

The filing of a final exercise decision, exercise instruction, exercise advice, Contrary Exercise Advice or Advice Cancel does not serve as a substitute to the effective notice required to be submitted to The Options Clearing Corporation for the exercise or non-exercise of expiring standardized equity options.

## Adjustments In Terms Of Options

The number of shares underlying an option contract and/or the exercise price are subject to adjustments by the Options Clearing Corporation when the underlying shares are subject to dividends (other than cash dividends), distributions, stock splits, recapitalization, or reorganization. Branches are notified and RRs should advise customers who hold option positions in the affected security.

## Branch Copies Of Account Information And Statements

For all accounts trading options, each branch office servicing the account and the principal supervisory office having jurisdiction over the branch office will retain copies of background and financial information for approved options accounts and customer statements for the prior 6 months. These records may be in electronic format if readily accessible and promptly retrievable.

### 13.6 Option Complaints

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li><li>• Compliance</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Incoming correspondence</li><li>• Written complaints</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Immediately provide the original of any written complaint to Compliance</li><li>• Retain a copy of the complaint for branch files</li><li>• Compliance (<i>in consultation with the branch manager</i>) will respond to the complaint</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Copy filed in branch Option Complaints file</li><li>• For branch offices that report to an OSJ in another location, the OSJ will retain copies of complaints for branch offices under their supervision</li><li>• Compliance retains Infinity's central complaint files including:<ul style="list-style-type: none"><li>○ identification of complainant;</li><li>○ date complaint received;</li><li>○ identification of RR servicing the account;</li><li>○ general description of the matter complained of; and</li><li>○ a record of what action, if any, was taken with respect to the complaint</li></ul></li></ul>

RRs are required to notify their supervisor when a complaint is received. All written option complaints are to be forwarded to Compliance immediately upon receipt.

### 13.7 Option Communications With The Public

Requirements for options communications (including electronic communications) include the following, which are explained in more detail below:

- The rules governing retail communications, institutional communications and correspondence apply to options communications. Refer to the chapter *COMMUNICATIONS WITH THE PUBLIC* for more information about these policies.
- Retail communications (communications distributed to more than 25 retail investors) require supervisory approval **prior to** distribution.

- Institutional communications (for institutions only) do not require prior approval and are subject to review consistent with correspondence reviews (see the chapter *COMMUNICATIONS WITH THE PUBLIC*). Institutional communications require review by the designated supervisor.
- All options communications (other than institutional communications) must include a statement that supporting documentation for any claims (including claims on behalf of options programs or the options expertise of sales persons); comparisons; recommendations; statistics; or other technical data, will be supplied upon request.
- All advertising requires Compliance approval **prior to** publication.

## Definitions

**Retail investor:** includes any person other than an institutional investor, regardless of whether the person has an account with Infinity.

**Institutional investor:** See the definition in the chapter *COMMUNICATIONS WITH THE PUBLIC*.

**Retail communication:** includes **any** written communication (including advertising, telemarketing and other sales scripts and other written communications) that is published, distributed or made available to **more than 25** retail investors within any 30 calendar-day period.

**Institutional communication:** includes written communications that are distributed or made available only to institutional investors.

**Correspondence:** Includes any written communication that is distributed or made available to **25 or fewer** retail investors within any 30 calendar-day period.

**Options [FINRA Rule 2360(a)(20)]:** Any put, call, straddle or other option or privilege, which is a "security" as defined in Section 2(1) of the Securities Act of 1933 but not including any tender offer, registered warrant, right, convertible security or any other option in respect to which the writer is the issuer of the security which may be purchased or sold upon the exercise of the option.

**Options Disclosure Document (ODD) [FINRA Rule 2360(a)(12)]:** The options-market document containing explanatory information relating to the mechanics of buying, writing and exercising options; the risks involved; and other required information about options. The ODD must be provided to all options customers and provided with certain options communications.

**Public appearance:** Any participation in a seminar, forum (including an interactive electronic forum), radio, television or print media interview, or other public speaking activity, or the writing of a print media article, concerning options.

**Standardized Option:** Any options contract issued, or subject to issuance, by The Options Clearing Corporation, that has standardized terms for the strike price, expiration date, and amount of the underlying security, and is traded on a national securities exchange registered pursuant to section 6(a) of the Securities Act.

## Option Content Standards

- All options communications (other than institutional communications) must include a statement that supporting documentation for any claims (including claims on behalf of options programs or the options expertise of sales persons); comparisons; recommendations; statistics; or other technical data, will be supplied upon request.
- All options communications (other than institutional communications) must include a statement that options are not suitable for all investors.

- Communications including historical and/or performance figures or projections must be preceded or accompanied by the Options Disclosure Document (ODD). For historical performance projections, specific guidelines apply [see FINRA Rule 2220(d)(3) and (4)].

## Communications Regarding Standardized Options Prior To Delivery Of The ODD

Prior to providing the ODD, communications are limited to a brief description of options including a statement that identifies the registered clearing agency for options and a brief description of the general attributes and method of operation of the option exchanges including a discussion of how an option is priced. Such pre-ODD communications must include contact information for obtaining a copy of the ODD and must not contain recommendations or past or projected performance figures including annualized rates of return or the names of specific securities. They may include statements required by state law and administrative authority and may include advertising designs and devices, providing such material is not misleading.

## Filing Requirements

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Compliance</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Proposed communications subject to filing</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review communication and make necessary changes</li> <li>• Submit communication to FINRA for approval at least 10 calendar days prior to first use</li> <li>• Communicate approval or disapproval to originator of the communication</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Copies of communications with FINRA approval/disapproval and contact with originator regarding permissible use or restriction on use</li> </ul>

Communications that are likely to be widely disseminated such as advertisements and independently prepared reprints are subject to filing with FINRA at least ten calendar days prior to use. If changed or disapproved by FINRA, the originator of the communication will be notified, and the communication will be withheld from distribution until resubmitted to FINRA and approved by them.

Filing with FINRA is not required:

- if the communication is filed with another regulator with standards comparable to FINRA
- for communications which only reference that options are available from Infinity
- for the ODD and prospectus
- for targeted communications (such as correspondence) used once the ODD or prospectus has been delivered

## 14 MUNICIPAL SECURITIES

This chapter describes requirements that apply to municipal securities. Rule references (*i.e.*, G-3) refer to Municipal Securities Rulemaking Board (MSRB) rules, unless otherwise noted.

### Administration And Operations

#### 14.1 Fees And Assessments

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Data regarding inter-dealer sales transactions in municipal securities and municipal underwriting activity (MSRB Rule A-13)</li><li>• MSRB Rule A-14 regarding annual fee</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Inter-dealer transactions and underwriting assessments as required</li><li>• Annual fee - annually by October 31</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Calculate and pay inter-dealer transaction and underwriting assessment fees</li><li>• Pay annual fee for receipt by the MSRB by October 31</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Records of all assessment and fee payments are retained in files by respective subject.</li></ul>

The designated supervisor is responsible for reporting required information and paying assessment fees to the MSRB. The designated supervisor is also responsible for paying the annual fee to the MSRB.

#### 14.2 Registration Requirements

Employees engaged in municipal activities must be registered as outlined in this section. References to "sales" also include the solicitation of sales to and/or purchases from customers.

Firms are required to have at least two municipal securities principals unless the firm is engaged in general securities business and is a member of a registered securities association; or, firms with fewer than eleven employees may have one principal.

#### 14.3 Municipal Securities Representatives

Municipal Securities Representatives engage in one or more of the following:

- underwriting, trading or sales of municipal securities;
- financial advisory or consultant services for issuers in connection with the issuance of municipal securities;
- research or investment advice with respect to municipal securities; or

- any other activities which involve communication, directly or indirectly, with public investors in municipal securities.

Municipal Securities Representatives qualify by completing the Securities Industry Essentials Examination (SIE) and the Series 52 Municipal Securities Representative examination and may engage in a wide range of transactions in municipal securities including sales, trading, underwriting, and other non-supervisory municipal activities.

## **14.4 Limited Representatives**

Municipal Securities Sales Limited Representatives are limited exclusively to handling customer sales and purchases of municipal securities. The term "limited representative - investment company and variable contracts products" means a municipal securities representative limited exclusively to the sale and purchase of municipal fund securities. Limited representatives may not engage in other municipal activities such as trading or underwriting. For offices where RRs are qualified as Limited Representatives, the designated supervisor is responsible for determining that those RRs do not exceed the limited activities permitted under this registration status.

The SIE and Series 7 examinations qualify a Municipal Securities Sales Limited Representative.

The SIE and Series 6 examinations qualify an Investment Company/Variable Contracts Limited Representative.

## **14.5 Exceptions**

SIE and MSRB exams are not required for the following:

- Municipal securities representatives who qualified via the general securities representative exam prior to November 7, 2011
- Municipal securities sales limited representatives qualified as a general securities representative via the general securities representative exam
- Persons qualified as a limited representative-investment company and variable contracts products via taking the exam for that qualification

Anyone who ceases association with a municipal dealer for two or more years is required to re-qualify.

## **14.6 Municipal Securities Principals**

Status as a municipal securities representative or general securities representative plus the Series 53 examination qualifies individuals for the registration status of municipal securities principal which permits the individual to supervise all aspects of Infinity's municipal business. Qualified municipal principals will be designated to supervise the areas of underwriting, trading, and pricing of inventories.

## **14.7 Grace Period For Designated Principals With Prior Registration**

Persons without prior registrations must qualify as a Municipal Principal before acting in that capacity. For those who meet the following requirements, they may act as a principal for 120 days prior to qualification:

- already registered as a representative (the type depending on the category of principal registration); and

- at least 18 months of experience functioning as a representative within the five-year period immediately preceding the principal designation.

The above exception also applies to those designated as a Municipal Fund Securities Limited Principal and who were previously registered as a general securities representative or investment company/variable contracts limited representative, and with the 18-month experience.

## 14.8 General Securities Principals

Individuals qualified as General Securities Principals may conduct limited supervision without municipal principal qualification. Those qualified as a General Securities Principal are limited to supervision of books and records; review and approval of the opening of customer accounts; overseeing the gathering of information on associated persons; and approval of advertising. A General Securities Principal may not supervise and review customer transactions, customer complaints, or correspondence related to municipal securities. He/she also may not supervise the processing of municipal securities transactions including trade reporting to the MSRB.

## 14.9 Permissive Qualification

Infinity may permit any employee to become registered as a representative or a principal, including individuals working in a clerical or ministerial capacity. If not required for the person's responsibilities, approval by the supervisor and Compliance is required. These individuals are subject to regulatory conduct rules such as outside business activities, private securities transactions, *etc.*, and will be assigned to a registered principal. All registered persons, including those who solely maintain a permissive qualification, are required to satisfy the Regulatory Element of continuing education.

## 14.10 Suitability

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Order records</li> <li>• Daily Transaction Report</li> <li>• Customer Monthly Statements</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily (order tickets and Daily Transaction Report)</li> <li>• Semi-annually (Customer Monthly Statements)</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review municipal transactions for suitability with particular consideration of: <ul style="list-style-type: none"> <li>○ Non-rated issues</li> <li>○ Long-term bonds [&gt;10 years to maturity]</li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Initials on order records and Daily Transaction Report</li> </ul>

RRs are required to obtain pertinent information about customers (depending on the type of customer) regarding financial background, tax status, investment objectives, and other information to assist in the evaluation of

suitability of recommendations. If the customer refuses to provide the requested information, the new account form should be so marked. Changes to customer suitability information should be made by amending existing new account information or submitting a new form.

RRs are required to have a reasonable basis to believe recommendations are suitable based both on information available from the issuer and on the facts disclosed or otherwise known about the customer.

## **Non-Rated Municipal Securities**

Non-rated municipal securities may represent a higher level of risk to the investor. RRs should discuss the risks of purchasing non-rated bonds when such bonds are recommended for purchase. Risks may include less liquidity; more price volatility; and higher risk of default. As required by MSRB Rule G-15, customer confirmations include a disclosure when a municipal security is not rated.

### **14.11 Disclosures**

Infinity and RRs have disclosure obligations when effecting municipal securities transactions. These disclosure obligations extend to municipal advisors, where relevant.

### **14.12 Complaints**

The handling of customer complaints is described in the section *Complaints* in the chapter *COMMUNICATIONS WITH THE PUBLIC*. Customer complaint procedures cover all types of municipal activities including municipal advisor services and complaints received in writing or electronically.

Upon receipt of a complaint, Compliance will send to the customer a copy of the investor brochure designated by the MSRB, and will record the date when the investor brochure was provided.

### **14.13 MSRB Rules**

A copy of the MSRB rules is available in each office where municipal securities business is conducted by accessing the MSRB's Internet site at <http://www.msrb.org> or via software products produced by other companies.

### **14.14 529 College Savings Plans (Municipal Fund Securities)**

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Plan applications</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• When applications are received</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Include 529 plans in RR training</li></ul>



	<ul style="list-style-type: none"> <li>• Review applications for suitability including: <ul style="list-style-type: none"> <li>○ suitability of underlying investments</li> <li>○ expected duration of the investments</li> <li>○ tax considerations</li> <li>○ out-of-state vs. in-state plan benefits and disadvantages</li> </ul> </li> <li>• Confer with RR if necessary</li> <li>• Confer with customer if necessary</li> <li>• Take corrective action, if required, which may include advising the RR to make alternative recommendations; canceling a purchase</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Plan applications</li> <li>• Daytimer or other record of review</li> </ul>

529 College Savings Plans are higher education savings plans named for Section 529(b) of the Internal Revenue Service Code. Through a 529 Plan, an individual may contribute cash to be invested for the purpose of accumulating savings for qualifying education costs of beneficiaries. Plan investments include pooled investment funds and have features similar to mutual funds or variable annuities.

529 plans established by states or local governmental entities are deemed municipal fund securities subject to MSRB rules. This section addresses requirements for 529 plans that are considered municipal securities.

## Registration Requirements

The following registrations are required to sell municipal fund securities:

- RRs qualify through a Series 6 or Series 7 examination (Series 6 qualification is limited to municipal fund securities only and not other types of municipal securities).
- To supervise the sale of municipal fund securities, supervisors must have the following principal qualifications:
  - Municipal Securities Principal (Series 53); **or**
  - General Securities Principal (Series 24) prerequisite **and** Municipal Fund Securities Limited Principal (Series 51); **or**
  - Investment Company/Annuity Principal (Series 26) prerequisite **and** Municipal Fund Securities Limited Principal (Series 51).

## Features Of 529 Plans

General features include the following; specific programs must be reviewed to determine actual features.

- Plan programs are offered by states or other governmental bodies that either oversee plan investments themselves or, more often, hire an outside entity such as a mutual fund company to handle underlying investments.
- The person who establishes a plan for a beneficiary retains control, a form of revocable gift. Plans may also allow a change of beneficiary.
- While plans have cumulative maximum contributions, the limits are usually very high.
- There are no federal taxes on earnings if used for qualifying education expenses.
- Withdrawals that are not used for qualifying educational expenses are subject to Federal taxes as well as a 10% penalty. There may also be state tax implications.
- There is no time limit in many states on when the 529 money must be used.
- Other features vary depending on the state's plan and may include limitations on investment options and ability to change investments and limits on aggregate contributions for all beneficiaries.

- For most state plans, the customer does not have to reside in the state to establish a plan.

## **Share Classes**

529 plans may have three or more different share classes (e.g., A, B, C) with different fees and expenses. RRs must consider whether a particular class is appropriate before recommending it to a customer. "A" shares may be more economical over a longer period of time than "C" shares that do not offer cost reductions such as breakpoints. The beneficiary's time horizon should be considered in determining the appropriate share class. C-shares may not be appropriate for beneficiaries younger than 10 years old; A-shares may not be appropriate for beneficiaries older than 10 years old and purchases are made within just a few years of reaching 18 years old. FINRA's fund share class analyzer is a tool that may be used to evaluate classes. When making a recommendation, documentation of the choice of class and its justification should be included with the purchase.

FINRA has also recently conducted sweep exams of broker dealers selling 529 C shares.

## **Disclosures**

There are two primary forms of written disclosure that must be provided to customers when marketing 529 college savings plans. Providing disclosures does not relieve the obligation to make suitable recommendations to the customer.

### **Official Statement/Program Disclosure Document**

Issuers of 529 plans provide a document to be used in connection with sales of municipal fund securities. This may be an official statement, program disclosure document, information statement, prospectus, or other document provided by the issuer.

### **Out-of-State Plans**

When marketing out-of-state 529 college savings plans, disclosure will be provided to the customer prior to or at the time of the trade as follows:

1. Depending on the laws of the home state of the customer or designated beneficiary, favorable state tax treatment or other benefits offered by such home state may be available only if the customer invests in the home state's 529 college savings plan.
2. State-based benefits should be one of many appropriately weighted factors to be considered in making an investment decision.
3. The customer should consult with his or her financial tax or other adviser about how such state-based benefits would apply to the customer's specific circumstances and may wish to contact his or her home state or any other 529 college savings plan to learn more about their features.

## **Selling Considerations**

When recommending 529 plans, the RR has the obligation to determine the suitability of the recommendation, with particular consideration of the plan's underlying investments. RRs should consider the following when discussing 529 plans with prospective purchasers:

- The customer's investment objectives and the types of underlying investments available.
- Tax implications including Federal and in-state vs. out-of-state tax benefits.
- Penalties on withdrawals not used for qualifying higher education costs.
- Limitations in the plan being considered including changing investments; changing beneficiaries; limits on aggregate contributions; time limits for using plan money; or other limitations.
- Associated costs including expenses, enrollment fees, mutual fund load expenses, and maintenance fees.
- Whether out-of-state customers qualify for a particular plan.
- Which class of shares is appropriate for the customer.

## 529 College Savings Plan Checklist

The RR's designated supervisor must approve transactions where an out-of-state plan or replacement of an existing plan is being recommended. RRs are required to complete the 529 College Savings Plan Checklist and submit it to the designated supervisor prior to effecting the transaction.

- An advertisement must be based on principles of fair dealing and good faith, be fair and balanced and provide a sound basis for evaluating the facts about any particular municipal security or type of municipal security, industry, or service.
- A dealer may not distribute advertising that includes any untrue statement of material fact or is otherwise false or misleading.
- A dealer may not omit any material fact or qualification if such omission, in light of the context presented, would cause the advertisement to be misleading.
- An advertisement may not contain any false, exaggerated, unwarranted, promissory or misleading statement or claim.
- A dealer may not limit the types of information placed in a legend or footnote of an advertisement so as to inhibit a customer's or potential customer's understanding of the advertisement.
- An advertisement must provide statements that are clear and not misleading within the context that they are made.
- The advertisement must provide a balanced treatment of the benefits and risks, and the advertisement must be consistent with the risks inherent to the investment.
- A dealer must consider the audience to which the advertisement will be directed and that the advertisement provide details and explanations appropriate to that audience.
- An advertisement may not predict or project performance, imply that past performance will recur or make any exaggerated or unwarranted claim, opinion or forecast.
- An advertisement may not include a testimonial unless it satisfies certain conditions.

## 14.15 Mark-Ups And Mark-Downs

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Orders</li> <li>• Trading reports</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Ongoing (Traders)</li> <li>• Spot-check</li> </ul>

<b>Action</b>	<ul style="list-style-type: none"> <li>• Establish required mark-up disclosures on confirmations</li> <li>• Review mark-ups and mark-downs that exceed Firm guidelines or not related to contemporaneous Firm transactions: <ul style="list-style-type: none"> <li>○ For automated prevailing market price (PMP) determinations, review overrides</li> <li>○ Review order records for written documentation of prevailing market determination (e.g., yields on comparable securities)</li> <li>○ Notify Trading Manager of missing documentation and request correction of the deficiency</li> <li>○ Confer with Trading Manager regarding orders where documentation is not justified</li> </ul> </li> <li>• Compliance: <ul style="list-style-type: none"> <li>○ Document functional separation of trading desks, if applicable</li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Order records maintained by the Trading Dept.</li> <li>• Trading reports including initials of reviewer and review notes, if any</li> <li>• Documentation of functional separation of trading desks</li> </ul>

All transactions are executed, reported and confirmed by the firm's clearing broker. All the transactions are effected on a riskless principal basis by the clearing broker. The firm will coordinate with the clearing broker to ensure that the confirmations contain all of the required information and disclosures. Infinity will periodically obtain from the clearing firm's methodology for complying with this rule. Infinity understands that notwithstanding that it is the clearing broker that effects the transactions, it is still obligated to customer transactions are executed at a fair and reasonable (including mark-up or mark-down) price considering the prevailing market price. The rule requires traders to document how mark-ups/downs are calculated if not related to the presumptive prevailing market price. Alternative methods for documenting the presumptive market price are in "hierarchical" order with the first alternative to be used, and if not available the second may be used, etc. Infinity will, where applicable, obtain this information from its clearing broker.

## 14.16 Commissions On Agency Transactions

The designated supervisor is responsible for reviewing the reasonableness of commissions on agency transactions. Relevant factors in determining the reasonableness of commissions may include:

- the expense of executing and filling the customer's order
- the value of the services rendered by Infinity
- the amount of any other compensation received by Infinity in connection with the transaction
- factors considered in principal transactions
- any other relevant factors at the time of execution

## 14.17 Reports Of Transactions

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Trade data</li> <li>• MSRB dealer data and other available reports</li> <li>• MSRB customer report edit register</li> </ul>

<b>Frequency</b>	<ul style="list-style-type: none"> <li>Weekly and monthly review of MSRB data depending on frequency of reports</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>Review MSRB data to determine accuracy of clearing firm's reporting, specifically reviewing for trades successfully submitted vs. those with errors</li> <li>When patterns of errors are detected, contact the clearing firm to determine what corrective action will be taken</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>Initials and date reviewed on MSRB reports; notations of action taken where appropriate</li> </ul>

Inter-dealer and customer municipal transactions are submitted to Infinity's clearing firm for reporting transactions in municipal securities to the MSRB's Real-Time Transaction Reporting System (RTRS).

## 14.18 Political Contributions

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>Requests to make political contributions</li> <li>Quarterly certifications</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>As required (<i>requests</i>)</li> <li>Quarterly (<i>certifications and filing G-37 report</i>)</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>Review requests and determine permissibility</li> <li>Identify municipal finance and advisor professionals covered by Rule G-37</li> <li>Maintain list of current municipal finance and advisor professionals</li> <li>Request quarterly certifications from municipal finance and advisor professionals</li> <li>Prepare and file Form G-37</li> <li>Notify appropriate department managers if Infinity's activities must be restricted</li> <li>Contact Compliance to determine corrective action if prohibited activities using Firm resources are identified</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>Compliance maintains files for: <ul style="list-style-type: none"> <li>Requests and responses</li> <li>Quarterly certifications</li> <li>Quarterly reports</li> <li>List of municipal finance and advisor professionals</li> <li>Restrictions, if appropriate</li> </ul> </li> </ul>

### Introduction

MSRB Rule G-37 specifies restrictions and requirements regarding political contributions to individuals who may influence the placement of municipal securities and advisor business as defined in the rule. The purpose of the

rule is to sever any connection between political contributions and the awarding of municipal business. The rule does not prohibit political contributions; it does, however, prohibit Infinity from engaging in municipal securities and advisory business for two years with a municipal entity where contributions subject to this rule are made.

**Because Infinity does not want to be subject to a two-year restriction on its municipal business, employees are required to adhere to the requirements of this Rule.**

MSRB Interpretive Guidance should also be consulted for information. Because the rules are extensive and there may be different interpretations depending on the circumstances, it is important to consult with Compliance when necessary.

## Summary Of Key Requirements

Some of the key requirements that apply to Infinity and Infinity employees are summarized below.

- Requirements and prohibitions apply to brokers, dealers and municipal securities dealers, municipal finance professionals, municipal advisors, and PACs controlled by any of the prior entities or persons. Recordkeeping and disclosure provisions apply to non-MFP executive officers of the dealer.
- Political contributions by Infinity or affected employees must be cleared through the designated supervisor prior to making the contribution.
- Those engaged in municipal securities or advisory business, as defined under this Rule, will be required to submit quarterly certifications regarding their political contributions during the prior calendar quarter.
- "Contributions" are defined by rule and the recipient of contributions ("official of the issuer") is also defined. Some minimal contributions (\$250 or less) by affected employees who are contributing to officials for whom they may vote are excluded from the rule.
- Infinity and its employees are prohibited from soliciting others to make contributions to an official of an issuer.
- The prohibition applies to contributions to officials with dealer or advisor selection influence, and for third-party solicitors.
- The ban on business includes acting as negotiated underwriter (managing or syndicate member), financial advisor, municipal advisor, consultant, placement agent, third-party solicitor, and negotiated remarketing agent.
- Where a firm is both a dealer and a municipal advisor, the rule and two-year ban apply to both activities if there is a violating contribution by either business (cross-ban).
- If there is a ban triggered by a violating contribution, the Rule allows for an "orderly transition" to another entity to assume the prohibited firm's responsibilities.
- Infinity, its municipal finance and advisor professionals and affiliates are prohibited from soliciting any person or political action committee (PAC) to make or coordinate contributions to an official of an issuer with which Infinity is engaged in business, or is seeking to engage in business.
- Infinity is required to maintain internal records of affected employees and their contributions and report quarterly to the MSRB.
- Infinity cannot pay compensation for soliciting municipal business to anyone who is not affiliated with Infinity (see the prior section *Solicitation Of Municipal Securities Business*).

## Municipal Finance Professional

Municipal finance professionals include (other than employees whose functions are solely clerical or ministerial) employees engaged in:

- municipal securities representative activities (including sales, except that sales to natural persons are NOT included)
- underwriting or trading
- financial advisory or financial consultant services for municipal issuers
- research or investment advice regarding municipal securities

- soliciting municipal securities business as defined in this section
- supervision of the above activities
- acting as CEO or a similar position
- serving on a dealer's executive or management committee

RRs who sell municipal securities to individual investors are not included in this definition or the restrictions on political contributions.

## Contributions

Contributions include any gift, subscription, loan, advance or deposit of money or anything of value made:

- to an official of a municipal entity:
  1. for the purpose of influencing any election for federal, state or local office;
  2. for payment of debt incurred in connection with any such election; or
  3. for transition or inaugural expenses incurred by the successful candidate for state or local office;
 or
- to a bond ballot campaign:
  1. for the purpose of influencing (whether in support of or opposition to) any ballot initiative seeking authorization for the issuance of municipal securities through public approval obtained by popular vote;
  2. for payment of debt incurred in connection with any such ballot initiative; or
  3. for payment of the costs of conducting any such ballot initiative.

## Contributions Subject To Political Contribution Limitations And Reporting

Covered contributions include those by Infinity, any PAC controlled by Infinity, and by municipal finance and advisor professionals listed above. The rule does NOT apply to other employees, provided that contributions are not made for the purpose of inducing or influencing the obtaining or retaining of public finance business from an issuer.

## Excluded Contributions

A contribution to an official of a municipal entity will not subject a dealer or municipal advisor to a ban on business if the contribution meets the following conditions:

- ***Voting Right/De Minimis Contribution.*** The contribution is made by a municipal finance professional or municipal advisor professional who is entitled to vote for the official of the municipal entity and the contribution and any other contribution made to the official of the municipal entity by such person in total do not exceed \$250 per election.
- ***Contributions Made Before Becoming a Dealer Solicitor or Municipal Advisor Solicitor.*** The contribution is made by a natural person who: (1) at the time of the contribution was not a municipal finance professional or municipal advisor professional; (2) became and is a municipal finance professional, or municipal advisor professional, or both, solely on the basis of being a dealer solicitor and/or municipal advisor solicitor; and (3) since becoming a municipal finance professional and/or municipal advisor professional has not solicited the municipal entity; provided, however, that this non-solicitation condition is not required for this exclusion after two years have elapsed since the making of the contribution.
- ***Contributions Made by Certain Persons More Than Six Months Before Becoming a Municipal Finance Professional or Municipal Advisor Professional.*** The contribution is made by a person who is either or both of the following: (1) a municipal finance professional solely based on activities as a

municipal finance principal, dealer supervisory chain person, or dealer executive officer, and the contribution was made more than six months before becoming a municipal finance professional or; (2) a municipal advisor professional solely based on activities as a municipal advisor principal, municipal advisor supervisory chain person, or municipal advisor executive officer, and the contribution was made more than six months before becoming a municipal advisor professional.

## **Look-Back And Look-Forward Provisions**

Affected political contributions are subject to a two-year "look-back" at their political contributions prior to joining Infinity. Prior contributions to issuer officials may restrict Infinity's ability to do municipal securities and advisory business with that issuer until the "look-forward" period has expired. This includes new hires and persons promoted to positions subjecting them to the Rule. At the time of hire, new municipal finance and advisor professionals will be asked to provide information regarding contributions during the look-back period, and the designated supervisor will determine whether restrictions will apply.

## **Automatic Exemptions**

A regulated entity that is prohibited from engaging in municipal securities business or municipal advisory business with a municipal entity rule as a result of a contribution made by a municipal finance professional or a municipal advisor professional, or a municipal advisor professional of a municipal advisor third-party solicitor on behalf of such regulated entity may exempt itself from such prohibition, upon satisfaction of the following requirements: (A) the regulated entity must have discovered the contribution which resulted in the prohibition within four months of the date of such contribution; (B) such contribution must not have exceeded \$250; and (C) the contributor must obtain a return of the contribution within 60 calendar days of the date of discovery of such contribution by the regulated entity.

A regulated entity is entitled to no more than two automatic exemptions per 12-month period. A regulated entity may not execute more than one automatic exemption relating to contributions by the same person regardless of the time period.

## **G-37 Records To Be Maintained By The Firm**

Infinity is required to maintain information in its files identifying affected employees and the states in which the dealer is engaged or is seeking to engage in municipal securities business; issuers with whom Infinity is doing and has done business for the past 2 years; and all contributions made to issuer officials subject to Rule G-37, including contributions of affected employees, Infinity, and any PAC controlled by Infinity. This does not include the minimal \$250 contributions allowed under the rule. This will be an internal record subject to scrutiny by regulatory authorities. Records are also not required for affiliate companies and their employees, spouses of covered employees, or any other person or entity unless the contributions were directed by persons or entities subject to Rule G-37. These records will be retained for six years per MSRB Rules G-8 and G-9.

## **Quarterly Report**

Infinity will file Form G-37 by the last day of the month following each calendar quarter (January 31, April 30, July 31, and October 31), as required. Infinity is not required to file a report under the No Business Exemption of MSRB Rule G-37 for the calendar quarter if:

- Infinity has not engaged in municipal securities business; and



- there are no reportable political contributions to issuer officials or payments to state and local political parties.

The following procedures apply:

- The designated supervisor is responsible for determining if a report is required or whether the No Business Exemption obviates the need for filing.
- Employees subject to political contribution reporting will complete a quarterly certification regarding their contributions during the quarter to be reported.
- Form G-37 will be completed and signed by the appropriate supervisor.
- Two copies will be sent to the MSRB by certified or registered mail or by some other method where a receipt of sending is retained or required. G-37 information will be submitted electronically.
- A copy of the signed form and proof of sending is retained in a file for Form G-37.

# 15 GOVERNMENT SECURITIES

This chapter outlines general requirements when offering government securities to customers.

## 15.1 Government Securities Act Amendments Of 1993

The original Government Securities Act was limited in scope. The amendments of 1993 gave authority to the SEC to oversee certain aspects of the governments markets and imposed requirements on broker-dealers selling government securities. This section summarizes key sections of the amendments.

### Sections 102, 105, and 106 - Rulemaking Authority

These sections grant regulators the authority to establish rules governing the sale of government securities.

### Section 103 - Transaction Records

Infinity is obligated to prepare and maintain records regarding its government securities transactions. Books and records requirements are included in the chapter *FINANCIAL AND OPERATIONS PROCEDURES*.

### Section 104 - Large Position Reporting

The designated supervisor is responsible for ensuring large position reports are filed with the Treasury Department as required.

### Section 107 - Market Information

Regulators are directed to provide for timely dissemination of market information about government securities.

## 15.2 Sales

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Order records</li><li>• Transaction reports</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Daily</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Review transactions for appropriate markups/markdowns, suitability of transactions</li><li>• Contact trader or RR for questioned transactions</li></ul>

	<ul style="list-style-type: none"> <li>• Take correction action which may include adjusting the trade, conferring with Compliance, or other appropriate action</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Initials and date reviewed on available transaction reports or order records; notations of action taken where appropriate</li> <li>• Notations in Daytimer or supervisor's log</li> </ul>

The general sales practice procedures included in the chapters *ACCOUNTS* and *ORDERS* apply to the sales of government securities. Also refer to the chapter *COLLATERALIZED MORTGAGE OBLIGATIONS (CMOs)* for specific policies affecting CMOs.

## 15.3 Mark-Up Policy

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Orders</li> <li>• Trading reports</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Ongoing (Traders)</li> <li>• Spot-check (Compliance)</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Traders: <ul style="list-style-type: none"> <li>○ Ensure mark-ups and mark-downs are within general Firm guidelines</li> <li>○ For mark-ups and mark-downs that are outside guidelines, include a written justification on the order record</li> </ul> </li> <li>• Compliance review mark-ups and mark-downs that exceed general Firm guidelines: <ul style="list-style-type: none"> <li>○ Review order records for written justification (e.g., yields on comparable securities)</li> <li>○ Notify Trading Manager of missing justifications and request correction of the deficiency</li> <li>○ Confer with Trading Manager regarding orders where justification does not seem warranted</li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Order records maintained by the Trading Dept.</li> <li>• Trading reports including initials of reviewer and review notes, if any, maintained by Compliance</li> <li>• Compliance reviews and action taken</li> </ul>

Infinity has an obligation to provide customers with fair prices on government securities transactions. Considerations in determining the fairness of mark-ups and mark-downs include:

- The type of security
- The availability of the security in the market
- The price of the security
- The amount of money involved in the transaction
- Disclosure to the customer
- Pattern of mark-ups

- The nature of Infinity's business

The following is FINRA's Mark-Up Policy for debt securities, excluding municipal securities.

## Prevailing Market Price

(1) A dealer that is acting in a principal capacity in a transaction with a customer and is charging a mark-up or mark-down must mark-up or mark-down the transaction from the prevailing market price. The presumptive prevailing market price for a debt security is established by referring to the dealer's contemporaneous cost as incurred, or contemporaneous proceeds as obtained, consistent with FINRA pricing rules. (See, e.g., Rule 5310).

(2) When the dealer is *selling* the security to a customer, countervailing evidence of the prevailing market price may be considered only where the dealer made no contemporaneous purchases in the security or can show that in the particular circumstances the dealer's *contemporaneous cost* is not indicative of the prevailing market price. When the dealer is buying the security from a customer, countervailing evidence of the prevailing market price may be considered only where the dealer made no contemporaneous sales in the security or can show that in the particular circumstances the dealer's *contemporaneous proceeds* are not indicative of the prevailing market price.

(3) A dealer's cost is considered contemporaneous if the transaction occurs close enough in time to the subject transaction that it would reasonably be expected to reflect the current market price for the security. (Where a mark-down is being calculated, a dealer's proceeds would be considered contemporaneous if the transaction from which the proceeds result occurs close enough in time to the subject transaction that such proceeds would reasonably be expected to reflect the current market price for the security.)

(4) A dealer that effects a transaction in debt securities with a customer and identifies the prevailing market price using a measure other than the dealer's own contemporaneous cost (or, in a mark-down, the dealer's own proceeds) must be prepared to provide evidence that is sufficient to overcome the presumption that the dealer's contemporaneous cost (or, the dealer's proceeds) provides the best measure of the prevailing market price. A dealer may be able to show that its contemporaneous cost is (or proceeds are) not indicative of prevailing market price, and thus overcome the presumption, in instances where:

- interest rates changed after the dealer's contemporaneous transaction to a degree that such change would reasonably cause a change in debt securities pricing;
- the credit quality of the debt security changed significantly after the dealer's contemporaneous transaction; or
- news was issued or otherwise distributed and known to the marketplace that had an effect on the perceived value of the debt security after the dealer's contemporaneous transaction.

(5) In instances where the dealer has established that the dealer's cost is (or, in a mark-down, proceeds are) no longer contemporaneous, or where the dealer has presented evidence that is sufficient to overcome the presumption that the dealer's contemporaneous cost (or proceeds) provides the best measure of the prevailing market price, such as those instances described under *Prevailing Market Price*, sub-paragraph (4), a member must consider, in the order listed, the following types of pricing information to determine prevailing market price:

- a. Prices of any contemporaneous inter-dealer transactions in the security in question;
- b. In the absence of transactions described in (a), prices of contemporaneous dealer purchases (sales) in the security in question from (to) institutional accounts with which any dealer regularly effects transactions in the same security; or
- c. In the absence of transactions described in (a) and (b), for actively traded securities, contemporaneous bid (offer) quotations for the security in question made through an inter-dealer mechanism, through which transactions generally occur at the displayed quotations.

[A member may consider a succeeding category of pricing information only when the prior category does not generate relevant pricing information (e.g., a member may consider pricing information under (b) only after the member has determined, after applying (a), that there are no contemporaneous inter-dealer transactions in the

same security). In reviewing the pricing information available within each category, the relative weight, for purposes of identifying prevailing market price, of such information (*i.e.*, either a particular transaction price, or, in (c) above, a particular quotation) depends on the facts and circumstances of the comparison transaction or quotation (*i.e.*, such as whether the dealer in the comparison transaction was on the same side of the market as the dealer is in the subject transaction and timeliness of the information).]

**(6)** In the event that, in particular circumstances, the above factors are not available, other factors that may be taken into consideration for the purpose of establishing the price from which a customer mark-up (mark-down) may be calculated, include but are not limited to:

- Prices of contemporaneous inter-dealer transactions in a "similar" security, as defined below, or prices of contemporaneous dealer purchase (sale) transactions in a "similar" security with institutional accounts with which any dealer regularly effects transactions in the "similar" security with respect to customer mark-ups (mark-downs);
- Yields calculated from prices of contemporaneous inter-dealer transactions in "similar" securities;
- Yields calculated from prices of contemporaneous dealer purchase (sale) transactions with institutional accounts with which any dealer regularly effects transactions in "similar" securities with respect to customer mark-ups (mark-downs); and
- Yields calculated from validated contemporaneous inter-dealer bid (offer) quotations in "similar" securities for customer mark-ups (mark-downs).

The relative weight, for purposes of identifying prevailing market price, of the pricing information obtained from the factors set forth above depends on the facts and circumstances surrounding the comparison transaction (*i.e.*, whether the dealer in the comparison transaction was on the same side of the market as the dealer is in the subject transaction, timeliness of the information, and, with respect to the final factor listed above, the relative spread of the quotations in the similar security to the quotations in the subject security).

**(7)** Finally, if information concerning the prevailing market price of the subject security cannot be obtained by applying any of the above factors, FINRA or its members may consider as a factor in assessing the prevailing market price of a debt security the prices or yields derived from economic models (*e.g.*, discounted cash flow models) that take into account measures such as credit quality, interest rates, industry sector, time to maturity, call provisions and any other embedded options, coupon rate, and face value; and consider all applicable pricing terms and conventions (*e.g.*, coupon frequency and accrual methods). Such models currently may be in use by bond dealers or may be specifically developed by regulators for surveillance purposes.

**(8)** Because the ultimate evidentiary issue is the prevailing market price, isolated transactions or isolated quotations generally will have little or no weight or relevance in establishing prevailing market price. For example, in considering yields of "similar" securities, except in extraordinary circumstances, members may not rely exclusively on isolated transactions or a limited number of transactions that are not fairly representative of the yields of transactions in "similar" securities taken as a whole.

**(9)** "Customer" does not include a qualified institutional buyer ("QIB") as defined in Rule 144A under the Securities Act of 1933 that is purchasing or selling a non-investment grade debt security when the dealer has determined, after considering the factors set forth in Rule 2111(b), that the QIB has the capacity to evaluate independently the investment risk and in fact is exercising independent judgment in deciding to enter into the transaction. "Non-investment grade debt security" means a debt security that:

- if rated by only one nationally recognized statistical rating organization ("NRSRO"), is rated lower than one of the four highest generic rating categories;
- if rated by more than one NRSRO, is rated lower than one of the four highest generic rating categories by any of the NRSROs; or
- if unrated, either was analyzed as a non-investment grade debt security by the dealer and the dealer retains credit evaluation documentation and demonstrates to FINRA (using credit evaluation or other demonstrable criteria) that the credit quality of the security is, in fact, equivalent to a non-investment grade debt security, or was initially offered and sold and continues to be offered and sold pursuant to an exemption from registration under the Securities Act of 1933.

## "Similar" Securities

(1) A "similar" security should be sufficiently similar to the subject security that it would serve as a reasonable alternative investment to the investor. At a minimum, the security or securities should be sufficiently similar that a market yield for the subject security can be fairly estimated from the yields of the "similar" security or securities. Where a security has several components, appropriate consideration may also be given to the prices or yields of the various components of the security.

(2) The degree to which a security is "similar" to the subject security may be determined by factors that include but are not limited to the following:

- Credit quality considerations, such as whether the security is issued by the same or similar entity, bears the same or similar credit rating, or is supported by a similarly strong guarantee or collateral as the subject security (to the extent securities of other issuers are designated as "similar" securities, significant recent information of either issuer that is not yet incorporated in credit ratings should be considered (e.g., changes to ratings outlooks));
- The extent to which the spread (*i.e.*, the spread over U.S. Treasury securities of a similar duration) at which the "similar" security trades is comparable to the spread at which the subject security trades;
- General structural characteristics and provisions of the issue, such as coupon, maturity, duration, complexity or uniqueness of the structure, callability, the likelihood that the security will be called, tendered or exchanged, and other embedded options, as compared with the characteristics of the subject security; and
- Technical factors such as the size of the issue, the float and recent turnover of the issue, and legal restrictions on transferability as compared with the subject security.

(3) When a debt security's value and pricing is based substantially on, and is highly dependent on, the particular circumstances of the issuer, including creditworthiness and the ability and willingness of the issuer to meet the specific obligations of the security, in most cases other securities will not be sufficiently similar, and therefore, other securities may not be used to establish the prevailing market price.

## 15.4 Government Sponsored Enterprise (GSE) Distributions

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Agreements with GSEs</li><li>• Master Agreements</li><li>• Records of orders</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required when participating in an offering</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Complete agreements or other documents required by GSE, if applicable</li><li>• Execute Master Agreements, when applicable</li><li>• Designate contact persons responsible for distributing printed documents and/or access to electronic versions</li><li>• Obtain and distribute offering documents in accordance with Guidelines</li><li>• Provide offering documents to REMIC purchasers for the period up to 120 days after settlement (including secondary market transactions)</li><li>• Provide training to RRs regarding distributions of GSEs, required documents</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Distribution report</li><li>• Records of compliance with Primary Dealer GSE requirements (if applicable)</li></ul>

	<ul style="list-style-type: none"> <li>• Master Agreements</li> <li>• Designation of contact persons</li> <li>• Record of to whom offering documents are provided</li> <li>• Order records for all purchases and unfilled orders</li> <li>• Records of training including how conducted, when occurred, materials used, who attended/received materials</li> </ul>
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GSEs are quasi-governmental organizations that are corporate entities created under U.S. law. GSEs are instrumentalities and not agencies of the U.S. As such, they are privately owned institutions not subject to U.S. general management laws and regulations and are supervised but not directly managed by the federal government. They primarily act as financial intermediaries to assist borrowers in housing and agriculture. GSE securities are not guaranteed by the federal government.

The term "securities" in this section refers to securities issued by GSEs.

## Definitions

Following are selected definitions for terms used in this section. Other definitions (and expanded definitions of the following terms) are included in SIFMA's *Guidelines on Delivery of Offering Materials Relating to GSE Securities*.

**Distribution period:** The period of time when a dealer acts as underwriter or offers or sells securities constituting the whole or a part of an unsold allotment to distribution participants. With respect to the sale of a Single Class Security or Mortgage-Backed Security by a dealer, the later of (a) 90 days following issue date or (b) the end of the period in which the dealer is acting as underwriter.

**Issue date:** For any Single-Class Security or Mortgage-Related Security, the first day of the calendar month that includes the settlement date for the initial issuance of the security.

**Notice of offering:** A notice provided by the Principal Dealer to offerees of securities regarding the availability of offering documents and how they may be accessed.

**Notice of sale:** A notice prepared by the Principal Dealer to purchasers of securities regarding offering documents.

**Principal Dealer:** Any dealer acting as (i) an underwriter; (ii) a member of a primary selling group; (iii) an agent for the issuer under any selling agreement with the issuer; or (iv) a dealer engaged in a swap with the issuer in exchange for Mortgage-Related Securities under an agreement. If the issuer specifies that only one dealer should contact the issuer regarding offering documents, then that dealer is the only Principal Dealer.

## Master Agreements

Infinity, as underwriter, will require other dealers selling GSE securities during the distribution period to execute a Master Agreement where the dealer agrees to provide offering documents in accordance with the *Guidelines*.

When Infinity executes a Master Agreement with a dealer that sells securities to it, Infinity will comply with all requirements regarding delivery of offering documents.

## Delivery Of Offering Materials

The delivery of offering documents will comply with SIFMA's *Guidelines on Delivery of Offering Materials Relating to GSE Securities*. This includes the following:

- If acting as Principal Dealer:
  - Request that the issuer or its agent deliver to Infinity (and to other dealers, if the issuer agrees to deliver to other dealers) a specific number of printed offering documents. The issuer may deliver an electronic version in lieu of printed copies.
  - Deliver to the dealers to whom it sells securities during the distribution period the requested number of documents unless the issuer delivers them directly.
- Request from the Principal Dealer an adequate number of offering documents to provide to purchasers and others who request documents.
- During the distribution period, deliver the Notice of Offering to each offeree who requests documents and the Notice of Sale and confirmation (which may be the same document) to each purchaser and a copy of the offering documentation to any offeree or purchaser who requests a copy. If a confirmation is sent before all information required to be included in the Notice of Sale is available, the confirmation will note (if the offering documentation was not previously provided) that a Notice of Sale will be sent promptly when the information is available.
- Infinity will designate one or more contact persons as responsible for providing electronic access to offering documents and distribution of printed materials and notify other dealers with whom it does business.
- For all new issues of REMICs, whether or not Infinity participates in the underwriting, Infinity will provide purchasers with offering documents for the period up to 120 days after settlement. This includes secondary market transactions in the new issue for the 120-day period.

## **Order Records**

All orders must be recorded including identification of the customer and the date and time the order was entered. Records of orders must be retained whether or not the order is filled.

## **No Assurance Of Execution**

There is no assurance that an order submitted to purchase a GSE security in distribution will be executed. At the time orders are entered, customers should be advised, if they are not already familiar with GSE distribution orders, that there is no assurance their order will be executed.

## **Distribution Report**

Infinity will prepare a distribution report identifying the allocation of orders and purchasers.

## **Single Class TBAs**

Confirmations sent during the distribution period for single class TBAs will include a notation that "Additional pool information is available to each purchaser by telephoning [*issuer's phone number*] or by emailing [*issuer's email address*]."

## **15.5 Trading**



## **Fair Prices**

Traders are responsible for making a reasonable effort to obtain a price for the customer that is fair and reasonable in relation to prevailing market conditions.

## **Mark-Ups And Mark-Downs**

The designated supervisor is responsible for reviewing the reasonableness of mark-ups and mark-downs on customer trades. In determining fair and equitable mark-ups or mark-downs, relevant factors may include:

- the best judgment of Infinity as to the fair market value of the securities at the time of the transaction and of any securities exchanged or traded in connection with the transaction
- the expense involved in effecting the transaction
- total dollar amount of the transaction
- availability of the security
- the price or yield of the security
- the maturity of the security
- resulting yield to the customer, as compared to the yield on other securities of comparable quality, maturity, coupon rate, and block size then available in the market
- the nature of Infinity's business
- any other relevant facts at time of execution

## **Commissions On Agency Transactions**

The designated supervisor is responsible for reviewing the reasonableness of commissions on agency transactions. Relevant factors in determining the reasonableness of commissions may include:

- the expense of executing and filling the customer's order
- the value of the services rendered by Infinity
- the amount of any other compensation received by Infinity in connection with the transaction
- factors considered in principal transactions
- any other relevant factors at the time of execution

## **Inventory Positions**

Infinity has established guidelines for maintaining inventory positions. The designated supervisor is responsible for monitoring positions daily to ensure limits are maintained.

## **Traders' Personal Accounts**

- Exceptions require the approval of the designated supervisor.

## **Review Of Transactions**

The designated supervisor is responsible for daily review of transactions executed in government securities trading area(s).

## **15.6 Transaction Records**

Records of government securities transactions will be provided to the SEC or other appropriate regulator upon request, in a form acceptable to the regulator. A record will be retained of transaction information provided to regulators.

## **15.7 Prohibited Activities**

### **Inside Information**

Traders are prohibited from acting on, passing on, or discussing any inside information. Any knowledge of such information must be brought to the attention of the designated supervisor and Compliance. No Firm proprietary account or employee account effect a transaction based on material non-public information about the issuer of that security.

### **Financial Arrangements**

Traders are prohibited from entering into financial arrangements with customers (*i.e.*, sharing in profits or losses, sharing in commissions, rebating commissions, *etc.*).

### **Market Manipulation**

No purchase or sales order shall be entered that is designed to raise or lower the price of a security or to give the appearance of trading for purposes of inducing others to buy and sell.

### **Parking Securities**

No arrangement may be used to conceal the true ownership of securities through a fictitious sale or transfer to another party or nominee who agrees to later sell or transfer the securities to the true owner (or his agent) at the agreed upon time at essentially the same terms. An example would be a person engaged in an attempted takeover of a public company, and, to avoid reporting requirements, arranges for another party to purchase securities on their behalf. The second party agrees to later transfer or re-sell the securities to the person attempting the takeover.

### **Secret Profits**

A trader may not permit the charging of a mark-up or mark-down in addition to a commission on any transaction.

## **Adjusted Trading**

Adjusted trading is a prohibited practice where a broker-dealer is involved in a swap transaction with a customer at prices not reasonably related to the current market value of the securities. An example is a customer sale to a broker-dealer at a price below market value and the simultaneous purchase and booking of a different security at a price above the current market value. The purpose of an adjusted trade is to assist one party in avoiding, disguising, or postponing losses.

The designated supervisor should review transactions to identify dual transactions for the same customer or other entity where execution prices are not reasonably related to the current market value.

# 16 DIRECT PARTICIPATION PROGRAMS AND REITS

[FINRA Rule 2231(c) and 2310; FINRA Regulatory Notice 15-02]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Information about the sponsor/issuer (for underwritten issues)</li><li>• Subscription agreements</li><li>• Other purchase records</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required when DPPs and REITs are offered</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• For new issues where Infinity may act as underwriter:<ul style="list-style-type: none"><li>○ Confirm the sponsor or general partner of the DPP or REIT will make required value disclosures</li><li>○ Include appropriate valuations on customer statements</li><li>○ Conduct due diligence</li><li>○ Confirm expenses and compensation are within guidelines</li><li>○ Make required filing with FINRA and obtain "no objections" opinion</li></ul></li><li>• Review agreements for completeness</li><li>• Determine customer's proposed purchase is suitable considering:<ul style="list-style-type: none"><li>○ Qualification for the purchase depending on issuer's suitability standards</li><li>○ The customer's income, net worth, liquid net worth and investment objectives</li><li>○ The amount of the investment considering diversification in the customer's portfolio</li></ul></li><li>• Approve or disapprove purchase</li><li>• Provide liquidity disclosure, if required</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Review for required general partner/sponsor value reports to investors, due diligence, expense/compensation reviews, FINRA no objection opinion, and agreements or other purchase records retained in deal file</li><li>• Review of proposed investments including suitability of purchase and approval or disapproval</li></ul>

## 16.1 Introduction

FINRA defines Direct Participation Programs as any "program which provides for flow-through tax consequences regardless of the legal entity or vehicle for distribution including, but not limited to, oil and gas programs, condominium securities, Subchapter S corporate offerings and all other programs of a similar nature, regardless of the industry represented by the program, or any combination thereof.." Direct participation programs are also often called "limited partnership" investments.

This chapter outlines Infinity's procedures regarding the underwriting and sale of Direct Participation Programs (DPPs) and Real Estate Investment Trusts (REITs). DPPs and REITs are also subject to the rules governing corporate underwritings and general underwriting procedures.

## 16.2 New Issues

[FINRA Rule 2310(b)]

New issue requirements apply to DPPs and REITs as well as rollup transactions, in some instances.

### Due Diligence

The designated supervisor will be responsible for reviewing prospectuses on any proposed DPP offerings. Prior to participating in an offering of direct participation program or REIT securities:

- Infinity must confirm that the general partner or sponsor will disclose a per share estimated value in each annual report, as defined by rule.
- The issuer must agree to disclose:
  - a per share estimated value of the DPP or REIT security, developed in a manner reasonably designed to ensure it is reliable, in the DPP or REIT periodic reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act;
  - an explanation of the method by which the value was developed; and
  - the date of the valuation.
- The issuer must also agree to disclose, in a periodic or current report within 150 days following the second anniversary of breaking escrow and in each annual report thereafter, a per share estimated value:
  - based on the valuations of the assets and liabilities of the DPP or REIT performed at least annually by, or with the material assistance or confirmation of, a third-party valuation expert or service;
  - derived from a methodology that conforms to standard industry practice; and
  - accompanied by a written opinion or report by the issuer, delivered at least annually, that explains the scope of the review, the valuation methodology used and the basis for the reported value.
- The disclosure requirements do not apply to DPPs that are subject to the 1940 Act.
- Infinity must have reasonable grounds to believe that all material facts are adequately and accurately disclosed and provide a basis for evaluating the program.
- To determine the adequacy of the disclosed facts, Infinity will obtain information on material facts relating to (among other things) the financial stability and experience of the sponsor and the program's risk factors. This includes, for an REIT, an inquiry into the amount or composition of a real estate investment program's dividend distributions including the amount of distributions that represent a return of investors' capital and whether the amount is changing.
- For REITs, Infinity will also consider whether there are impairments to the real estate investment program's assets or other material events that would affect the distributions and whether disclosure regarding dividend distributions needs to be updated to reflect these events.
- For DPPs, suitability standards must have been established by the program for participants in the program.

Per FINRA rules, the following minimum material facts should be disclosed in the prospectus:

- items of compensation
- physical properties
- tax aspects
- financial stability and experience of the sponsor
- the program's conflicts and risk factors
- appraisals and other pertinent reports

The designated supervisor will establish due diligence procedures for reviewing potential DPP offerings. If Infinity is a participant in an offering underwritten by another firm, it may rely on the managing underwriter's due diligence under the following guidelines:

- Infinity has reasonable grounds to believe that the managing underwriter's inquiry was conducted with due care;
- The results of the other firm's due diligence inquiry were provided to Infinity with the consent of the firm or firms that conducted the due diligence inquiry; and,
- The firm that conducted or participated in the inquiry is not a sponsor or affiliated with the sponsor of the DPP.

## **Expenses And Compensation**

Prior to participating in a public offering of a DPP (unless the filing is made by another participant), Infinity will make the required filing with the FINRA Corporate Financing Department. Prior to offering the DPP, Infinity must receive a "no objections" opinion regarding the proposed terms and arrangements in the offering. The following sections explain key requirements that are considered by FINRA.

### **Organization And Offering Expenses**

Organization And Offering Expenses (O&O expenses) are limited to 15% of the gross proceeds of the offering. O&O expenses are comprised of: (1) issuer expenses reimbursed or paid for with offering proceeds; (2) underwriting compensation; and (3) due diligence expenses. These elements are explained in the next three sections.

### **Issuer Expenses**

Issuer expenses include:

- assembling and mailing offering materials, processing subscription agreements and generating advertising and sales materials
- legal and account services provided to the sponsor or issuer
- salaries and non-transaction-based compensation paid to employees or agents of the sponsor or issuer for performing services for the issuer
- transfer agents, escrow holders, depositories, engineers and other experts
- registration and qualification of securities under federal and state law, including taxes and fees and FINRA fees

FINRA will consider unaccountable payments to a sponsor or issuer or payments identified as "miscellaneous" as issuer expenses includable in underwriting compensation.

### **Underwriting Compensation**

Underwriting compensation from whatever source paid to underwriters, broker-dealers or affiliates is limited to 10% of the gross proceeds of the offering. The 10% limit is included as part of the 15% limit on O&O expenses. Refer to Regulatory Notice 08-35 for a detailed explanation of the types of compensation considered underwriting compensation.

### **Due Diligence Expenses**

All bona fide due diligence expenses included on a detailed and itemized invoice detailing such expenses are included as part of the O&O expenses. The amount of due diligence expenses may be treated in the calculation of underwriting compensation as a non-accountable expense provided that, when aggregated with all other non-accountable expenses, the amount does not exceed 3% of the offering proceeds.

## **Allocation Of Compensation**

Rule 2310 (and Regulatory Notice 08-35) outlines specific requirements for allocating employee compensation as underwriting compensation. The Rule and Notice should be consulted for specific guidance when considering what is included as underwriting compensation.

## **Suitability**

[FINRA Rule 2310]

Each DPP will have specified suitability standards including information such as the purchaser's income and net worth. Offerings that require a subscription agreement that is signed by the purchaser will include an affirmation that the customer meets the minimum suitability standards. For offerings where a subscription agreement is not required, the RR is responsible for ensuring the purchaser meets the standards outlined in the prospectus. The RR will complete a Suitability Questionnaire for each purchaser of a DPP where a signed subscription agreement is not required. The designated supervisor is responsible for ensuring required Suitability Questionnaires have been received prior to confirming purchases and retaining the Questionnaires in a file for the offering.

## **Subscription Agreements**

The designated supervisor is responsible for the following:

- Determining when subscription agreements signed by purchasers will be required for a DPP offering.
- Ensuring completed and signed agreements are on file, when required, prior to confirming purchases.
- Retaining copies of the signed subscription agreements in a file for the DPP offering.

## **Prospectuses**

Prospectuses will be provided to all purchasers of DPP offerings. A prospectus will be included with the confirmation of purchase and the designated supervisor will maintain a record of to whom prospectuses were sent and the date sent, unless "prospectus enclosed" or a similar notation appears on the confirmation.

## **Liquidity Disclosure**

Disclosure will be provided to prospective investors if the sponsor has offered prior DPPs for which the prospectus disclosed a date or time period when the program might be liquidated, and whether the prior programs in fact liquidated on or around that date or time period.

## 16.3 Communications Regarding Unlisted Real Estate Programs

[FINRA Regulatory Notice 13-18; SEC Division of Corporate Finance guidance: <http://www.sec.gov/divisions/corpfin/guidance/cfguidance-topic3.htm>]

There are FINRA guidelines for communications concerning unlisted real estate investment programs (real estate programs) which include REITs or DPPs that invest in real estate assets or mortgages and that are not listed on a national securities exchange. Following is a summary of the guidance; refer to FINRA Regulatory Notice 13-18 for details.

- **Disclosure:** When describing real estate programs, communications must accurately and fairly explain how the products operate. Communications must be consistent with the program's current prospectus and must not imply an investment in the program is a direct investment in real estate or other assets. If the program has not yet qualified for REIT status under the U.S. tax code, communications must disclose that the program has not yet qualified and that it may never qualify for REIT status. Potential benefits must be balanced with disclosure of potential risks, which must be presented in a clear and prominent manner (not in a footnote and not in a separate document such as the prospectus even if the communication is accompanied or preceded by a prospectus).
- **Distribution Rates:** Distributions from real estate programs sometimes include return of capital. The composition of distributions may not be misrepresented or described as a yield comparable to a fixed income investment. FINRA's guidance states that communications should include clear and prominent disclosure (as applicable):
  - That distributions are not guaranteed and may be modified;
  - If the distribution consists of return of principal (including offering proceeds) or borrowings, include a breakdown of the components of the distribution rate that represent cash flows, return of principal, and borrowing;
  - The time period during which distributions have been funded from return of principal (including offering proceeds), borrowings or any sources other than cash flows from investment or operations;
  - That distributions that include return of principal will lessen the money available for the program to invest, which may lower overall returns; and
  - If distributions include borrowed funds, that because borrowed funds were used to pay distributions, the distribution rate may not be sustainable.  
Communications may not include an annualized distribution rate until the program has paid distributions that are, on an annualized basis, at a minimum equal to that rate for at least two consecutive quarterly periods.
- **Stability/Volatility Claims:**
  - Communications may not assert or imply that the value of a real estate program is stable or that volatility is limited without providing a sound basis to evaluate this claim.
  - Communications may not state that the offering price at par value or at another relatively stable price evidences stability in the value of the underlying assets.
  - Representations that the offering price is stable or volatility is limited must include disclosure that the value of underlying assets will fluctuate, may be worth less than what the program initially paid, and that the investor may not be able to sell the investment.
- **Redemption Features and Liquidity Events:**
  - Restrictions and limitations on redemption features (such as the fact that the real estate program's management may terminate or modify the ability to redeem) must be clearly and prominently explained.
  - Communications must disclose if the real estate program has not satisfied all investor redemption requests in the past.
  - Any discussion about potential liquidity events or the timing of such events should disclose if the date of the liquidity event is not guaranteed if it may be changed at the program's discretion.
- **Performance of Prior Related Real Estate Programs:** Discussions of prior or historical performance of related or affiliated entities should include information about such related entities with equal prominence, may not "cherry pick" those favorable to the current program, and should be clearly differentiated from information regarding the current program.



- **Use of Indices and Comparisons:** Communications about real estate programs sometimes include a real estate index's performance to demonstrate the sector's risk or return characteristics. The use of index performance may be misleading if its underlying components do not correspond with those of the program's portfolio. Communications that compare a real estate program against a real estate index must indicate that the performance of the index does not reflect a particular program and must describe the index's components and any relevant differences between the index and the program's investments.
- **Pictures of Specific Properties:** Where a communication includes pictures or images of properties that are not owned by the real estate program - such as similar properties owned by other programs the sponsor manages or properties that are collateral for mortgages owned by the program - the pictures must include prominent text explaining that the property is not owned by the program.
- **Capitalization Rates:** Communications may include the capitalization rate of an individual property within a real estate program if the rate is based on current information contained in the prospectus, and the communication explains (i) how the rate was calculated, (ii) that the rate applies to the individual property, and (iii) that it does not reflect a return or distribution from the program itself. In general it is misleading to include a blended capitalization rate representing multiple individual properties as the factors that go into such rates will differ between individual properties.

# 17 INSURANCE PRODUCTS

This chapter describes policies and procedures that apply to the sale of insurance products.

## 17.1 Approved Insurance Products

RRs are permitted to sell only those products approved by the Insurance Department. The Insurance Department is responsible for evaluating and selecting products which may include, among other considerations:

- the insurance company's rating by a nationally recognized rating service
- when available, the number and substance of material complaints against the company and existence of criminal judgments against the company or its senior management
- availability of similar products from other insurance companies
- pricing of the product, including premium rates, compared with competitors' products
- sales support provided by the insurance company

The designated supervisor is responsible for reviewing proposed products and maintaining a record of information reviewed and approval of the product as well as the contract executed with the insurance company.

## 17.2 Licenses And Appointments

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Requests from RRs or managers</li><li>• Insurance applications</li><li>• Inquiries from insurance companies whose products are sold</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Review insurance applications prior to submission to determine whether RR is licensed and appointed</li><li>• Obtain licenses and appointments where necessary</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Records of insurance licenses, appointments, and required continuing education are retained in the employee's registration file.</li></ul>

To offer insurance products, the RR must have a state license for the type of insurance product. The RR must also have a non-resident license for the customer's state of residence, if different from the RR's resident state. In addition, the RR must be "appointed" with the insurance company whose product is being sold.

An RR engaged in the sale of insurance products requires the following:

- Licensing with the state insurance regulator as an insurance agent for the type of insurance business (ordinary life, variable annuity, *etc.*). Some states require successful completion of an examination for the type of license requested.
- Licensing in the state where the RR resides as well as the state of domicile of the customer.

- Appointment with the insurance company whose product is being sold. Insurance business cannot be dated prior to the RR's insurance company appointment in certain states.
- Continuing education, depending on the state where licensed.

RRs may not engage in the sale of insurance products or receive commissions from such sales unless properly licensed and appointed.

## Requests For Licenses

RRs should contact the Insurance Department to request insurance licensing and appointment. The RR will be notified when insurance licenses are effective. Licenses are sent to the RR's home by the state licensing agency; a copy should be forwarded to the Insurance Department as soon as possible after receipt.

## Non-Resident Licenses

There are some states where Infinity is unable to conduct insurance sales activities. In other states, RRs may obtain non-resident licenses. The Insurance Department should be contacted to clarify requirements before offering insurance products to out-of-state customers.

## Unsolicited Insurance Transactions

If an unlicensed RR receives an unsolicited order to purchase an insurance product, the transaction must be referred to a properly licensed insurance agent. Commissions will not be transferred to an unlicensed RR.

## Additions To Existing Annuity Policies

If a customer wishes to make an additional contribution to an existing annuity policy, the RR must be licensed in the state **where the customer currently resides**.

# 17.3 Sales Guidelines

There are differences between insurance and securities products; it is important to understand these differences when discussing insurance products with customers. The following sections discuss sales guidelines for offering insurance products.

## General Guidelines

- All insurance product purchases and sales **MUST** be conducted through Infinity, *i.e.*, RRs are not permitted to accept any direct commission payments from insurance companies.
- Discussion of benefits of an insurance product should include disclosure of fees and charges.
- Focus on tax advantages must be balanced with disclosure of tax consequences.
- Avoid excessive focus on gross interest rate or investment performance rate without disclosure of product expense charges that serve to effectively reduce the return rate. Life insurance products may have significant front-end and/or back-end load structures; they are designed as long-term vehicles.
- Encourage customers to review their periodic statements received from the insurance company.

- Make a prior determination that a recommended purchase or sale of an insurance product is appropriate for the customer depending on the customer's financial circumstances and reasons for considering the insurance product.

## Life Insurance And Other Non-Annuity Products

- Do not refer to life insurance as an "investment" or "investment product."
- One primary need satisfied by life insurance is providing death benefit protection (including income to heirs directly for day-to-day living expenses or providing funds to pay estate taxes).
- Another use of life insurance is to accumulate cash value on a tax-advantaged basis.
- The RR should ensure the customer fully understands the difference between guaranteed and non-guaranteed elements of life insurance.
- Illustrations of return are projections only and not guaranteed.
- Positioning life insurance as a way to get tax-free income through policy cash value should be carefully evaluated. Other financial products may be a better source of tax-advantaged cash flow.
- Life insurance purchased for pension or educational funding planning purposes must be disclosed as life insurance.
- Replacing an existing policy (or reducing its value to raise funds) to purchase a new policy must be considered carefully for its suitability and the costs that will be incurred by the customer. Refer to the section *Replacements* for the policies and procedures that apply to such transactions.

## Annuities

- Some primary needs satisfied by annuities include tax deferral; providing income that cannot be outlived; and enhanced death benefit features.
- Annuities are designed for customers with long-term investment objectives, typically as a source of retirement income.
- Surrender charges and tax penalties generally make annuities unsuitable for short-term investors. Customers should have adequate sources of liquidity apart from the money paid into the contract.
- While it may seem that most customers have a need for tax deferral, taxable investments may be more appropriate for customers in lower tax brackets, depending on the contract's mortality/expense fees and other charges.
- Guarantees on death benefits cannot be represented as applying to investment return or principal value of the account.
- Discussion of investment features and insurance features should be balanced, *i.e.*, do not neglect either feature.
- Illustrations of return are **projections only** and not guaranteed.
- Once a contract is annuitized, it is generally irreversible. Accordingly, there should be an income objective and no need for access to principal.
- Replacing an existing policy (or reducing its value to raise funds) to purchase a new policy must be considered carefully for its suitability and the costs that will be incurred by the customer. Refer to the section *Replacements* for the policies and procedures that apply to such transactions.

## 17.4 Purchases

The following is a summary of how insurance contracts are purchased and processed. Refer to the section *Replacements* for other procedures if the value of one policy is used to purchase a new policy.

## Annuities

Infinity must have a signed selling agreement with the insurance company to permit sales of products of that company. The Insurance Department should be contacted to obtain a list of approved insurance companies or verify whether a particular company has an agreement with Infinity.

The following are steps for purchasing annuities:

- Both the customer and the RR must sign the application and the RR sends the application to the Insurance Department.
- The Insurance Department will review for availability of funds and required licensing and appointment of the RR.
- If funds are available and licensing/appointment is in effect, the customer's account at Infinity will be debited and the proceeds wired to the individual insurance carrier.

## 1035 Exchanges

A 1035 Exchange refers to a section of the IRS Code that allows for the non-taxable exchange of non-qualified funds from one insurance carrier to another. The tax code states that the old insurance contract must be exchanged for a new contract; the policyholder cannot receive a check and apply the proceeds to the purchase of a new insurance or annuity contract. The tax code also states that the policyholder may make a tax-free exchange from: 1) a life insurance contract to another life insurance contract or an annuity contract, or 2) from one annuity contract to another annuity contract. 1035 exchanges are **not allowed** for liquidations **from** annuity contracts **to purchase** life insurance contracts.

When a customer exchanges an annuity or life insurance contract to purchase an annuity contract, in addition to the requirements listed in the prior section, a specific 1035 exchange form may be required. The Insurance Department should be contacted regarding questions on 1035 exchanges.

## Prohibited Replacement Activities

- It is an unfair practice to persuade an insurance policyholder, through misrepresentation or improper recommendations, to cancel an existing policy and buy a new one ("twisting").
- It is inappropriate to recommend the purchase of multiple insurance contracts, resulting in higher cost to the customer, when one contract will meet the customer's needs.

## 17.5 Variable Products

Variable products are insurance contracts with underlying investments generally in investment company (mutual fund) securities. They are a hybrid of insurance and securities products. There are different types of variable products with differing requirements. Key requirements are listed below; other requirements follow in sections on specific products.

- RRs must have **necessary licensing** to sell variable products, including:
  - securities licensing with an SRO (*i.e.*, FINRA, NYSE)
  - securities licensing in the state where the customer resides (some states waive securities licensing to sell variable products)
  - insurance licensing in the state where the customer resides
- **Supervisors** of RRs who sell variable products **must have required securities supervisory licenses**.

- RRs must be **familiar with features** of variable products before recommending them and explain the features to the customer. Features may include a death benefit, fees and expenses, subaccount choices, special features, withdrawal privileges, and tax treatment. Each product must be reviewed because features vary considerably.
- **Recommendations must be suitable** considering whether features of the product meet the customer's investment needs.
- **If replacing one annuity with another**, a replacement letter must be submitted and the exchange must be justified. Exchanges must be suitable with particular concerns for senior (65+) investors regarding investment objectives and the costs of making the exchange which must be justified in account or order records.
- Purchases or exchanges of deferred variable annuities require completion of the **Deferred Variable Annuity Worksheet** which is provided to the supervisor with a copy of the purchase contract and new account information about the customer.
- **Customer signed applications** must be forwarded to the designated person on the day of receipt.
- **Applications for deferred variable annuities must be reviewed and approved by a principal** no later than 7 business days after the OSJ receives a complete and correct application and before sending to the insurance company.
- There are specific **requirements that apply to advertising and other communications** about variable products, particularly regarding yield, dollar cost averaging, and other representations of return.
- When a **customer redeems an annuity**, a signed redemption form must be submitted with the customer's signature guaranteed.

## Training

Variable products are included in RR training on an ongoing basis and particularly when new products are introduced. The designated supervisor or sales product manager is responsible for providing necessary training and retaining records of training.

## General Sales Guidelines And Suitability/Best Interest Requirements

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Insurance contract or other documentation of a proposed or actual purchase</li> <li>• Records of customer's financial information and investment objectives</li> <li>• Information about the insurance product (features, fees, <i>etc.</i>)</li> <li>• Records of exchanges from internal reports, reports from insurance carriers</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily or as required when variable products are sold</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review variable contract sales for the following: <ul style="list-style-type: none"> <li>○ Insurance product objectives consistent with the customer's financial situation or investment objectives</li> <li>○ Objectives of underlying securities investments consistent with the customer's financial situation and objectives</li> <li>○ Allocation of monies to subaccounts are consistent with the customer's stated needs and objectives</li> <li>○ Subaccount transfers are suitable (other than those part of an insurance company's automatic asset allocation and rebalancing program)</li> </ul> </li> </ul>

	<ul style="list-style-type: none"> <li>○ Contract size that is not disproportionate to the customer's overall net worth or liquid assets (less than 25%)</li> <li>○ Customer is retired, unemployed, or lacks investment experience</li> <li>○ Customer is older (&gt;75 years old) and may not be suitable for a long-term investment</li> <li>○ Sales to IRAs, retirement plans, or other tax-deferred accounts require review to determine whether purchase is appropriate</li> <li>○ "Commission specials" on certain products to determine sales of such products meet sales guidelines and suitability standards</li> <li>• Review exchanges for: <ul style="list-style-type: none"> <li>○ Suitability</li> <li>○ Reasons given for VA exchange should match up with the features of the purchased VA</li> <li>○ The customer is told, and understands, the cost of an exchange and any benefits of the switch</li> <li>○ Compare all switches done by an RR within a narrow period to determine if the RR differentiated among customers</li> </ul> </li> <li>• Confer with the RR to obtain more information regarding a questioned sale or regarding recommendations inconsistent with sales guidelines or suitability standards and suggest alternatives where appropriate</li> <li>• Rescind or block purchases where a purchase would be inappropriate</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Date and initials of the reviewer on a copy of the insurance contract or Infinity's other record of insurance sales</li> <li>• Subaccount transfers, including those done on a direct-way basis</li> <li>• Reviews of transactions, subaccount transfers and action taken, if any</li> </ul>

There are a number of considerations that should be made when recommending a variable product. Suitability obligations include recommendations to transfer investments in subaccounts (other than those that are part of an insurance company's automatic asset allocation and rebalancing program).

- The RR must obtain and document financial information about the customer and the customer's investment objectives.
- Is the proposed recommendation consistent with the customer's investment objectives, both for the insurance component and the objectives of the underlying investments?
- Are the features of the variable product consistent with the customer's objectives and needs (payout phase, periodic payments, death benefit, tax-deferral, etc.)?
- What is the customer's need for liquidity and short-term investment? Is a long-term investment suitable for the customer? Older customers typically would not be candidates for annuity investments and recommendations to these persons must be justified.
- What is the customer's investment experience and ability to understand the variable contract and underlying investments?
- What is the customer's immediate need for retirement income?
- Is the customer willing to invest a set amount on a periodic basis?
- Discuss all relevant facts with the customer including liquidity issues; fees and charges; applicable taxes or penalties and surrender charges; and market risk. Fees and charges include surrender charges, mortality and expense risk charge, administrative fees, underlying fund expenses, and other fees and charges.
- Multiple annuities, resulting in higher cost to the customer, should not be recommended when one annuity, or annuities from a family of funds, would meet the customer's investment needs and result in less cost to the customer.
- Use only sales material provided and approved by Infinity.

## Requirements For Specific Products

This section explains requirements that apply to specific variable products.

### Deferred Variable Annuities

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li><li>• Compliance</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Application packages</li><li>• Deferred Variable Annuity Worksheet + new account information</li><li>• Records of purchases and exchanges</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Supervisor: Review applications within 7 business days of receipt</li><li>• Compliance: Monthly</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Supervisor:<ul style="list-style-type: none"><li>○ Note date when application is received</li><li>○ Review application package for completeness</li><li>○ Review Worksheet and new account information for appropriateness of investment</li><li>○ Contact RR for more information if necessary and revise or stop the purchase/exchange, if appropriate</li><li>○ Within 7 business days of receipt, approve or disapprove the purchase noting date of action taken</li><li>○ For disapproved applications, notify RR</li><li>○ For approved applications, forward to insurance company</li></ul></li><li>• Compliance:<ul style="list-style-type: none"><li>○ Review RR activity for patterns of exchanges; review for suitability of exchanges if a pattern is detected</li><li>○ Identify potential market timing of investments in sub-accounts</li><li>○ Confer with RR's supervisor if necessary</li><li>○ Take corrective action if necessary which may include added training for RR, changes to customer investments, limiting RR sales of variable products, or other appropriate activity</li><li>○ As part of branch or office reviews, determine timeliness of receipt and review of applications</li></ul></li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Supervisor: application packages, Worksheets with notation of date of receipt and date of review and action taken, where appropriate, signature indicating approval/disapproval</li><li>• Compliance: reports or other records of purchases and exchanges with notation of action taken, where appropriate; office reviews</li></ul>

A variable annuity is a contract between the purchaser and the insurance company whereby the insurer agrees to make periodic payments to the purchaser, beginning either immediately or at some future date. A variable annuity may be purchased by a single payment or through a series of purchase payments. The underlying investment options typically include mutual funds that invest in stocks, bonds, money market instruments, or some combination of the three.



When offering **deferred variable annuities**, there are specific requirements that apply to the purchase or exchange (not sale or surrender) and the initial subaccount allocations. They also apply to the use of these products to fund IRAs but not sales to certain tax-qualified employer-sponsored retirement or benefit plans unless recommendations are made to individual participants. **The *Deferred Variable Annuity Worksheet* form must be submitted** to the designated supervisor with the customer's contract and a copy of the customer's new account information.

The following lists the requirements that apply when recommending these products.

- **Suitability must be determined.** This includes a reasonable basis to believe the customer has been informed about material features such as surrender period and charge, potential tax penalty, mortality and expense fees, charges for and features of enhanced riders, insurance and investment components and market risk. These may be generic disclosure but the RR is also obligated to consider the material features of the specific product.
- **Determine the customer would benefit from certain features** such as tax-deferred growth, annuitization or a death or living benefit. This does not require the customer will benefit from *all* features.
- **The particular deferred variable annuity as a whole and the underlying subaccounts must be suitable.**
- **If the transaction is an exchange from one variable annuity to another, the exchange must be suitable.** Factors that must be considered include whether the customer: (1) would incur a surrender charge, be subject to a new surrender period, lose existing benefits, or be subject to increased fees or charges; (2) would benefit from product enhancements and improvements; and (3) has effected another deferred variable annuity exchange within the preceding 36 months (whether at Infinity or another broker-dealer).
- **Make reasonable efforts to ascertain and obtain certain customer information.** This includes the customer's age, annual income, financial situation and needs, investment experience, investment objectives, intended use of the variable annuity, investment time horizon, existing assets (including investment and life insurance holdings), liquidity needs, liquid net worth, risk tolerance, tax status, and other information necessary to make a recommendation.
- **Variable annuities generally are considered to be long-term investments not typically suitable for investors with short-term horizons.** The customer should be aware that withdrawals prior to age 59 1/2 - are subject to tax penalties and many variable annuities assess surrender charges for withdrawals within a specified time period after purchase.
- **Variable annuities cannot be described as "mutual funds."**

## Market Timing

**Engaging in market timing or knowingly aiding someone in that activity in a variable annuity is prohibited.**

## Transmission, Review, and Approval Of Completed Applications

The RR is responsible for promptly forwarding the completed application package to an Office of Supervisory Jurisdiction (OSJ). The completed application must be reviewed and approved by the designated supervisor within 7 business days of receipt by the OSJ. Incomplete applications will be promptly returned to the RR. If an application is not approved, the RR will be notified. Approved applications will be forwarded by the designated supervisor (or other authorized person) to the insurance company for processing.

## Multi-Class Variable Annuities

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Variable Annuity Worksheets</li> <li>• Order records</li> <li>• Customer account information</li> <li>• Customer communications</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Daily: review orders and communications</li> <li>• As required: review Worksheets, approve orders</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review customer communications for references to variable annuities, accuracy of information</li> <li>• Obtain and review Variable Annuity Worksheet</li> <li>• Where necessary, review customer account information</li> <li>• Review transactions for suitability including: <ul style="list-style-type: none"> <li>○ Percentage of VA assets compared to other liquid assets</li> <li>○ Investors with long-term time horizons</li> <li>○ Inclusion of riders, consistency with investor's age, investment objectives, impact on costs</li> <li>○ Cost/benefit disclosure to investors</li> <li>○ Suitability of class for investor such as L-shares which may not be appropriate for investors with long-term investment horizons</li> </ul> </li> <li>• Conduct training of RRs and supervisors including: <ul style="list-style-type: none"> <li>○ Features of alternative classes</li> <li>○ Riders and impact on costs</li> <li>○ Suitability of classes and riders</li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Variable Annuity Worksheets</li> <li>• Reviews, approvals, and action taken, where appropriate</li> <li>• Records of training including date conducted, who attended, subjects included</li> </ul>

Some variable annuities are "multi-class" and offer different features depending on the class of the annuity. An example of classes includes the following:

- A Shares: Up-front sales charge, typically no surrender period
- B Shares: Longer surrender period, typically lowest mortality and expense risk (M&E) fees
- C Shares: No surrender period, higher M&E fees
- L Shares: Shorter surrender period, higher M&E fees
- O Shares: No up-front sales charge, surrender period similar to B-Shares, progressively declining M&E fees
- X Shares: "Bonus Shares" or "Premium Enhanced," longer surrender period, moderate M&E fees, up-front bonus investment credit

Different variable annuities may also offer "riders" which are optional add-ons that annuity buyers may choose, usually at extra cost which may be an annual fee. Two popular types of VA living benefit riders are guaranteed minimum withdrawal benefits (GMWBs) and guaranteed minimum income benefits (GMIBs). Riders may or may not pay off depending on how long the customer holds the annuity, the age of the customer, and other factors that must be considered when determining the suitability of riders. In particular, long-term income riders may not be appropriate when considering L-shares for investors since L-shares have a shorter-term surrender period.

When recommending multi-class shares, RRs must consider the following:

- Assessing and documenting suitability
- Whether the transaction is in the customer's best interest
- Impact of fees on overall returns
- Benefits over other share classes
- Commissions influencing recommendations
- Suitability of riders and related cost, potential payback
- Assure customer awareness of fee differentials
- Explanation of rationale for recommendation

## Group Variable Annuity Contracts

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Proposed contracts</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Review contract including underlying investments and objectives of the employer's plan</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Group variable annuity contracts</li> </ul>

Group variable annuity contracts are designed for employer retirement plans. Insurance companies directly or through broker-dealers contract with an employer to provide variable annuity investments for 401(k), 403(b), 408(k), or other types of retirement plans. The plan is sold to the employer typically with no contact with the employees who participate in the retirement plan.

When offering group plans to employers, RRs must consider the underlying investments, terms of the contract, and the needs and investment goals of the retirement plan.

## Variable Life Insurance

Variable life insurance is a life insurance contract with an underlying investment component in securities investments. Variable life contracts include two types of policies: variable whole-life and variable universal life. Both allow the policyholder to invest part of the premium in mutual fund-like investment pools called sub-accounts which often include a broad selection of funds from major mutual fund companies. Variable whole-life policies require fixed premiums; variable universal life policies allow the policyholder to vary payments. Variable life insurance offers a death benefit, similar to traditional life insurance. The cash value generated by the investment element is not guaranteed by the insurance company and can fluctuate depending on the performance of the investments.

- Customers must be advised of the risks of variable life insurance including the risk of loss in the underlying investments which may result in a cash value of the policy that is either too low to maintain the value of the death benefit or will become too low if the policyholder does not pay higher premiums.
- Disclosure documents available for variable life products must be provided to the customer at the time of recommendation. A record should be made of provision of the disclosure document (when and to who provided).
- For variable life insurance contracts, has the customer's need for life insurance already been met?

- RRs should not recommend that customer finance a variable life insurance policy from the value of another insurance policy or annuity, such as through the use of loans or cash values, unless the transaction is otherwise suitable for the customer. It may be difficult to justify such a financing arrangement and the practice is strongly discouraged.

## Variable Life Settlements

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Proposals from life providers</li> <li>• Life provider contracts including confidentiality policies</li> <li>• Variable life settlement transactions</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required - review a potential life provider</li> <li>• As required - review life provider's promotional material</li> <li>• Daily - review variable life settlement transactions</li> <li>• Annual and ongoing - provide training</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Due diligence of potential life provider: <ul style="list-style-type: none"> <li>○ Review contracts and confidentiality policies</li> <li>○ Determine whether licensing is required and, if required, confirm the provider is licensed</li> <li>○ Review other available information about the life provider's background, dealings with other firms</li> </ul> </li> <li>• Review commissions to be charged and subject any above 5% to heightened scrutiny including a written justification of higher commissions</li> <li>• Compliance review of sales/promotional materials: <ul style="list-style-type: none"> <li>○ Review for reasonableness and avoidance of unwarranted promises or high-pressure sales</li> <li>○ Submit to FINRA within 10 days of first use</li> </ul> </li> <li>• Submit proposed related products (derivatives based on life settlements) to the new product review process prior to offering</li> <li>• Review of life settlements offered: <ul style="list-style-type: none"> <li>○ Review for suitability</li> <li>○ Determine 2 or more bids have been obtained and best price provided to customer</li> </ul> </li> <li>• Review of sales of derivative life settlement products: <ul style="list-style-type: none"> <li>○ Review for suitability</li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Due diligence file includes review of life providers</li> <li>• Records of heightened scrutiny of proposed commissions exceeding 5%</li> <li>• Compliance retains copies of sales/promotional materials and record of filings with FINRA</li> <li>• Copies of life settlement transactions</li> <li>• Records sales of derivative products and action taken, if appropriate</li> </ul>

"Life settlements" are the sale of existing life insurance policies to third parties. This secondary market for life insurance policies provides a policyholder the opportunity to sell a policy to a third party for less than the net death benefit but more than the cash surrender value. This market provides available cash to individuals who can no longer make premium payments or who need immediate cash. The value of a life settlement depends on different factors including life expectancy and the nature and terms of the policy. Usually the insured sells the

policy to a life settlement provider which holds it until the death of the original policy owner and collects the benefits or sells the policy or bundled policies to other investors. Variable life insurance policies are securities subject to the rules and standards that apply to the sale of securities.

There is also a market for "related products" which are derivatives of life settlements that provide an opportunity to investors to purchase derivative securities that invest in life settlements.

## Obligations Involving The Offer Of Life Settlements

The following are obligations when recommending or facilitating the sale of an existing variable life insurance policy to a third party.

- **Sales may be made only to Firm-approved life settlement providers and brokers.** Some jurisdictions require licensing of providers and confidentiality policies may vary. Infinity conducts due diligence on accepted life providers to determine they meet standards consistent with customer protection and needs. Sales may only be made through Infinity.
- **Understand the product.** As for all products recommended to customers, it is important to understand features of the life settlement being offered and obligations imposed on policyholders such as the requirement to provide notification to the provider of significant medical developments.
- **Use only approved promotional material.** Compliance reviews life provider promotional material prior to use and approves it for distribution to customers.
- **Suitability requirements and Regulation Best Interest apply.** A variable life settlement may not be suitable for the customer or in the customer's best interest even if the settlement price exceeds the policy's surrender value. Factors to be considered include:
  - The policyholder's need for continued coverage
  - If the policy is to be replaced with another policy, the availability, adequacy, and cost of comparable coverage
  - The customer's financial needs and objectives
  - Tax considerations
- **Explain the product to the customer.** After understanding the product and making a suitability and best interest determination, explain the potential life settlement to the customer. Risks and considerations for an investor considering a life settlement transaction include (but are not necessarily limited to):
  - There may be unexpected tax liabilities (tax treatment of a cash payment may be less favorable than tax treatment of a death benefit paid to a beneficiary).
  - Transaction-related costs may be high, particularly where there are multiple intermediaries.
  - Balancing the need for current income vs. the future financial needs of a beneficiary may be a consideration.
  - The individual may have decreased access to insurance coverage, if needed.
  - The individual's private medical information will be released to intermediaries considering the life settlement.
  - A variable life settlement transaction takes a longer time to complete than a typical securities transaction (weeks vs. days).
  - A transaction may affect eligibility for public assistance programs such as Medicaid.
- **Obtain bids from multiple approved providers.** To obtain the best price for the customer, reasonable effort should be made to obtain two or more bids and document those bids. If two or more bids cannot be obtained, document the reason why.
- **Compensation may only be received from Infinity.** Under no circumstances may an RR receive compensation from an insurance company, a life provider, or other outside person or entity.

## Sales Of Related Products

Investment products offer investors the opportunity to purchase securities based on life settlements. RRs are obligated to understand and communicate the risks to prospective purchasers who may be attracted by a relatively higher yield.

- Related products are generally illiquid and the investor may not be able to sell it.
- The yield may be adversely affected by the parties structuring the related product by an inexperienced or incomplete actuarial analysis or an incomplete assessment of the medical conditions of any insured(s) covered by any policy in which an investor has an interest, or by failure to follow applicable law regarding life settlements that may result in legal challenges at the time a death benefit is payable.
- External developments such as advances in medical research may reduce the yield of related products.
- Any guarantees depend on the creditworthiness of the firm that structured the product or of a third-party guarantor whose creditworthiness may be unknown.

## Bonus Products

Some insurance contracts offer a bonus credit feature where the insurance company promises to add a bonus to a variable annuity policyholder's contract value based on a specified percentage (typically 1% to 5%) of purchase payments. RRs must be aware there may be disadvantages and added costs may more than offset the benefit to the customer. For example, as compared to a variable annuity that does not have a bonus feature, there may be higher surrender charges; longer surrender periods; and higher mortality and expense risk charges or other charges. The RR is responsible for understanding the benefits and disadvantages of a bonus product before making a recommendation to a customer.

As part of the designated supervisor's suitability review, bonus products should be considered regarding their overall benefit to the purchasers.

## Customer Applications, Payments, And Contracts (Other Than Deferred Variable Annuities)

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Variable annuity applications</li> <li>• Customer payments</li> <li>• Contracts received from issuers</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required when applications and payments are received for processing</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Indicate received date when application is received</li> <li>• Review application for completeness</li> <li>• Return application to RR or contact RR to obtain missing information, retaining the customer's check in a pending file</li> <li>• Confirm payment is correct for product being purchased</li> <li>• Promptly transmit complete application and customer's payment to the issuer</li> <li>• Forward customer contracts to the customer if received from the issuer</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Maintain record of any applications returned to the RR or requests for additional information forwarded to the RR</li> <li>• Retain copy of application and payment with notation of when forwarded to the issuer, with the reviewer's initials noted on the copy</li> </ul>

Applications must be complete and accurate. Upon receipt of an application and payment from the customer, the application must be immediately forwarded to the designated supervisor for review and payment must be immediately transmitted to the designated person.

## Communications With The Public Regarding Variable Products

Some public communications require the prior approval of Compliance. Communications that include dollar cost averaging, effective yield, and performance illustrations must meet regulatory guidelines for presenting such information.

### Retail Communications

Only Firm-approved vendor material may be provided to customers. The Insurance Department is responsible for reviewing vendor materials and confirming FINRA approval has been obtained, where necessary, by the vendor. Copies are retained by the Insurance Department including the date of approval and initials of the reviewer.

Firm-developed retail communications regarding insurance products require the approval of Compliance prior to issuance. Compliance is responsible for filing such material with FINRA and retaining a record of filings.

Depending on the content, some material may require providing a prospectus prior to or with the advertising or sales literature.

### Sales Material Provided By Third Parties

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Proposed sales material from third parties</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• For third-party material previously filed with and approved by FINRA: <ul style="list-style-type: none"> <li>○ Obtain a copy of FINRA approval</li> <li>○ Review the material for consistency with FINRA standards and approval</li> </ul> </li> <li>• For third-party material NOT previously filed with FINRA: <ul style="list-style-type: none"> <li>○ Review the material for consistency with FINRA standards</li> <li>○ File with FINRA, if required <ul style="list-style-type: none"> <li>▪ Upon receipt of review letter, make changes, if necessary</li> <li>▪ Indicate supervisor's approval including date of approval</li> </ul> </li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Copy of sales material with notations, as necessary</li> <li>• Copy of FINRA review letter</li> <li>• Record of date first use and (if applicable) date of last use</li> <li>• Retain for three years from date of last use</li> </ul>

When sales material (advertising, sales literature, independently prepared reprints) is provided by a third party, the sales material may require FINRA approval prior to use depending on the subject of the sales material. Requests to use outside sales material should be submitted to Compliance for review and approval.

## Replacements

It is inappropriate to recommend replacing an existing annuity with a new annuity when there is no reasonable basis or economic justification for making that recommendation (churning) or make misrepresentations to encourage someone to replace an existing contract ("twisting"). RRs are obligated to obtain signed replacement letters or other required disclosure forms when replacing one variable annuity contract with another.

## Redemptions

When a customer redeems a variable annuity, the following procedures must be followed:

- Obtain the customer's signature on any required redemption forms
- Follow the "replacement procedures" described earlier, if one annuity is being redeemed to buy another
- Have the customer's signature guaranteed by Operations or have the customer obtain a signature guarantee from a bank or other financial institution

## Annuity Buybacks

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Transaction records</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• Dependent on availability of reports</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Identify buybacks and review alternative investment for suitability</li><li>• If less favorable, determine if customer was notified</li><li>• Cancel or otherwise correct inappropriate transactions</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Record of reviews and action taken</li></ul>

Insurance companies sometimes offer to buy back an investor's variable annuity product. RRs may not recommend the customer accept the buyback unless the customer understands if an alternative variable product has less favorable terms and those terms are disclosed to the customer.

# 18 INDEPENDENT CONTRACTORS



<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Order records or transaction reports for review of sales activities</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• At time of hire - obtain contracts</li> <li>• Daily - supervise sales activities</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Obtain necessary IC contract</li> <li>• Review daily transactions and take corrective action where necessary</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• IC contracts retained in files by IC</li> <li>• Initials and date of review on order records or transaction reports reviewed</li> </ul>

## 18.1 Independent Contractor Defined

Certain individuals are associated with Infinity as "independent contractors" as defined under current IRS guidelines. Independent contractors are not "employees" of Infinity for purposes of compensation and other considerations under IRS guidelines.

## 18.2 Supervision

Independent contractors are subject to the supervision of Infinity and are responsible for complying with Infinity's policies and procedures and the rules and regulations governing the activities of Infinity and its associated persons.

## 18.3 Agreements

RRs who are independent contractors (ICs) will, at the time of association with Infinity, sign Infinity's agreement outlining the conditions under which the IC provides services to Infinity. No commission or other payments will be made to the IC until a signed agreement is on file. The designated supervisor is responsible for ensuring signed agreements are submitted to Infinity prior to any payments to the IC.

## 18.4 Use And Display Of The Firm's Name

Infinity's name may be used only in conjunction with the products or services provided by Infinity. Infinity's letterhead may be used only for correspondence related to Infinity's business.

Infinity's name may be displayed only in authorized locations and in a manner approved by Infinity.

## 18.5 Display Of SIPC Symbol

In authorized branch locations, the SIPC symbol will be displayed. Compliance is responsible for identifying the office locations that require the necessary SIPC display.

## 18.6 Use Of Other Names

ICs are permitted to establish business entities (sole proprietorship, partnership, corporation, *etc.*) under which they conduct business. The use of other business names or entities must be approved by Infinity prior to use. Requests for approval are to be directed to Compliance and include:

- the name of the business entity
- description of the type of entity (partnership, corporation, *etc.*)
- description of what types of business will be conducted under the business entity

Compliance is responsible for reviewing requests to establish or conduct business through the ICs business entity and approving or disapproving the request. Compliance will retain a record of the requests and approval or disapproval.

## 18.7 ICs As Investment Advisers

ICs or their business entities may be independently registered as investment advisers, however, the investment adviser activities are subject to the supervision of Infinity. Independent registration as an investment adviser also requires the approval of Infinity prior to engaging in investment adviser activities. Requests for approval should be submitted to Compliance for review and approval and include the following:

- the name under which the investment adviser activity will be conducted
- a copy of Form ADV for the adviser

Compliance may request other information, as necessary, to complete its review of the request. Compliance will retain a copy of the request and the approval or disapproval.

If approved, the IC is required to provide copies of the following information to the designated supervisor on an ongoing basis:

- all investment adviser agreements with adviser customers, within 10 days of receipt by the adviser
- correspondence regarding investment adviser activities
- reports to adviser customers

In addition, the IC will maintain copies of all trading activity (confirmations and statements) in investment adviser accounts for review by Infinity when the IC's activities are inspected by Infinity.

## 18.8 Outside Business Activities And Outside Accounts

As stated previously, ICs are subject to all provisions of the Firm's policies and procedures. Independent contractor status does not relieve the individual from complying with the requirements to disclose and obtain approval of all outside business activities and outside securities accounts. The chapter *GENERAL EMPLOYEE POLICIES* includes the policies in these and other areas affecting all individuals associated with Infinity.

## 18.9 Exempt Insurance Products And Equity-Indexed Annuities

Before offering insurance products that do not require securities registration (exempt products), the RR must submit a request to Compliance for approval to sell the exempt product including a description of the product

and the issuer. Compliance will review the request and notify the RR and the RR's supervisor whether the request is approved or disapproved.

Policies regarding the sale of Equity-Indexed Annuities (EIAs) (which may be registered or unregistered) are included in the chapter *INSURANCE PRODUCTS* in the section *Equity-Indexed Annuities*.

# 19 PRIVATE PLACEMENTS AND OFFERINGS

[FINRA Frequently Asked Questions: <https://www.finra.org/rules-guidance/guidance/faqs/private-placement-frequently-asked-questions-faq>]

This chapter explains the requirements when offering private placements and engaging in private offerings. Private placements and offerings are subject to strict requirements that are imposed on the issuer and those who sell the issue. The requirements for offering a specific private placement will be announced at the time the private placement becomes available for sale. It is important to understand and comply with the requirements for each offering.

## 19.1 Introduction

This section provides general information about private placements and the regulations that govern their offer and sale. A general understanding of private placements is helpful when considering whether to offer a specific issue to a customer.

There are several general areas of requirements and limitations that affect most private placements.

- No general solicitation of purchasers other than those permitted under Rule 506(c) and 144A
- Limits as to the size of the offering
- No advertising or general public meetings about specific private placements other than those permitted under Rule 506(c) and 144A
- Issuers must provide information to potential investors
- Securities purchased are generally restricted as to resale
- Number of purchasers is restricted

## Definition Of Terms

The following are common terms included in this chapter.

<b>Accredited investor</b>	An investor who meets certain criteria that are indicative of sophistication (see the section <i>Accredited Investors</i> )
<b>Letter of Non-Distributive Intent</b>	A letter or form signed by the purchaser of a private placement, affirming that the investor is purchasing the securities for their own account and are not to be resold unless registered or subject to an available exemption.
<b>Non-Disclosure Agreement</b>	An agreement signed by the offeree stating that proprietary information learned about the issuer will not be divulged to third parties.
<b>Offer</b>	An attempt to sell a security to a potential purchaser
<b>Offeree</b>	A prospective purchaser to whom an offer is made
<b>Purchaser questionnaire</b>	A questionnaire completed by an offeree to establish the offeree's suitability to purchase the investment
<b>Purchaser representative</b>	A person (not affiliated with the issuer or the broker-dealer selling the issue) who acts on the purchaser's behalf to evaluate the investment for the purchaser
<b>Subscription agreement</b>	The document signed by the purchaser and evaluated by the issuer prior to the purchase

## "Private Placement" Defined

A private placement is a sale of securities that is not subject to registration under the Securities Act of 1933. While private placements are exempt from registration requirements, they are subject to the anti-fraud and civil liability provisions of various federal securities laws. The following sections describe the primary exemptions under which private placements are offered.

### Section 4(2) Of The Securities Act Of 1933

Some private placements are offered under Section 4(2) which provides an exemption for "transactions by an issuer not involving any public offering." While the section does not specifically outline the requirements for establishing an exemption, the following is a summary of requirements gleaned from SEC interpretations and court decisions.

- There may be no general solicitation of purchasers other than those permitted under Rule 506(c) and 144A.
- Offerees and purchasers must have access to information about the issuer and must be able to comprehend and evaluate the information.
- The issuer, broker-dealer, and others acting for the issuer must conduct due diligence to reasonably insure information given to offerees and purchasers is complete and accurate.
- Offerees must have access to meaningful information concerning the issuer and be able to comprehend and evaluate the information.
- Purchasers must acquire the securities for investment and not for resale.

## 19.2 Blue Sky Requirements

State securities laws ("blue sky" laws) that apply to private placements vary from state to state. Some states have differing definitions for accredited investors; some states require registration of a securities issue that is otherwise exempt under Federal securities laws.

Infinity and its sales personnel are required to comply with any blue sky requirements that apply to a specific private placement issue. Requirements may differ depending on where the issue originates and where it is sold.

## 19.3 The Firm's Participation In Private Placements

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Information provided by the issuer and/or issuer's counsel</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required - process the private placement</li><li>• Within 15 calendar days of the date of first sale - provide submissions to FINRA</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Execute an agreement with the issuer</li><li>• Conduct due diligence or engage counsel or other qualified person to conduct due diligence</li><li>• Document the file regarding due diligence</li></ul>

	<ul style="list-style-type: none"> <li>• Provide information to Infinity's New Product or Underwriting Committee or appropriate senior manager for review and approval to proceed with the deal</li> <li>• Determine limitations on the offering, including integration issues and obtain representation letter from issuer if needed</li> <li>• Determine what information to provide to sales personnel</li> <li>• Authorize the sale of the offering</li> <li>• Submit private placement memorandum, term sheet or other document (including material amendments) to FINRA or notify FINRA no offering documents were used</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• The deal file will include due diligence information; approval/disapproval from the appropriate committee or senior manager; the issuer agreement; issuer representation letter; offering materials; and authorization to sell</li> <li>• Record of submissions to FINRA</li> </ul>

## Due Diligence

Due diligence will be conducted for each private placement issue to be offered by Infinity and is documented in the file for the private placement. Outside counsel or another third party may be engaged to assist in due diligence and other aspects of the private placement offering. If the counsel or third party is affiliated with or somehow associated with the issuer, Infinity will conduct additional independent due diligence. Due diligence may include the following reviews, as appropriate for the particular potential offering:

- Review financial reports
- Written company assurances as to the accuracy of records and financial statements
- Determination of the issuer's creditworthiness
- Evaluate the validity and integrity of the issuer's business model and how it fits into its business sector
- Review information available from financial and other publishers
- Independent verification of management's representations (contact with issuer's customers; lenders, vendors, lower-level employees, *etc.*)
- Reviewing news articles and industry publications regarding the issuer, its market, and competition
- Review the company's internal documents such as operating plans, product literature, corporate records, financial statements, contracts and lists of distributors and customers
- Physical inspection of the company's facilities
- Contact with the issuer's auditor and other experts knowledgeable about the company
- Contact with outside directors
- Interviews of key personnel or customers
- Determination of the plausibility of expected rates of return as compared to industry benchmarks, particularly considering complex fee structures associated with many of these types of investments
- Updating due diligence as needed until effectiveness of the offering

## Agreement With The Issuer

Infinity will execute an agreement with the issuer to define the terms of Infinity's role in the offering and the issuer's obligations as well as other covenants of the offering.

## Dollar Amount Of The Offering And Integration Issues

The designated supervisor is responsible for ensuring the issue is not oversold relative to the dollar amount disclosed in the offering document compared to the limitations provided in the rules. The supervisor should consider any "integration" of similar offerings by the same issuer for substantially identical purposes for determining whether the issuer meets the dollar limitation under the exemption within a 12-month period of time. The supervisor's review for integration may include one of the following or another procedure determined adequate by the supervisor:

- Reviewing the issuer's financial statements for the past 12 months and/or contact directly with the issuer
- Obtaining a representation letter from the issuer that states that no other offerings were distributed during the 6-month period prior to the current private placement offering or will be distributed in a succeeding 6-month period that would cause the exemption to be lost

## **Form D**

For issues sold under Regulation D, the issuer is required to make a Form D filing electronically on EDGAR within fifteen days after the first sale of securities in the offering. For ongoing offerings lasting longer than one year, the issuer is required to electronically file an amendment annually.

Some states also require filing of Form D. The issuer (or issuer's counsel) is responsible for Form D filings.

## **Submissions To FINRA**

[FINRA Rule 5123; FINRA Regulatory Notice 13-26 and 12-40]

For private placements sold by Infinity (other than those exempt under Rule 5123), filings will be made electronically with FINRA within 15 calendar days of the date of first sale including the private placement memorandum, term sheet or other offering document (including any material amendments). If no offering documents were used, FINRA will be notified.

## **19.4 Sales Of Private Placements**

### **Suitability**

A primary objective when selling a private placement is that all securities will be placed with suitable investors. The RR recommending a private placement is responsible for determining that the recommendation is suitable for the offeree based on information known about the potential offeree. The RR must consider minimum investor requirements and other suitability standards for each private placement offering.

### **Accredited Investors**

[Securities Act Rule 215; Securities Act Regulation D Rule 501]

An accredited investor meets certain financial criteria which may include minimum net worth, minimum income levels and other standards set by federal or state laws and regulations. Typically, accredited investors are not counted toward the limitation on the number of purchasers of a private placement.

Information about each private placement (and where it is sold) must be consulted to determine who qualifies as an "accredited investor" for a particular issue.

## Non-Accredited Investors

Private placements sometimes may be offered to purchasers who do not meet the criteria of accredited investors. The number of allowable non-accredited purchasers will be limited, to preserve the registration exemption and meet requirements specified under federal and state law.

## Restricted Nature Of Private Placement Securities

Private placement securities are considered "restricted securities," other than those purchased in Rule 504 offerings. Certificates will typically include a legend and securities cannot be resold unless registered or the securities qualify for sale under an exemption.

Purchases must be for investment purposes and not for the purpose of resale. Subscription documents typically include an affirmation that the purchaser is buying the private placement for investment purposes and understands they may not be resold (Letter of Non-Distributive Intent).

RRs must consider the illiquidity of most private placements when making suitability determinations. For example, a private placement would not be a suitable investment for a purchaser who expects to invest his funds on a short-term basis.

## Purchaser Questionnaires

Where necessary, the potential investor will be requested to complete a Purchaser Questionnaire which confirms that the investor meets certain minimum requirements to participate in the private offering.

When Purchaser Questionnaires are required, the RR is responsible for obtaining the completed Questionnaire from the potential purchaser and submitting it for review and approval within the timeframe established for the offering.

## Purchaser Representatives

If a purchaser is not sufficiently sophisticated to effectively evaluate the investment opportunity, he or she may have a "purchaser representative" (chosen by the investor and **not** an affiliate of the issuer or broker-dealer) who assists in evaluating the investment. The purchaser representative will be required to sign the offering documents attesting to his or her role acting as purchaser representative.

## Offering Memorandum

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Offering memorandum</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required for each private placement</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Establish a distribution control sheet</li></ul>



	<ul style="list-style-type: none"> <li>• Number each offering memorandum, consecutively</li> <li>• Record the number of each offering memorandum and the name of the offeree and the RR or RR number</li> <li>• For unnumbered memoranda, mark copies "File Copy" or "For Information Only"</li> <li>• If changes or corrections are made to the offering memorandum prior to closing, provide copies to each offeree who received the original memorandum and note on the control sheet that copies were provided including the date provided</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• A copy of the offering memorandum, corrected/changed memorandum, and the control sheet are retained in the deal file.</li> </ul>

An offering memorandum is prepared for each private placement, depending on the specific issue. The offering memorandum includes disclosures of information obtained from the issuer including the nature, character, and risk factors relating to the offering. Purchasers will be required to acknowledge, in writing, that they have received the offering memorandum.

An offering memorandum must be provided to all offerees. Offering memorandums are numbered, to enable Infinity to maintain a record of offerees who received them.

Offering memorandums are available from *[include name or department]*. RRs must provide information regarding the offeree at the time the memorandum is provided to the prospective purchaser.

If it is necessary to update or correct information in the private placement memorandum prior to closing of the issue, the revised information will be provided to offerees, in writing.

## Offeree Access To Information

Most private placement memoranda state that it was prepared by counsel from information provided by the issuer. Offerees are invited to meet with representatives of the issuer to make an independent investigation and verification of information in the memorandum.

## Solicitation

[Securities Act Regulation D Rule 506(b) and Rule 506(c); SEC Compliance & Disclosure Interpretations (C&Ds) on verification methods, see 255.48, 255.49, 260.35, 260.36, 260.37, 260.38: <http://www.sec.gov/divisions/corpfin/guidance/securitiesactrules-interps.htm#255.48>; SEC explanation of 506(b): <https://www.sec.gov/smallbusiness/exemptofferings/rule506b>; SEC explanation of 506(c): <https://www.sec.gov/smallbusiness/exemptofferings/rule506c>; SIFMA Guidance on Rule 506(c) verification: <http://www.sifma.org/issues/item.aspx?id=8589949595>; SEC Compliance and Disclosure Interpretations 256.23-256.33 8/6/15 re solicitations]

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Rule 506 offerings with general solicitations and/or advertising</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Confirm that the issuer has determined that all purchasers qualify as accredited investors or conduct verification of purchasers</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Record of confirming accredited investor status of all purchasers</li> </ul>

Advertising and general solicitation of private placements sold under Rule 506 are permitted subject to the following restrictions:

- They may only be sold to qualified investors.
- The issuer is obligated to take reasonable steps to verify that purchasers are accredited investors under Rule 501 of Regulation D. Depending on Infinity's role, Infinity may be responsible for verification.

Under Rule 501, a person qualifies as an accredited investor if he or she has either:

- An individual net worth or joint net worth with a spouse that exceeds \$1 million at the time of the purchase, excluding the value (and any related indebtedness) of a primary residence.
- An individual annual income that exceeded \$200,000 in each of the two most recent years or a joint annual income with a spouse exceeding \$300,000 for those years, and a reasonable expectation of the same income level in the current year.

The SEC has provided a non-exclusive list of methods that issuers (or someone acting on behalf of the issuer) may use to satisfy the verification requirement for individual investors, including:

- Reviewing copies of any IRS form that reports the income of the purchaser and obtaining a written representation that the purchaser will likely continue to earn the necessary income in the current year.
- Receiving a written confirmation from a registered broker-dealer, SEC-registered investment adviser, licensed attorney, or certified public accountant that such entity or person has taken reasonable steps to verify the purchaser's accredited status.

The verification rule does NOT apply if there is no advertising or general solicitation.

## Investment Seminars Or Meetings

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Requests to conduct meetings or seminars</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Request a written outline of the information to be presented, including any written materials to be provided to those attending</li><li>• Request information about how the seminar or meeting will be publicized</li><li>• Review the outline, written materials, and method of publication</li><li>• Approve or disapprove, providing any revisions necessary</li><li>• Require that all invitees receive copies of the offering memorandum</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Include copies of the outline, list of invitees, written materials, and the approver's initials and date of approval/disapproval in the deal file.</li></ul>

Rule 504 offerings may be solicited without limitation. There may be general solicitation for Rule 506 and 144A offerings though the issuer is subject to requirements to verify that purchasers are accredited investors (Rule 506) or QIBs (Rule 144A). See the sections *Solicitations* and *Rule 144A Transactions* for more information.

- Seminars or meetings on specific private placements must be approved by the designated supervisor prior to conducting the seminar or meeting. Prior to approval provide the supervisor with:

- a written outline of information to be presented and any graphic or written materials to be provided to attendees.
- a description of how the seminar or meeting will be publicized to prospective attendees.
- Attendees must be provided with an offering memorandum. No other written material may be provided, unless previously approved by Infinity.

## Subscription Agreements

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Designated Supervisor</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Subscription agreements and accompanying checks</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Log agreements and checks received onto Sales Blotter for the deal</li> <li>• Review subscription agreements and checks for acceptability</li> <li>• Reject unacceptable agreements or checks and return to RR</li> <li>• Forward accepted checks to escrow agent or issuer, retaining a copy in the deal file</li> <li>• Initial accepted agreements</li> <li>• Forward accepted agreements to issuer, retaining a copy in the deal file</li> <li>• Issue confirmations to issuer-accepted purchasers when the purchase is effected</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Retain in deal file:               <ul style="list-style-type: none"> <li>○ Sales blotter</li> <li>○ Copies of subscription agreements and checks</li> </ul> </li> </ul>

Each potential purchaser will be required to complete the necessary subscription agreement to purchase a private placement. The agreement must be accompanied by a check for the purchase.

Subscription agreements are processed as follows:

- The RR obtains the signed subscription agreement (and other required offering documents) and a check for payment from the offeree and submits them to the designated supervisor.
- Subscription agreements and checks received are logged into the Sales Blotter for the private placement.
- The designated supervisor reviews the agreement and check for acceptability.
- The check is forwarded to the escrow agent or the issuer, together with the purchaser's name, address, social security number, and number of shares/units, as required.
- Rejected agreements/checks are returned to the RR with an explanation for the rejection.
- Accepted agreements are signed/initialed by the supervisor, a copy retained by Infinity, and the original forwarded to the issuer.
- The issuer reviews and accepts or rejects the agreement.
- A confirmation is sent to accepted purchasers when the purchase is effective.

RRs should be aware that **purchasers are not accepted until the issuer accepts them**. Final acceptance rests with the issuer who is responsible for ensuring conditions of the offering are satisfied to qualify under the operative exemption.

## Contingency Offerings

[Exchange Act Rule 10b-9 and 15c2-4; FINRA Regulatory Notice 16-08; FINRA Notice to Members 98-4]

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Issuer agreement</li><li>• Subscription agreements</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Evaluate issuer information and determine Infinity's participation including:<ul style="list-style-type: none"><li>○ Reasonable investigation of the security and the issuer's representations</li><li>○ Review of the terms of the contingency, including any agreement and disclosure by the issuer regarding the contingency</li><li>○ Follow up any red flags such as inconsistencies between the escrow agreement and the offering document</li></ul></li><li>• Establish a "separate account" or escrow account</li><li>• Confirm purchasers are bona fide purchasers where necessary</li><li>• Identify insiders, firm or employee account purchasers and obtain affirmation regarding holding period</li><li>• Require subscribers to reconfirm their investments if the issuer extends the offering period</li><li>• Return subscriber funds if the issuer changes the contingency by reducing the offering minimum</li><li>• Close escrow account and, if contingency met, immediately forward purchaser funds to issuer or, if contingency is not met, immediately return funds to potential purchasers</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Escrow account, issuer information and purchaser information are retained in the deal file</li></ul>

### Introduction

Best efforts underwritings may take different forms including "all or none," "minimum-maximum," or other offerings contingent on the sale of a certain amount of the issuer's securities. Two primary concerns are that customer funds be transmitted to the issuer or to an escrow account and that only *bona-fide* purchasers are included in order to meet a stated minimum number of shares or units. Where the minimum is not sold within the deadline specified by the prospectus, all customer funds must be refunded.

Sales will be made only to *bona-fide* purchasers to meet any minimum amount of the securities to be sold.

### Handling Investor Funds

Infinity will promptly:

- Deposit funds into a "separate bank account" for which Infinity is the account holder and is designated as agent or trustee for the investors (only if Infinity maintains at least \$250,000 in net capital and is allowed to carry customer accounts); or

- Establish an independent bank escrow account.

Funds will be released to the issuer only after the contingency is satisfied.

## Customer Funds - Escrow Account

The designated supervisor is responsible for establishing procedures for the protection of customer funds including the establishment of an escrow account where required.

- Establish an escrow account and execute Infinity's standard escrow agreement with a bank that is not affiliated with Infinity. The escrow account may not be controlled by the issuer.
- Maintain copies of bank statements for the escrow account and review the statements when received, to ensure funds are not withdrawn prior to the date the contingency is met.
- Ensure customer funds are promptly deposited to the escrow account.
- Maintain records of all potential purchasers including the quantity to be purchased, when funds are received, and when funds are forwarded to the issuer or escrow account.
- Ensure checks are forwarded to the issuer (where an escrow account is not used) or to an escrow account by noon of the business day following receipt.
- Authorize release of funds to the issuer from an escrow account after the contingency is met and after a review of purchasers, as discussed in the next section, has been conducted.
- If the contingency is not met, promptly refund funds to potential purchasers.
- If the issuer extends the offering period, require investors to reaffirm their investments.
- If the issuer reduces the offering minimum, return funds to investors.

## Purchasers

The designated supervisor is responsible for establishing procedures regarding purchasers of securities issued through a best efforts underwriting including the following:

- Where the offering is contingent upon the sale of a certain quantity of the issue, confirm that all purchasers are *bona-fide* purchasers. Non-bona fide sales generally include sales of undisclosed purchases by the issuer or broker-dealer, their affiliates or associated persons, or any entities through nominee accounts that are designed to create the appearance of a successful completion of an offering.
- Identify purchases by issuer insiders, Infinity's proprietary account, or employees of Infinity and, for those identified, obtain a written affirmation that the purchaser intends to hold the security as an investment or, in conjunction with the issuer, determine restrictions on immediate sale by such accounts.
- Record the review of purchasers in the deal file.

## 19.5 Regulation D

[SEC Securities Act of 1933 Regulation D; FINRA Regulatory Notice 10-22]

Regulation D is a series of six rules, Rules 501-506, that include exemptions from the registration requirements of the 1933 Act. The specific exemptions are included in Rules 504-506 and differ as to the size of the offering and conditions imposed to qualify for the exemption. The following chart summarizes the three exemptions available under Regulation D. This is only a very general summary of requirements and does not include legal definitions and technicalities that may apply to certain types of private placements.

	<b>Rule 504</b>	<b>Rule 506</b>
--	-----------------	-----------------

Who may invest	Anyone suitable for the investment	Qualified investors
Number of investors	Unlimited	35 non-accredited, unlimited accredited investors
Size of offering sold in any consecutive 12 months	\$5,000,000	Unlimited
Restricted securities?	No	Yes
Public solicitation/advertising allowed?	Yes	Yes
Disclosure document required?	No	Yes*
Opportunity to ask questions of issuer?	No	Yes

\* Under the rule, disclosure documents are not required to be given to accredited investors though a note to Rule 502(b) states that an issuer should consider providing such information to accredited investors in view of anti-fraud statutes.

The reference to "unlimited accredited investors" in the section "Number of investors" above does not imply that a private placement will, in fact, have an unlimited number of accredited investors. The issuer and Infinity will consider limitations on accredited investors, as appropriate, to preserve the exemption as a private placement and avoid the appearance of a broad solicitation of the issue.

## Disqualification Of Felons And Other "Bad Actors"

[SEC Regulation D Rule 506(d)(1)]

Rules 504 and 506 are frequently-used exemptions from registration under Regulation D. The exemptions are NOT available if the issuer or any person covered by the disqualification rule had a "disqualifying event." Disqualifying events include certain criminal convictions; SEC and CFTC actions; and other events. Refer to the rule cited above for a list of covered persons and disqualifying events.

There is an exception from disqualification if the issuer can show it did not know, and in the exercise of reasonable care, could not have known that a covered person with a disqualifying event participated in the offering.

## Due Diligence

This section includes due diligence guidelines provided by FINRA. Infinity will conduct due diligence appropriate for the particular Regulation D offering and document its reviews and investigations in the deal file.

When engaging in a Regulation D offering, due diligence will include, at minimum, reasonable investigation of:

- the issuer and its management;
- the business prospects of the issuer;
- the assets held by or to be acquired by the issuer;
- the claims being made; and
- the intended use of proceeds of the offering (including whether investors' money is likely to be applied according to the stated use of proceeds, and whether the stated use of proceeds is reasonable in light of the issuer's business purpose and prospects).

The scope of investigation may depend on a number of specific factors included in FINRA guidance, described below.

**BD affiliation with the issuer.** If there is affiliation with the issuer, a BD must not compromise its independence in performing a thorough and independent investigation and must resolve any conflict of interests impairing that responsibility.

**BD that prepares the private placement memorandum or other offering document.** The BD has a duty to investigate the securities offered and representations made by the issuer. Where a BD assists with preparation of a memorandum or document, the BD is subject to FINRA communications rules. **Retail communications are subject to FINRA rule requirements whether or not the BD assisted in their preparation.**

"Red flags" (such as an issuer's refusal to provide information for the BD to meet its obligation to investigate or inaccurate financial statements) must be reviewed and simple reliance on representations by the issuer's management is not sufficient to meet the BD's investigatory obligations.

The use of counsel or experts to perform an investigation on the BD's behalf must be done by firms and individuals that the BD is satisfied are qualified and competent. When Infinity is a member of a syndicate or selling group, it may rely upon the reasonable investigation by the syndicate manager if the BD believes the syndicate manager has the expertise and absence of conflicts to conduct the investigation. Reliance may be substantiated by meeting with the manager; obtaining a description of the manager's reasonable investigation efforts; and inquiry regarding the independence and thoroughness of the investigation.

## Investigation Practices

The following are FINRA guidelines for what may be included in a reasonable investigation of a Regulation D offering. Infinity will conduct investigation into the issuer as appropriate for the proposed offering.

### A. Issuer and Management

Reasonable investigations of the issuer and its management concerning the issuer's history and management's background and qualifications to conduct the business might include:

- For Rule 506 offerings, determine whether the issuer or any covered person under Rule 506(d)(1) has been the subject of a disqualifying event precluding the use of the Rule 506 exemption.
- Examining the issuer's governing documents, including any charter, bylaws and partnership agreement, noting particularly the amount of its authorized stock and any restriction on its activities. If the issuer is a corporation, a BD might determine whether it has perpetual existence.
- Examining historical financial statements of the issuer and its affiliates, with particular focus, if available, on financial statements that have been audited by an independent certified public accountant and auditor letters to management.
- Looking for any trends indicated by the financial statements.
- Inquiring about the business of affiliates of the issuer and the extent to which any cash needs or other expectations for the affiliate might affect the business prospects of the issuer.
- Inquiring about internal audit controls of the issuer.
- Contacting customers and suppliers regarding their dealing with the issuer.
- Reviewing the issuer's contracts, leases, mortgages, financing arrangements, contractual arrangements between the issuer and its management, employment agreements and stock option plans.
- Inquiring about past securities offerings by the issuer and the degree of their success while keeping in mind that simply because a certain product or sponsor historically met obligations to investors, there are no guarantees that it will continue to do so, particularly if the issuer has been dependent on continuously raising new capital. This inquiry could be especially important for any blind pool or blank-check offering.
- Inquiring about pending litigation of the issuer or its affiliates.
- Inquiring about previous or potential regulatory or disciplinary problems of the issuer. A BD might make a credit check of the issuer.
- Making reasonable inquiries concerning the issuer's management. A BD might inquire about such issues as the expertise of management for the issuer's business and the extent to which management has changed or is expected to change. For example, a BD might inquire about any regulatory or

disciplinary history on the part of management and any loans or other transactions between the issuer or its affiliates and members of management that might be inappropriate or might otherwise affect the issuer's business.

- Inquiring about the forms and amount of management compensation, who determines the compensation and the extent to which the forms of compensation could present serious conflicts of interest. A BD might make similar inquiries concerning the qualifications and integrity of any board of directors or similar body of the issuer.
- Inquiring about the length of time that the issuer has been in business and whether the focus of its business is expected to change.

## **B. Issuer's Business Prospects**

Reasonable investigations of the issuer's business prospects, and the relationship of those prospects to the proposed price of the securities being offered, might include:

- Inquiring about the viability of any patent or other intellectual property rights held by the issuer.
- Inquiring about the industry in which the issuer conducts its business, the prospects for that industry, any existing or potential regulatory restrictions on that business and the competitive position of the issuer.
- Requesting any business plan, business model or other description of the business intentions of the issuer and its management and their expectations for the business, and analyzing management's assumptions upon which any business forecast is based. A BD might test models with information from representative assets to validate projected returns, break-even points and similar information provided to investors.
- Requesting financial models used to generate projections or targeted returns.
- Maintaining in the BD's files a summary of the analysis that was performed on financial models provided by the issuer that detail the results of any stress tests performed on the issuer's assumptions and projections.

## **C. Issuer's Assets**

Reasonable investigations of the quality of the assets and facilities of the issuer might include:

- Visiting and inspecting a sample of the issuer's assets and facilities to determine whether the value of assets reflected in the financial statements is reasonable and that management's assertions concerning the condition of the issuer's physical plants and the adequacy of its equipment are accurate.
- Carefully examining any geological, land use, engineering or other reports by third-party experts that may raise red flags.
- Obtaining, with respect to energy development and exploration programs, expert opinions from engineers, geologists and others are necessary as a basis for determining the suitability of the investment prior to recommending the security to investors.

# **19.6 Private Investment In Public Equity (PIPE)**

This section describes PIPE transactions.

## **Introduction**

A PIPE is defined as a privately negotiated sale (*i.e.*, private placement) of securities of an already public company. In a PIPE transaction, a public company sells its unregistered securities (*e.g.*, common stock, preferred stock or convertible securities) in a private placement to a select group of sophisticated individuals or institutions and subsequently files a resale registration statement with the SEC at the completion of the private placement to enable the investors to resell the securities into the public market. Infinity's role in a PIPE transaction is to act as the placement agent for the issuer.



## **Underwriting**

PIPE transactions will be managed by Investment Banking (IB) which is also responsible for:

- Obtaining transaction approval from the Investment Banking Commitment Committee;
- Working with other appropriate personnel/departments, as needed (e.g., Compliance, Legal), to execute an engagement letter; and
- Maintaining a Master Log, which includes among other things an investor log and list of firm employees brought "over the wall."

Non-IB employees approached by an issuer to participate in a PIPE should contact Compliance and/or their supervisor immediately and must handle such information as confidential unless advised otherwise by Compliance or Legal.

## **Compliance Notification**

All PIPE offerings in which Infinity is involved, including offerings that are reasonably likely to occur or that Infinity is actively pursuing, must promptly be added to Infinity's Watch List. Consistent with Infinity's Information Barrier Policy, the IB manager is responsible for immediately contacting Compliance when there is a reasonable likelihood of receiving a PIPE mandate. Once a company has been added to the Watch List, IB must notify Compliance of any significant developments with respect to the transaction, including intended pricing and announcement dates.

## **Registration Statement Integration**

In order to avoid potential registration statement integration (a risk whenever a public and private offering of an issuer's securities are conducted concurrently or within a short period of time to each other), a PIPE offering must be completed before the related resale registration statement is filed. In the event a registration statement covering the same (and/or similar) securities that will be sold in the PIPE offering has been filed but is not yet effective, the issuer must withdraw the registration statement before the PIPE offering can commence. Note the foregoing restriction is not applicable to offerings structured as a registered direct issuance off of an existing/effective registration statement. IB should work with Compliance to ensure compliance with these rules.

## **Eligible Investors**

In general, companies are prohibited from selling unregistered securities unless an exemption is available under SEC rules. With respect to the private placement phase of a PIPE transaction, issuers normally rely on the exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act"), and the safe harbor provisions of Regulation D. As a general matter, in its role as placement agent, Infinity may only offer and sell PIPEs to investors whom Infinity reasonably believes to be "accredited investors." Generally, Infinity may only solicit potential investors who qualify as accredited investors.

Regulation D does not limit the number of accredited investors who may purchase securities in a private placement.

## **Marketing Restrictions**

This section outlines restrictions on marketing pipe offerings.

## Prohibition On General Solicitation And Advertising

The federal private placement exemption prohibits the issuer of a PIPE and any person acting on its behalf (including placement agents such as Infinity) from offering or selling the securities by any form of general solicitation or general advertising. Contacting potential investors with whom Infinity has a **pre-existing, substantive relationship** does not constitute a general solicitation. As a general matter, Infinity may only contact investors with whom Infinity has such a relationship, and generally, initial contact should be made directly with the customer (*i.e.*, contact must be with the ultimate investor with investment discretion).

The general guideline for establishing that a potential investor has had a pre-existing, substantive relationship with Infinity is that such potential investor:

- Has invested in other PIPE offerings where Infinity acted as placement agent; or
- Has maintained an investment advisory account with Infinity (or an affiliate) or a brokerage account or similar relationship with Infinity (or an affiliate) for at least 30 days prior to the distribution of information to such investor concerning the offering; and
- Was not solicited to become a customer of Infinity in contemplation of the offering.

Failure to observe restrictions that may be imposed on Infinity's activities in connection with an offering may have severe consequences, including, depending on the timing of the violation, a forced delay in the ability to market or close the offering or civil and criminal penalties and rescission rights for investors. Any questions concerning whether an activity is appropriate in light of the private nature of a PIPE transaction should be directed to Compliance.

After the **final** closing, "tombstone" advertisements and public statements as to the PIPE offering may be permitted. Compliance should review each such advertisement and statement prior to its publication or use.

## Written Presentation Content

PIPE transactions are generally marketed via an oral presentation. Any written materials used during the presentation must adhere to the content standards specified below and must be collected from attendees at the end of the presentation.

Written materials created for the purpose of marketing a PIPE transaction should never be based on anything other than the issuer's existing publicly available information (typically the 10K) accompanied by the following:

- Offering summary;
- Key investment highlights; and
- Business summary.

Further, the written presentation:

- Must also contain customary legal legends and disclaimers including preamble language related to: (1) forward looking statements; and (2) confidentiality and Regulation FD obligations (to be reviewed by issuer counsel).
- Should always be accompanied by a disclaimer letter from Infinity to prospective investors (to be reviewed by issuer's counsel).
- Should never reference Infinity, except to refer to its role as placement agent, and, when appropriate, to disclose potential conflicts of interest to prospective investors (*e.g.*, a firm employee serving on the issuer's board of directors or a material firm ownership position of securities of the issuer).
- Should never be on firm letterhead or other formats containing the firm logo.

- Should never contain forward-looking projections unless such projections have been publicly disclosed. During the marketing process, if prospective investors ask about projections, they should be directed to existing, publicly available research reports and information.

## **FINRA Filings**

IB should discuss the specific facts and circumstances of each PIPE transaction with Compliance, Legal and/or external counsel, as necessary, to determine whether to file documents and information with FINRA or whether the offering is clearly exempt from filing.

## **Regulation M**

Upon receiving a PIPE mandate, Compliance should be contacted to preliminarily determine if the proposed transaction is subject to Regulation M. Based on the issuer's float, trading volume and a determination of whether the PIPE transaction constitutes a distribution, the issuer's securities may be subject to restrictions on engaging in transactions and quotation activity with respect to the issuer's stock for the applicable restricted period (*i.e.*, 0, 1 or 5 trading days) as required by Regulation M.

If subject to Regulation M, the designated supervisor will make required submissions to FINRA. Upon receiving the UAR from FINRA, Underwriting will consult with Compliance to determine the appropriate firm market maker status (passive or active) and the applicable Regulation M restricted period. If co-agents are involved, Underwriting will consult with the co-agents to determine their desired market maker status as well.

Underwriting will notify the FINRA Market Regulation Department and Infinity's trading desk of Infinity's and the other co-agents' market making status during the appropriate Regulation M period. Compliance will add the issuer to Infinity's Restricted List.

After the subject transaction has priced, but no later than the market open on the day following pricing, Underwriting will fax a Regulation M Trading Notification Form (*i.e.*, Reg M Wire) to the FINRA Market Watch Department and the FINRA Market Regulation Department. IB is responsible for notifying Compliance, as well as other co-agents, upon the completion of the PIPE transaction. Compliance will un-restrict the security and notify Trading.

## **Information Flow**

This section outlines information flow for PIPE transactions.

## **Treatment Of Confidential And Inside Information**

Prior to the time that an issuer makes a public announcement of a PIPE transaction, information surrounding the offering is confidential information. As PIPE issuers typically see a drop in their share price following the public announcement of the transaction due to the dilution that results from the issuance of additional shares, a PIPE offering will generally constitute a material transaction for an issuer. Accordingly, knowledge of a PIPE transaction prior to a public announcement by the issuer of the transaction may constitute material nonpublic information ("inside information"). As placement agent for an issuer customer, Infinity has an obligation not to breach the customer's trust by misusing any information furnished during the course of an engagement. Thus, firm employees with knowledge of a PIPE transaction must:

- Not act on or give this information to others;

- Not trade or advise others to trade based upon the information, misappropriate the information or tip other customers or third parties; and
- Immediately notify Compliance and take appropriate steps to protect the information.

Persons guilty of misusing inside information may be subject to civil and criminal penalties (including imprisonment), SEC administrative actions, disciplinary action by various self-regulatory organizations, and dismissal by Infinity.

## **Sharing Transaction Details With Potential Investors**

Before a firm employee reveals an issuer's name to a prospective investor, commences discussions concerning the details of a PIPE offering, or otherwise furnishes an investor with material nonpublic information regarding an issuer, such employee should mention that the offering constitutes a private transaction and must ask the prospective investor if he/she is interested in learning more about the PIPE transaction. Firm employees, moreover, should obtain from the prospective investor an agreement that the investor will keep such information confidential, and an acknowledgment that the investor understands how such confidential information must be treated under the securities laws. As soon as is practicable and typically within one (1) business day after receipt of a prospective investor's positive response, Infinity will send such prospective investor a follow-up email confirming such prospective investor's receipt of material, nonpublic information and acknowledging such prospective investor's agreement to hold such information in confidence. In addition, the email will remind such prospective investor of his/her obligation not to use any such information in contravention of applicable securities laws.

Investor logs must be maintained by IB during the marketing process and must contain, among other things: (1) the identity of the investors contacted; (2) such investor's level of interest in the subject transaction; and (3) the date that the management presentation was given (in person or via conference call) to such investor. Upon completion of the marketing process, IB must forward to Compliance a copy of the investor log.

## **Sharing Information With Sales And Trading Personnel**

Any decision to bring sales personnel "over the wall" must be discussed and approved by the designated sales supervisor in consultation with the IB manager and Compliance. Sales personnel brought "over the wall" may continue to conduct their normal sales activities but may not communicate information related to the PIPE transaction to customers. To the extent that sales personnel are asked to assist in the marketing of the PIPE transaction, sales personnel should make the marketing calls off of the trading floor in an area where their conversation cannot be overheard.

Any decision to bring trading personnel "over the wall" must be discussed and approved by the manager of Trading (NASDAQ or Listed) in consultation with the IB manager and Compliance. Trading personnel brought "over the wall" may not trade or make markets in the securities of the issuer subject to the PIPE transaction. The Trading manager should assign trading responsibilities for such securities to another trader without divulging the details of the PIPE transaction. Trading personnel brought "over the wall" may continue to trade and make markets in other securities pursuant to their normal responsibilities but are prohibited from disclosing information regarding the PIPE transaction to anyone that is not already "over the wall."

## **Sharing Information With Research Analysts**

Any decision to bring a firm research analyst "over the wall" must be discussed and approved by the Research manager and Compliance.

## 19.7 Private Equity Funds

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Designated Supervisor</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• Proposed private equity fund investments</li><li>• Partnership agreements, suitability documents</li></ul>
<b>Frequency</b>	<ul style="list-style-type: none"><li>• As required</li></ul>
<b>Action</b>	<ul style="list-style-type: none"><li>• Review proposed funds, conduct due diligence, and determine whether Infinity will offer the investment</li><li>• Review partnership agreements, suitability documents and accept or reject</li></ul>
<b>Record</b>	<ul style="list-style-type: none"><li>• Due diligence file</li><li>• Partnership agreements, suitability documents</li></ul>

Private equity funds pool investments from individuals and institutions and invest in businesses. Investors are usually limited partners in a limited partnership controlled by a general partner that determines the investing of funds. There is no public market for private equity funds but there may be a secondary market for interests.

Private equity funds may offer a high rate of return with a corresponding high rate of risk of loss. In a growing economy funds may exit the earliest portfolio investments providing distributions to limited partners, but a slowing economy may restrict the fund's ability to liquidate investments. Most investors are institutions that have the ability to develop a diversified portfolio of private equity funds or that invest through a fund of funds to provide a diversified portfolio.

Features of private equity funds include the following:

- Entry requires a substantial initial investment (which may be \$1,000,000 or more) allowing the fund's manager discretion over the first few years of the fund.
- Funds may provide for obligatory capital contributions throughout the life of the fund obligating the limited partners to make additional contributions. Failure to meet capital calls may result in the defaulting limited partner forfeiting interest in the fund.
- These are illiquid investments that are not publicly traded. An investor's capital is locked up in a long-term investment which may last ten years or more with no redemption rights. Distributions are made only as investments are converted to cash.
- Limited partners typically have a passive role with no say in the actions of the general partner.
- The general partner may not find suitable investments for the fund resulting in the investors' funds remaining uncommitted
- Funds are high risk; the investor may lose all of the investment.

RRs must obtain necessary partnership agreements and any suitability documents required for the investment and submit them to the appropriate supervisor for review.

## 20 REGULATION BEST INTEREST (BI)

Regulation BI is an SEC regulation that requires a broker-dealer (BD) and its associated persons (RRs in this chapter) to act in the best interest of the retail customer at the time the recommendation is made, without placing the financial or other interest of the broker-dealer or RR ahead of the interest of the retail customer.

Records are not required to evidence best interest determinations on a recommendation-by-recommendation basis. Infinity also is not required to provide information regarding the basis for each particular recommendation.

### 20.1 Summary of Key Requirements

1. Regulation BI only applies to recommendations to natural persons who are retail customers. Reg BI **also** applies to recommendations to natural persons who are considered "institutional accounts" under FINRA rules.
2. Recommendations include those for orders (e.g. products, securities); types of accounts (e.g., brokerage vs. advisory, whether or not tied to a securities transaction); and investment strategies. The "best interest" standard differs from the suitability requirements for recommendations imposed by FINRA Rule 2111; it requires placing the customer's best interest above that of the RR, BD. Determining best interest will include a consideration of available alternatives available to the investor as well as the costs, risks and rewards associated with the recommended product, account or strategy.
3. Compliance with Reg BI requires meeting four obligations: disclosure, care, conflict of interest, and compliance.
4. Reg BI does not impose a duty to monitor customer accounts but a BD may agree to do so. If the BD agrees to monitor a customer's account, Reg BI applies to explicit and implicit recommendations to hold.
5. Form CRS must be provided to customers when an account is opened (including additional accounts for existing customers) and when a recommendation is made (as defined in this chapter). Form CRS is posted on the Firm's website and updates must be provided to customers within 60 days of material updates.
6. BDs and their professionals are not permitted to use the titles "advisor" or "adviser" unless Infinity is dually registered as a broker-dealer and investment adviser, and/or the RR is dually registered and employed by a registered investment adviser and authorized by Compliance to use such a title.
7. Incentive programs (sales contests, non-cash compensation, etc.) may not be limited to certain securities or types of accounts over a period of time.
8. Communications for education purposes (listed below) that do not include a recommendation of a particular security or strategy involving securities are not considered recommendations:
  - o General financial and investment information which encompasses basic investment concepts.
  - o Descriptive information about an employer-sponsored retirement or benefit plan.
  - o Certain asset allocation models based on generally accepted investment theory accompanied by necessary disclosures.

### 20.2 General Obligations

Compliance with each of the following four component obligations is necessary to comply with Regulation BI.

#### Disclosure

<b>Responsibility</b>	<ul style="list-style-type: none"><li>• Chief Compliance Officer and/or designee</li></ul>
<b>Resources</b>	<ul style="list-style-type: none"><li>• New product reviews and information</li></ul>

	<ul style="list-style-type: none"> <li>• Form CRS</li> <li>• Other resources regarding securities and accounts</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Form CRS: when a recommendation is made and when updated</li> <li>• When new products/services are proposed and at least annually: <ul style="list-style-type: none"> <li>○ Review products and services to confirm necessary disclosures are provided to retail customers including possible standardized disclosures</li> <li>○ Consider the need for specific training</li> </ul> </li> <li>• As soon as practicable but no later than 30 days after a material change - update disclosures</li> <li>• Other disclosures: as required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Identify necessary disclosures and other requirements for new securities, services, or major changes in the Firm's business, vendors, or RR's (Also see <i>New Products</i> in the chapter <i>FINANCIAL AND OPERATIONS PROCEDURES</i>)</li> <li>• Identify necessary disclosures as part of a review of current products and services</li> <li>• Update disclosures if there have been any material changes</li> <li>• Provide Form CRS to retail investors at time of a recommendation/account opening and within 60 days of material changes</li> <li>• Include review of disclosures in annual review of firm's procedures</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Reviews of products and services and actions taken for disclosure</li> <li>• Tracking of providing disclosures including version, date provided, to whom provided including Form CRS</li> <li>• Various other methods of disclosure (confirmations, monthly statements, account agreements, prospectuses, etc.)</li> <li>• Representatives are to provide the firm with new disclosures on the annual compliance questionnaire.</li> </ul>

The obligation to provide full and fair disclosure should give sufficient information to enable a retail investor to make an informed decision with regard to a recommendation.

The disclosure obligation requires a BD or RR, prior to or at the time of the recommendation, to provide the retail customer, in writing, full and fair disclosure of:

- All material facts relating to the scope and terms of the relationship with the retail customer, including:
  - That the BD or associated person is acting as a BD or an associated person with respect to the recommendation;
  - The material fees and costs that apply to the retail customer's transactions, holdings, and accounts;
  - The type and scope of services provided to the retail customer, including any material limitations on the securities or investment strategies involving securities that may be recommended to the retail customer; and
  - Material facts relating to conflicts of interest that are associated with the recommendation. "Material facts" are facts a retail customer would consider important in making an investment decision. For example, material facts relating to conflicts of interest including, but not limited to, how RRs are compensated and the benefits to a BD from recommending a proprietary product.
- Other material facts relating to the scope and terms of the relationship with the retail customer which include:
  - The general basis for a recommendation (*i.e.*, what might commonly be described as investment approach, philosophy, or strategy); and
  - Risks associated with recommendations in standardized terms.
- If necessary, other material facts relating to the scope and terms of the relationship.

Disclosures are provided in a variety of ways, including (but not necessarily limited to) the following:

- Electronic mailings to those who have consented to receive electronic delivery
- Form CRS Relationship Summary
- Confirmations
- Monthly statements
- Account opening documents and account agreements
- Disclosures specific to types of accounts (e.g., margin, option, IRAs, minimum size or investment)
- Firm's website
- Hyperlinks
- Standardized disclosures
- Disclosures specific to certain securities or products (e.g., risk, conflicts of interest, material limitations)
- Agreements for services including costs
- Fee schedules
- Prospectuses
- Personalized account portals

While disclosures must be in writing, in certain circumstances oral disclosures (no later than the time of the transaction) to supplement facts not reasonably known at the time written disclosure is made (a record of oral disclosures) must be maintained with the order record.

## Care

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Chief Compliance Officer, Supervision Department, and/or designee</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Customer account information</li> <li>• Information about securities</li> <li>• Available reports</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• When recommendations are made</li> <li>• Other: as required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Communicate risks, costs, and other necessary information to RRs</li> <li>• Review recommendations of transactions and opening of accounts</li> <li>• Consider whether to use a risk-based approach to identify certain type of recommendations that should be documented, and the type of documentation (e.g., categorizing recommendations as "high risk" or "complex")</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Order records</li> <li>• Account records</li> <li>• Reviews of orders and accounts with supervisor's record of supervision and actions taken, if any</li> <li>• Records of risk-based recommendations and documentation of recommendations, if applicable</li> </ul>

The care obligation is broader than the existing suitability standard because it: (1) explicitly requires that the recommendation be in the customer's best interest and that the BD and RRs do not place their interests ahead of the customer; (2) explicitly requires that cost be a consideration; (3) applies the quantitative suitability requirement (recommending a series of transactions, avoiding excessive activity); and (4) requires the BD and



RRs to consider "reasonably available alternatives" as part of having a "reasonable basis to believe" that the recommendation is in the best interests of the customer.

While not required to evidence best interest determinations on a recommendation-by-recommendation basis, Infinity has adopted generalized operating procedures for processing recommendations (see desktop procedure for "General Reg BI Supervisory Review Process"). The operating procedures are subject to change as the industry guidelines, experience, standard and technology develop.

Generalized operating procedures exist for traditional liquid product recommendations and alternative illiquid complex product recommendations.

Infinity conducts periodic training covering material components of Regulation Best Interest for representatives. Training may be conducted internally, by a third party, or a reasonable alternative. For more information on training, see the compliance obligation section of this chapter.

The RR must exercise reasonable diligence, care, and skill to:

- understand the risks, rewards, and costs associated with the recommendation;
- have a reasonable basis to believe the recommendation is in the customer's best interest; and
- have a reasonable basis to believe that recommended transactions are in the customer's best interest based on the customer's investment profile and doesn't place the interests of the BD ahead of the customer. This includes avoiding transactions that are excessive.

In particular, the BD and RR must have an understanding of complex products, and recommendations of complex investments should be documented, particularly where a recommendation may seem inconsistent with a retail customer's objectives on its face. The care obligation applies to a series of recommended transactions (quantitative suitability) whether or not the BD exercises actual or *de facto* control over the account.

## **Factors To Consider**

When making recommendations, the following non-exclusive list of factors (depending on the particular product or strategy recommended) may be considered:

- What are the characteristics (including any special or unusual features) of the security or strategy?
- What are the initial and subsequent costs (if any, e.g., surrender or redemption costs) of the security or strategy?
- How liquid is the security?
- What are the risks, volatility, and likely performance in a variety of market conditions (normal or stressed)?
- What is the expected return of the security?
- What are the financial incentives to recommend the security or investment strategy?
- Are there alternative investments or strategies, at lower cost, that may meet the customer's needs? More costly products may be recommended provided there is a reasonable basis to believe they are in the best interest of the customer. There is no obligation to recommend the "best" of all possible alternatives.

## **Recommending Types Of Accounts**

RRs must have a reasonable basis for recommending accounts (margin, brokerage or advisory, IRAs, etc.). This includes the following considerations:

- services and products provided in the account;

- projected cost of the account;
- alternative account types available;
- services the retail customer requests; and
- the retail customer's investment profile. Profile elements include age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information disclosed by the customer.

Additional considerations when recommending IRAs (including rollovers or transfers of assets in a workplace retirement plan account to an IRA) include:

- customer's current financial situation and liquidity needs;
- fees and expenses;
- level of services available;
- ability to take penalty-free withdrawals;
- application of required minimum distributions;
- protections from creditors and legal judgments;
- holdings of employer stock; and
- any special features of the existing account.

## Costs

The RR should understand and consider the potential costs associated with the recommendation and have a reasonable basis to believe that the recommendation does not place the financial or other interest of Infinity or RR ahead of the interest of the retail customer. While cost must be considered, it is not the only consideration. Cost is only one of many important factors to be considered regarding the recommendation and that the standard does not necessarily require the "lowest cost option." RRs need to consider costs in light of other factors and the retail customer's investment profile.

## Alternatives

Alternatives should be considered before making recommendations to a particular retail customer. This does not mean customers must be offered all alternatives or necessarily the lowest-cost alternative or the "single best" alternative. Reasonably available alternatives include considerations of, for example:

- An RR's customer base (including the general investment objectives and needs of the customer base)
- Investments and services available to the RR to recommend (including limitations due to the RR's licensing)
- Specific limitations on the available investments and services with respect to certain retail investors (e.g., product or service income thresholds; product geographic limitations; or product limitations based on account type, such as those only eligible for IRA accounts)

## Quantitative Suitability

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Chief Compliance Officer and/or Designee</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Records of transactions</li> <li>• Available reports</li> <li>• Customer account records</li> </ul>

<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Ongoing</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Identify active accounts and review which may include calculating: <ul style="list-style-type: none"> <li>○ turnover rate (dividing the aggregate amount of purchases by the average monthly investment)</li> <li>○ cost-to-equity ratio (percentage of return on the customer's average net equity needed to pay commissions and other expenses)</li> <li>○ in-and-out trading (sale of newly-acquired investments)</li> </ul> </li> <li>• Take action which may include: <ul style="list-style-type: none"> <li>○ Review of new account records</li> <li>○ Consult with RR</li> <li>○ Contact the customer</li> </ul> </li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Review of active accounts including action taken</li> <li>• Contact with customers</li> </ul>

RRs may not make recommendations that result in transactions excessive for the customer considering the customer's investment objectives (also known as "churning"). A series of recommended transactions must be in the customer's best interest. The customer may be contacted by Infinity to confirm that active trading is appropriate.

### Material Limitations

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Chief Compliance Officer</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Records of products offered by Infinity</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Periodically, at least annually</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Reconcile the product offerings with market alternatives to ensure Infinity has a competitive product mix</li> <li>• Identify customer segments or investments needs where Infinity could potentially have difficulties in making recommendations in the customer's best interest due to the limited nature of product offerings</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Records of reviews of products and customers</li> </ul>

If Infinity materially limits its product offerings to certain proprietary or other limited menus of products or third-party arrangements, the fact that Infinity has a limited menu does not justify a product recommendation. Each recommendation must be in the customer's best interest.

### Conflict Of Interest

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Chief Compliance Officer and/or designee</li> </ul>
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<b>Resources</b>	<ul style="list-style-type: none"> <li>• Reviews of products and services</li> <li>• Review of incentive programs</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required when revised or adopted: review incentive programs</li> <li>• When new products or services are proposed</li> <li>• At least annually: review current products and services to review for potential conflicts of interest</li> <li>• Annual and as necessary: training</li> <li>• On the annual compliance questionnaire, representatives are to provide the firm with explicit and common conflicts of interests disclosed to clients.</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Assign responsibility for identifying potential conflicts of interest</li> <li>• Determine whether to use a risk-based approach</li> <li>• Review products and services for potential conflicts regarding compensation including, but not limited to: <ul style="list-style-type: none"> <li>○ Proprietary products/services</li> <li>○ Third-party products/services where Infinity receives payment from the third party</li> <li>○ Non-cash compensation where RRs are provided incentives to sell a product or service</li> <li>○ Differential or variable compensation, incentives tied to appraisals or performance reviews</li> <li>○ Compensation practices for new or existing RRs</li> <li>○ Generally: overarching firm-wide conflicts; associated person related conflicts; material limitations</li> </ul> </li> <li>• Document conflicts reviews including whether to mitigate, disclose and/or eliminate</li> <li>• Develop written disclosures for providing to customers</li> <li>• Mitigation consideration for compensation issues include the following: <ul style="list-style-type: none"> <li>○ avoiding compensation thresholds that disproportionately minimize compensation incentives for employees to favor one type of account over another, or to favor one type of product over another, proprietary or preferred provider products, or comparable products sold on a principal basis, for example, by establishing differential compensation based on neutral factors</li> <li>○ eliminating compensation incentives within comparable product lines</li> <li>○ implementing supervisory procedures to monitor recommendations that are near a compensation threshold for firm recognition; involve higher compensating products, proprietary products or transactions in a principal capacity; or involve the rollover or transfer of assets from one type of account to another</li> <li>○ adjusting compensation for RRs who fail to adequately manage conflicts of interest</li> <li>○ limiting the types of retail customer to whom a product, transaction or strategy may be recommended</li> <li>○ eliminating sales contests, sales quotas, bonuses, and non-cash compensation based on the sales of specific securities or specific types of securities within a limited period of time</li> <li>○ modifying or eliminating certain compensation practices</li> </ul> </li> <li>• Include conflict reviews in annual audits/reviews</li> <li>• Include conflicts of interest training of RRs</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Conflicts reviews and mitigation/disclosures</li> <li>• New product and service reviews</li> </ul>

	<ul style="list-style-type: none"> <li>Records of training including when, who attended, and subjects</li> </ul>
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A conflict of interest is an interest that might incline a BD or an RR - consciously or unconsciously - to make a recommendation that is not disinterested. Conflicts may exist between the BD and the retail customer; between the RR and the retail customer; and between the BD and the RR. It is also possible for conflicts to exist between customers (e.g., IPO allocations or proprietary research or advice among different types of customers).

Infinity has an obligation to avoid or mitigate conflicts of interest, where mitigation is possible, and provide disclosure where conflicts exist or may exist.

Infinity will identify conflicts and, where appropriate, identify material limitations placed on the investment product or strategy and any conflicts associated with such limitations (e.g., limited product menu, proprietary products only, etc.) and make necessary disclosures of those potential conflicts and material limitations.

Incentive programs (whether provided by Infinity or a third party) such as sales contests, sales quotas, bonuses, non-cash compensation, etc., within a limited period of time are prohibited by Infinity if they are based on:

- a specific product; or
- types of securities.

RRs have an obligation to avoid conflicts of interest when dealing with retail customers; some examples are listed below.

1. Recommending proprietary products because they result in higher compensation without considering the customer's needs and alternative investments.
2. Recommending other products or services based on compensation/incentives from Infinity or third parties.

## Compliance

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>Chief Compliance Officer</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>Sources of revenue</li> <li>Training program</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>Annual: review conflicts of interest, compliance with Reg BI</li> <li>Annual or as required: training</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>Conduct reviews of new product reviews, new types of accounts/services to confirm conflicts of interest have been identified and necessary actions taken (eliminate, mitigate, disclosure) and identify types of accounts and customers suitable for the investment or product.</li> <li>Confirm policies and procedures comply with Regulation BI as part of the annual review of procedures.</li> <li>Take corrective action which may include new disclosures, contact with RR and/or RR's supervisor, contact with customer, etc.</li> <li>Confirm Form CRS is current and accurate and provided to customers and posted on Infinity's website.</li> <li>Include Reg BI requirements in annual audits/reviews of Infinity's business</li> </ul>

	<ul style="list-style-type: none"> <li>• Provide training to new RRs upon hire and all RRs annually regarding the obligations under Regulation BI.</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Record of policy/procedure reviews and action taken, if any.</li> <li>• Records of training including when, who attended, subjects presented.</li> </ul>

Infinity conducts ongoing and annual reviews and training to achieve compliance with Regulation BI. It is the responsibility of RRs to be familiar with these requirements and act in the customer's best interest at all times. Questions should be referred to Compliance.

## 20.3 Form CRS

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Chief Compliance Officer and/ or designee</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Information about securities and types of accounts and services offered by the firm</li> <li>• New product and services reviews</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• When recommendations are made (as defined in this chapter)</li> <li>• Update and file with CRD as required</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Provide Form CRS to retail customers when a recommendation is made and within 60 days of a material change to the Form</li> <li>• Post Form CRS to Infinity's website and update as necessary</li> <li>• File Form CRS with the CRD and update within 30 days when required</li> <li>• Include Form CRS in reviews/audits to confirm the form is being kept up to date; posted to the website; filed with the CRD; and sent to customers when there are material changes</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Website postings</li> <li>• Providing Form CRS to customers including when delivered; version provided; consent to e-delivery if delivered electronically</li> <li>• Records of updates, changes provided to customers, updates to website</li> <li>• CRD filings</li> <li>• Records of reviews/audits</li> </ul>

Form CRS is a relationship summary intended to clarify the relationship between the BD and the customer. Firms without retail customers (as defined under Regulation BI) are not required to provide the form to customers or submit it to regulators. The form is required upon the first event that triggers the requirement.

Form CRS must be provided before or after the earliest of (i) a recommendation of an account type, a securities transaction, or an investment strategy involving securities; (ii) placing an order for the retail investor; or (iii) the opening of a brokerage account for the retail investor including, for example, when:

- An order is placed for the retail customer
- A new account is opened for a new customer
- A new account is opened for an existing customer

- A securities transaction or investment strategy is recommended
- A rollover is recommended from a retirement account into a new or existing account or investment
- An RR recommends or provides a new advisory service or product that does not necessarily involve opening a new account or would not be held in an existing account, for example, the first-time purchase of a direct-sold mutual fund or insurance product that is a security through a "check and application" process, *i.e.*, not held directly within an account
- A retail investor requests a copy (provide within 30 days)

For every instance that Form CRS is provided to a customer, a record will be retained in the customer file showing the date of Form CRS provision, and the circumstances that resulted in the provision of the form.

Updates will be made and filed with the CRD within 30 days of material changes. Updated summaries will be provided to customers within 60 days after material updates with changes highlighted. Updates may be provided electronically to customers who have consented to electronic delivery.

Dual registrants (BD and IA) are required to deliver a relationship summary to retail investor customers of both the investment advisory and brokerage businesses.

## 20.4 Training

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Chief Compliance Officer and/or designee</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• In-house training materials</li> <li>• Outside vendors or materials</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Annual; when new RRs are hired; and as appropriate</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Provide training on acting in a customer's best interest, Infinity's culture, the Code of Conduct, and conflicts of interest in their mitigation and management</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Record of subjects included in training, who attended, and when administered</li> </ul>

RRs will receive training on Regulation BI requirements, communicating Firm culture, specific requirements of Infinity's code of conduct and its conflicts management framework.

## 20.5 Monitoring Accounts

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Chief Compliance Officer and/or designee</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Customer accounts that are monitored</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• Ongoing</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Identify accounts to be monitored</li> <li>• Include review of monitoring in annual reviews</li> </ul>

<b>Record</b>	<ul style="list-style-type: none"> <li>• Monitored accounts</li> <li>• Annual reviews of Infinity's business including monitoring</li> </ul>
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Although the Firm and RRs may review customer accounts, holdings, and performance in connection with the recommendation process, Infinity does not provide ongoing monitoring of retail customer accounts. **Therefore, the action and record mentioned above is not applicable.**

## 20.6 Dual Registrants

Dual registrants and affiliates (as defined at the end of this chapter) are required to provide a Form CRS for both the broker-dealer and advisory relationships; the forms may be combined. Broker-dealers have an obligation to file Form CRS with FINRA's CRD and advisers are required to file with IARD.

If two separate relationship summaries are provided, they will reference and facilitate access to the other with equal prominence and at the same time, without regard to whether the particular retail investor qualifies for those retail services or accounts.

## 20.7 Recordkeeping

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>• Chief Compliance Officer, Supervision Department, and/or designee</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>• Provision of Form CRS to prospects, customers</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>• As required under Form CRS requirements, obtaining consent</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>• Obtain recipient's informed consent for electronic delivery</li> <li>• Track delivery of Form CRS which may include electronic return-receipt or by confirmation that information was accessed, downloaded, or printed and/or disseminating information through facsimile methods</li> <li>• Include reviewing providing Form CRS in audit/review programs</li> </ul>
<b>Record</b>	<ul style="list-style-type: none"> <li>• Consents for e-delivery</li> <li>• Tracking records of delivery</li> <li>• Records of Form CRS and updates to the form</li> <li>• Record of filing with FINRA CRD</li> <li>• Record of audits/reviews of providing Form CRS</li> </ul>

Records of all information collected from and provided to the retail customer are maintained in accordance with recordkeeping rules. Records are not required to evidence best interest determinations on a recommendation-by-recommendation basis. Infinity also is not required to provide information regarding the basis for each particular recommendation. Records of Form CRS will be retained for six years after the earlier of the date that the account was closed or the date on which the information was collected, provided, replaced or updated.



## 20.8 Definitions

**Affiliate:** Any persons directly or indirectly controlling or controlled by Infinity or under common control with Infinity.

**Best interest:** The term "best interest" is explained through SEC guidance and interpretations and is not expressly defined. Whether a broker-dealer has acted in the retail customer's best interest in compliance with Regulation BI will turn on an objective assessment of the facts and circumstances of how the specific components of Regulation BI - including its Disclosure, Care, Conflict of Interest, and Compliance Obligations - are satisfied at the time that the recommendation is made (and not in hindsight).

**Conflict of interest:** A conflict of interest is an interest that might incline a BD or RR, consciously or unconsciously, to make a recommendation that is not disinterested.

**Dually licensed financial professional:** A natural person who is both an associated person of a broker-dealer registered under section 15 of the Exchange Act, as defined in section 3(a)(18) of the Exchange Act, and a supervised person of an investment adviser registered under section 203 of the Advisers Act, as defined in section 202(a)(25) of the Advisers Act.

**Dual registrant:** A firm that is dually registered as a broker-dealer under section 15 of the Exchange Act and an investment adviser under section 203 of the Advisers Act and offers services to retail investors as both a broker-dealer and an investment adviser. There are exceptions; for example, if a BD dually registered offers investment advisory services to retail investors, but offers brokerage services only to institutional investors, the BD is not a dual registrant for purposes of Form CRS.

**Full and fair:** Sufficient information to enable a retail customer to make an informed decision with regard to a recommendation.

**Implicit or explicit recommendations:** For accounts where there is agreed-upon account monitoring, if the BD makes no recommendation in a periodic review, it is an implicit "hold" recommendation subject to Regulation BI just as would an explicit "hold" recommendation. Absent an agreement to monitor an account, Regulation BI does not apply to implicit hold recommendations.

**Legal Representative:** includes the non-professional legal representatives of a natural person, e.g., a non-professional trustee that represents the assets of a natural person. Regulation BI would not apply when the legal representative is acting in a legal capacity as a regulated financial services industry professional retained to exercise independent professional judgment. Therefore, recommendations to registered IAs and BDs or corporate fiduciaries would not trigger Regulation BI. On the other hand, recommendations to non-professional trustees, executors, conservators and persons holding power of attorney that represent natural persons are covered. The definition does not apply to financial industry professionals.

**Material facts (under Regulation BI):** Information is material if there is a substantial likelihood that a reasonable shareholder would consider it important.

**Monitoring accounts:** An agreement between the BD and the customer to provide account monitoring services. Monitoring may be incidental reviews of accounts to make recommendations and does not require IA registration. Through Form CRS firms are required to advise customers if they provide account monitoring services. BDs do not have a duty to provide account monitoring.

**Non-cash compensation:** Non-cash compensation includes any form of compensation, including but not limited to merchandise, gifts and prizes, travel expenses, meals and lodging.

**Personal, family, or household purposes:** The phrase "primarily for personal, family or household purposes" covers any recommendation to a natural person for his or her account, other than recommendations to a natural person seeking these services for commercial or business purposes. Regulation BI would not cover, for example, an employee seeking services for an employer or an individual seeking services for a small business or on behalf of another non-natural person entity, such as a charitable trust.

**Receives and Uses:** The SEC has stated that "use" means when, as a result of the recommendation: (a) the retail customer opens a brokerage account with the BD regardless of whether the BD receives compensation; (b) the retail customer has an existing account with the BD and receives a recommendation from the BD, regardless of whether the BD receives or will receive compensation, directly or indirectly, as a result of the recommendation; or (c) the BD receives or will receive compensation, directly or indirectly, as a result of that recommendation even if that retail customer does not have an account at the firm.

**Recommendation:** Interpreted in a manner consistent with current BD regulation under federal securities laws and FINRA rules.

**Relationship summary:** A written disclosure statement (Form CRS) that must be provided to retail investors when a recommendation is made (as defined in Reg BI).

**Retail customer:** A natural person (regardless of their financial status, including those previously qualifying as "institutional accounts" under FINRA's suitability rule) or the legal representative of such person who: (a) receives a recommendation for any securities transaction or investment strategy from a broker-dealer or associated person (whether or not the recommendation results in a securities transaction); and (b) uses the recommendation primarily for personal, family, or household purposes.

## 21 Complex Products (Liquid and Illiquid Alternative Funds)

FINRA Notice 22-08: <https://www.finra.org/rules-guidance/notices/22-08>; FINRA Notice 12-03: <https://www.finra.org/rules-guidance/notices/12-03>; FINRA Bulletin: <https://www.finra.org/investors/insights/lowdown-leveraged-and-inverse-exchange-traded-products>;

There is currently no standard definition of a "complex product." Because new products and strategies are constantly introduced, FINRA has construed the term "complex product" flexibly to avoid a static definition that may not address the evolution of financial products and technology. In Regulatory Notice 12-03, FINRA described characteristics that would render a product "complex."

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>Chief Compliance Officer, Supervision Department, and/or designee</li> </ul>
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### 21.1 Liquid and Illiquid Alternative Funds

#### Liquid Alternative Funds

Certain liquid investments, including but not limited to, such as public exchanged-traded products (ETPs) may be classified as complex depending on the facts and circumstances of the investment. Similarly, certain mutual funds may be classified as complex depending on the facts and circumstances of the mutual fund.

#### Leveraged and Inverse exchange-traded products

<b>Responsibility</b>	<ul style="list-style-type: none"> <li>Chief Compliance Officer, Supervision Department, and/or designee</li> </ul>
<b>Resources</b>	<ul style="list-style-type: none"> <li>Trade Surveillance Checklist</li> </ul>
<b>Frequency</b>	<ul style="list-style-type: none"> <li>Reasonable and periodic</li> </ul>
<b>Action</b>	<ul style="list-style-type: none"> <li>Conduct manual heightened supervisory searches for Inverse and Leveraged ETPs</li> <li>Ensure training is conducted prior to Inverse and Leveraged ETP solicitation</li> </ul>

Specific examples of exchange liquid alternative funds classified as a complex product are leveraged and inverse exchange traded products. ETPs typically seek to deliver set positive or negative multiples of the performance of a given benchmark or index over a given time period such as one day or one month. Among most of the currently listed leveraged and inverse ETPs, positive leverage factors are 1.5x, 2x, and 3x (that is, one-and-one-half, two and three times) and inverse factors are -0.5x, -1x, -2x and -3x. The vast majority of leveraged and inverse ETPs have a daily leveraged or inverse objective and reset their exposure factors each day. This means that the stated leverage or inverse factor objective they seek to provide is restricted to a single trading day, generally measured from the close of trading from one day to the close of trading on the next day. Each specific ETP's exposure factor depends on the facts and circumstances of each respective ETP.

Where there are sales of leveraged and inverse exchanged-traded products, the firm has focused on a risk-based and heightened supervisory review at the custody and clearing firm for the broker dealer. There are no exception reports or mechanisms to block the trades in liquid alternatives that are publicly registered, therefore when trade(s) occur they are reviewed and monitored during routine trade surveillance. However, during trade surveillance the supervisory department will conduct reasonable, periodic, and manual searches of transactions for leveraged and inverse exchange traded products. If during the risk-based review a transaction in a leveraged fund is identified which did not ordinarily trigger an exception, the supervisory department will assess whether the registered representative has a reasonable basis behind their recommendation. Factors to consider are that the customer has knowledge and experience in financial matters, is capable of evaluating the risks of the recommended transaction, and is financially able to bear the risks of the recommended position in the complex product. Transactions which are unsolicited are not recommendations by registered representatives, and therefore would not require supervisory assessment of the representative's reasonable basis.

The firm requires the selling RR to complete training on complex securities (including ETFs). For the specific case of leveraged and inverse funds, completion of training is required prior to an RR recommending a leveraged or inverse ETF. Once training is complete, there is no requirement for RRs to receive pre-approval on a transaction-by-transaction basis. Training may be conducted by the firm, third-party education agency, or other reasonable alternatives.

#### Resources

- <https://www.investor.gov/introduction-investing/general-resources/news-alerts/alerts-bulletins/investor-bulletins-2>
- <https://www.sec.gov/investor/pubs/leveragedetfs-alert>

## Designated Supervisors

### 1. TRAINING AND EDUCATION: Greg Gilbert

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

### 2. DESIGNATION OF SUPERVISORS AND OFFICES: Pietro Puducay

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

### 3. GENERAL EMPLOYEE POLICIES: Pietro Puducay

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

### 4. EMPLOYMENT, REGISTRATION AND LICENSING: Greg Gilbert

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

### 5. COMMUNICATIONS WITH THE PUBLIC: Pietro Puducay

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

### 6. FINANCIAL AND OPERATIONS PROCEDURES: Kristina Houser

Kristina Houser is the FINOP, and holds an active Series 27 license

### 7. ANTI-MONEY LAUNDERING (AML) PROGRAM Greg Gilbert & Pietro Puducay

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

### 8. ACCOUNTS: Pietro Puducay

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

### 9. ORDERS: Pietro Puducay

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

### 10. SUPERVISORY SYSTEM, PROCEDURES, AND CONTROLS: Greg Gilbert

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

### 11. OFFICES: Greg Gilbert

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

### 12. MUTUAL FUNDS AND OTHER INVESTMENT COMPANY PRODUCTS: Pietro Puducay

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

13. OPTIONS: Greg Gilbert

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters. Final approval for options activities is assigned to the ROP, Greg Gilbert.

14. MUNICIPAL SECURITIES: Greg Gilbert

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters. Final approval for municipal activities is assigned to the Municipal Principal, Greg Gilbert.

15. GOVERNMENT SECURITIES: Pietro Puducay

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

16. DIRECT PARTICIPATION PROGRAMS AND REITS: Pietro Puducay

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

17. INSURANCE PRODUCTS: Pietro Puducay

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

18. INDEPENDENT CONTRACTORS: Pietro Puducay

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

19. PRIVATE PLACEMENTS AND OFFERINGS: Pietro Puducay

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

20. REGULATION BEST INTEREST: Greg Gilbert

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

21. COMPLEX PRODUCTS (LIQUID AND ILLIQUID ALTERNATIVE FUNDS): Greg Gilbert

Given current scale, team of designated supervisors work collaboratively on all applicable lines of business, however specific supervisors concentrate on various chapters.

## ADDENDUM A: COMPLIANCE SYSTEMS

This addendum provides an overview of each system and the objective the systems accomplish from a supervision and compliance point of view.

- a. **Sycamore** (Tool/ System used to assist reps in their compliance responsibilities)
  - i. Submit OBAs for supervision review and any applicable compliance approval
  - ii. Submit Private Securities transactions for supervision review and any applicable compliance approval
  - iii. Submit social media attestations for any professional social media accounts approved by the firm
  - iv. Submit advertisement submissions for preapproval
  - v. CRM to store client information. Information includes key demographic information, financial information, KYC information, etc
  - vi. CRM to store advisor information. Information includes key demographic information, contract payout information, key professional information as it pertains to financial services (state registrations, insurance registrations, website links, advisor CRD, Branch CRD, rep ID, etc).
- b. **Docupace** (Tool/ System used for client-related documentation)
  - i. Submit secure new account applications. Applications are first reviewed by operations associates, then reviewed by appropriately registered firm principals, and reviewed compliance when applicable.
    - 1. New accounts opened with the firm will automatically include form CRS to be provided to compliance.
    - 2. Examples: Individual Brokerage Account, IRAs, Trust Accounts, Annuity contracts, etc
    - 3. Documents can be reviewed and signed by clients in several different ways.
      - a. Electronically, via secure DocuSign. Default submissions require multi factor authentication via SMS passcodes
      - b. Documents can be wet signed
        - i. Finalized documents can be uploaded to the secure portal to be reviewed by the operations associates, appropriately registered firm principals, and compliance when applicable
  - ii. Submit secure account maintenance requests. Requests are first reviewed by operations associates, then reviewed by appropriately registered firm principals, and reviewed compliance when applicable.
    - 1. Documents can be completed in several different ways
      - a. Electronically, via secure DocuSign. Default submissions require multi factor authentication via SMS passcodes
      - b. Documents can be wet signed
        - i. Finalized documents can be uploaded to the secure portal to be reviewed by the operations associates, appropriately registered firm principals, and compliance when applicable
    - iii. Documents deemed to be Not in Good Order are sent back to reps for completion

1. In compliance with 17a-4 requirements, any edits to the documents are serialized with version history. Users are not able to make edits to signed documents, and edits/ updates require new signature as required.
- iv. Documents deemed to be outright rejected are no approved, marked as rejected, and filed away in 17a-4 compliant storage. The storage is immutable, so any similar future business would require all new documents.
- c. **Prosurv** (Tool/ System used for trade surveillance)
  - i. Prosurv is the trade surveillance platform on the RBC platform. The trade surveillance platform service provider is FIS Compliance Suite (formerly Protegent).
  - ii. To remain in compliance with the trade surveillance requirements of Broker Dealers, Prosurv is utilized.
    1. Trades are reviewed by appropriately registered firm principals
    2. Trades are brought to the attention of compliance as needed

#### ***a. Systems Monitoring***

From the IFS perspective the systems are monitored by the supervisory staff under the direction of Pietro Puducay; and by the compliance staff under the direction of Greg Gilbert. If any data is missing or the systems are not performing as they should this is referred to Mr. Gilbert and/or Mr. Puducay.

Home office processors (i.e. clerical staff/associates) have access to the systems to complete their daily tasks, review for completeness, etc. However, the final review of any supervisory duties is be conducted by appropriately designated firm principals.

Monitoring by Sycamore, Docupace, and Prosurv is discussed below under the topic: “e. Systems Outages”.

#### ***b. Systems Review***

Systems are reviewed in real time by the IFS users as discussed above and by the vendors as described in “e. Systems Outages”.

#### ***c. Systems Access***

Access to the Systems will be overseen by Greg Gilbert, CCO (Compliance) Pietro Puducay (Supervision) and Krista Houser FINOP (Accounting). People with access will be compliance associates, supervisory associates, and accounting associates working under each department head. Registered Representatives will have access to Sycamore and Docupace with the most restricted profiles. Information barriers exist to limit their permissions to only access information as it pertains to the registered rep.

Home Office Processors have access to Sycamore and Docupace and will have limited firm level access. The home office processors are not be able to approve any items that pertains to supervision and they are limited to view only rights as it pertains to supervision. Home office processors will generally review for completeness and to ensure proper supervision, although their system rights lack the ability to approve supervision items.

Registered principals have access to Sycamore, Docupace, and Prosurv. The Registered principals have firm level access, the rights to review, and rights to approve items. On a case-by-case basis the registered principals will either escalate to compliance or ask compliance for clarification on how to proceed if circumstances require. Compliance escalation/clarification is generally needed when the registered principal is unsure on how to process an item based on instructions memorialized in the most recent version of the Firm's WSPs or internal operating procedures.

#### ***d. Systems User Training***

Period Training is provided by Docupace through their training department. IFS has contracted with Docupace for firmwide training in July 2020, December 2020 prior to release, and an updated post rollout firmwide for the fall of 2021. Subsequent trainings will be on a case-by-case basis. Sycamore Systems is on a retainer and provides training per the contract anytime the company has a request. It can be individual or group training unlimited in frequency. Prosurv is through RBC Correspondent Services and their trainings are offered periodically or ad hoc on a case-by-case basis.

All users will receive either internal training videos or schedule training sessions with subject matter experts. The training videos/ sessions are profile specific: registered reps, home office processors, and registered principals will have different training videos/sessions as they all have different user permissions and information barriers. Since firm principals have the greatest system access, they will undergo the largest training process.

#### ***e. Systems Outages***

*Should the systems experience outages and are unusable for an extended period, procedures will be as follows:*

In the event one or all of these systems go down IFS has a single point of contact in the organization. That is Greg Gilbert, CCO who will let all staff and Registered Reps core systems are down – and how- when it is back online. That designated person will assess the severity of the outage and direct people to a safe solution. The designated point person will direct staff and Registered Reps to the correct channel to communicate in an outage. That person communicates what the backup contingency plan is and what to do while in the outage that is impacting the organization.

IFS' vendors monitor their systems in real time with engineers that respond as any systems problems occur. In the short-term IFS will identify how to get back on line under Greg Gilbert's supervision and direction. Should he determine that an outage cannot be quickly resolved (i.e. typically 4 hours for brokerage activities; one business day for application based activities) IFS will access its Forms Library and physically print documents, and submit the documents via U.S. mail. Brokerage activities will be phoned directly to RBC as soon as RBC phone access is available.

#### **Sycamore:**

As noted above, Sycamore is a Salesforce deployed application. The Salesforce system includes a Salesforce Management attestation on their systems along with a third party (Ernst & Young) assurance report/ investigation of Salesforce.



### *Service Monitoring*

The covered services and supporting infrastructure are monitored for availability and performance by Sycamore. A real time alerting system will be triggered and alert on-call engineering team members if a defined reliability, availability, or performance threshold are exceeded.

### *Security Monitoring*

The covered Services are also monitored for security purposes. The Salesforce Security Detection and Response team provides centralized monitoring for malicious activity, open vulnerabilities, and indicators of compromise.

### *Availability Incident Management*

Personnel in offices worldwide support the continuous operations of Salesforce. The environment is monitored 24/7 through a follow-the-sun customer support model for reliability and performance. The site reliability team provides site monitoring, first response, and proactive triage and resolution. There are six SR Locations: 3 in the U.S (California, Virginia, and Massachusetts), Ireland, India, and Singapore. The SR team handles first and second tier support, with infrastructure engineers providing escalation support. Monitoring tools are automated and route potential issues, warnings, and problems to the SR team.

Real time monitoring of all production and sandbox instances is performed.

### Docupace:

The firm has a dedicated team that monitors system performance 24/7. In the event Docupace experiences an outage, we could work diligently to return our systems to normal operations and we test our ability to do so on an annual basis. IFS has a service level agreement (“SLA”) with Docupace support. Should errors occur IFS can reach out to its support managers, and the paramount issues can be designated with critical severity. Level 1 critical severity items are investigated immediately, and per the SLA with Docupace IFS will receive updates every 30 minutes. Additionally, IFS’ Service Level Agreement with Docupace Support specifically mentions that “Infrastructure components are monitored on a 24X7 Hour basis” as confirmed by the Chief Information Security officer, (“CISO”) of Docupace.

### Prosurv:

Prosurv is a product of RBC, a clearing firm that is regulated by FINRA/SEC and RBC has a robust business continuity plan and its systems should be up and running within 24-48 hours. Data generated during the outage will be populated into the application once the outage is resolved.

## ***f. Systems Testing and Frequency***

Generally, all Systems are verified on a daily basis. Because two of the three systems are integrated, daily examination and use of each Docupace and Salesforce will evidence if there are outages or errors in the systems. RBC and the Prosurve System notifications come through IFS’ Correspondent through calls and emails notifying of any outages. Those systems are checked no less than annually. Additional discussion appears below.

Sycamore: As noted above, Sycamore is a Salesforce deployed application. The Salesforce system includes a Salesforce Management attestation about their systems along with a third party (Ernst & Young) assurance report/ investigation of Salesforce.

Docupace: Docupace conducts annual disaster recovery testing to confirm its ability to quickly return to normal operations in the unlikely event of a system interruption.

Prosurv: Prosurv conducts rigorous on-going testing and the application is under Prosurv' SOC1. Depending on the service, testing can be done quarterly (e.g. best execution and order routing reports) or yearly. Additionally, IFS has direct access and communicates regularly with the RBC's Manager of Regulatory Risk who oversees the regulatory related systems testing.