BOUSTEAD SECURITIES, LLC WSP SECTIONS 11-20

Private Placement and Offerings 11.00

Introduction

Private placements and offerings allow companies to raise outside capital without the registration requirements of a full offering.

11.01 Supervisory Responsibility

The CEO is responsible for the approval of any Private Placement offered by representatives of the Firm. The CEO's approval must precede any solicitation or recommendation by a registered representative.

The Designated Principals are responsible for monitoring, supervising, and approving all private offering solicitation, recommendation or other transaction-related activities. The principal should review all documentation, reports, and information relating to the Firm's private placement activities including but not limited to:

- Suitability of any investor submitting an application or subscription agreement;
- Compliance with Regulation D or Reg A+ as applicable including but not limited to recommendations, solicitations and related communications;
- Delivery of all relevant disclosure documents
- Completion of investor profile documentation; and
- Approval of transaction prior to submission to Issuer.

11.02 Suitability/Due Diligence

It is the responsibility of the Firm to establish certain standards of suitability before participating in the private placement of securities.

Suitability (Customer Specific Suitability)

In recommending the purchase, sale, or exchange of a private securities offering, the Firm will make all reasonable efforts to monitor that, based on information provided, that:

- The customers 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 to the Firm or the registered representative;
- The customer has a significant financial position enough to realize the extent of financial benefits, to include tax benefits, as described in the prospectus;
- The customer has a sufficient net worth to sustain the potential risks of the program;
- The customer's investment portfolio is allocated appropriately in consideration of the investment;
- The program is otherwise suitable for the customer; and
- Documentation on the determination of suitability is complete.
- For EB-5 Offerings, when a customer is a foreign national who discloses to the Firm that he or she is seeking U.S. residency by investing in an EB-5 Program securities transaction, such information would become part of the customer's investment profile and must be considered when determining whether the recommended investment is suitable for the particular customer. In this situation, among other customer-specific considerations, the Firm will evaluate the investment in the context of the customer's goal of obtaining U.S. residency through purchasing an investment that is consistent with the requirements of the EB-5 Program. Further, investors in EB-5 offerings will be subject to AML/KYC requirements.

The Firm and/or registered representative shall use reasonable diligence to obtain and analyze all the factors delineated in Rule 2111(a) and Rule 4512 unless the Firm or associated person has a reasonable basis to believe that one or more of the factors are not relevant components of a customer's investment profile in light

of the facts and circumstances of the particular case. The Designated Principal will document with specificity under circumstances in which all factors are not considered by providing the CCO with a statement or statements regarding the rationale. In any such circumstance, the CCO shall be the final decision-maker as to the suitability determination for the investor relative to the product being recommended.

In certain situations, an investor may complete a subscription agreement. If the subscription agreement contains all information required by FINRA Rule 4512 and SEC 17a-3, the subscription agreement may be accepted as the governing suitability document for the account. If the subscription agreement does not contain adequate information the Designated Principal shall monitor that the Firm's profile, application or relevant document is completed in full. No application for a private placement will be deemed complete without the information required by Ruel 4512 and SEC 17a-3. Exceptions to this policy may be made only by the CCO.

If there is any missing information or follow-up needed on the subscription agreement, the compliance team member shall alert the Designated Principals or the CCO, or his/her designee, of missing information. Any missing items or follow-up questions are then directed back to the registered representative, who serves as the primary source of contact with the investor. Once the information is completed, the compliance team shall continue his/her review and send the suitability questionnaire to the CCO for approval. A record of each approval is maintained on sharefile.

At the same time, the operations team shall be alerted to the application for purposes of performing a background check. It is the responsibility of the operations team to run all background checks during this process and alert the Designated Principals or the CCO, or his/her designee, of completion such background checks.

The Firm acknowledges that participation in a private offering of securities may include the use of signed suitability questionnaire to determine customer suitability and whether the customer meets the definition of an accredited investor. The registered representative is responsible for ensuring the all suitability questionnaires are properly completed and that all documentation is maintained in a Sharefile, the Designated Principals supervise such registered representative.

Transactions performed on the FlashFunders portal shall follow the same essential protocol. On the portal, investors are instructed to complete the application, the suitability questionnaire, subscription agreement and they are provided with disclosures. The system requires information to be provided in full, as a condition of completion of the application. Following the completion by the investor, the workflow is technically applied, including operations review, verification of investor accreditation and ultimately CCO approval. The Firm shall have access to and will retain a record of each application, edits and changes and ultimate approval. These records shall be maintained on Sharefile.

Disclosure Requirements

In determining the disclosure requirements of material facts, the Firm will determine whether a reasonable effort was made by the Issuer to disclose all material information to the customer to accurately evaluate the program. Prior to approval of the product for recommendation to clients of the Firm, A Designated Principal shall perform a review including some or all of the following as per FINRA Rule 2310(b)(3) and subsequent guidance including NTM 10-22:

- Items of compensation;
- Physical properties;
- Tax aspects;
- Financial stability and experience of the sponsor;
- The offerings conflicts and risk factors; and
- Appraisals and other pertinent reports.

In conjunction with the aforementioned disclosure requirements, and in the event that A Designated Principal

approves the private offering, the Firm may rely on a due diligence inquiry from another firm if:

- There is a reasonable belief that the inquiry was conducted with due care;
- The results of the inquiry were provided to the Firm with the approval of those conducting the inquiry; and
- The inquiring firm is not a sponsor or affiliate sponsor of the offering.

Due Diligence (Reasonable Basis Suitability)

Prior to participating in a private offering, the Firm and any person associated with it shall have reasonable grounds to believe, based on information provided by the issuer, that all material facts are adequately and accurately disclosed in the offering memorandum or offering documents and provide a basis for evaluating the offering.

The Firm shall independently perform reasonable due diligence to include the following guidelines:

- Obtain and review the offering material and all background documents;
- Research the issuer's industry segment, including historical growth, economic influences and competitive factors;
- Analyze the issuer's historical financial results and projected business activity;
- Analyze the assets held by or to be acquired by the issuer as applicable;
- Review the issuer's management history; analyze its effectiveness and depth of experience;
- Use, where appropriate, the advice and guidance of an attorney, accountant, and/or other "due diligence" experts in the issuer's specific industry;
- Attend any "due diligence meetings" or other sessions providing an opportunity to meet the management and ask questions about the issuer and the offering;
- Create a reasonably comprehensive "due diligence" file for the offering, containing copies of documents, records of meetings, telephone conversations, visits, investigate claims being made etc.;
- Analyze the intended use of proceeds of the offering; and
- Research investor/customer to monitor that they are independent of the issuer (see below).
- For EB-5 Offerings, the Firm must analyze whether the private placement is consistent with the requirements of the EB-5 Program, such as whether it constitutes an investment in a domestic project that will create or preserve at least 10 jobs for U.S. workers, whether it is located within a targeted employment area, whether the repayment of the investment is not at risk, and whether a regional center is used.

See Section 17.02 for additional information regarding the due diligence process and checklist.

Due Diligence for Referral Fees

From time to time, a registered representative may refer a customer (e.g., potential investor) to invest in an offering in which the Firm or another broker-dealer has a referral agreement.

No referral shall be made until background checks on the principals and controlling shareholders of the issuer are completed and confirmed that there are no "bad actors". Once background checks are completed, the registered representative may provide the issuer with the customers contact information and must tell the customer the fee to be paid to the Firm as a result of the referral.

With regards to a referral, the registered representative must understand that FINRA has imposed a "duty to refrain" on the registered representative and the Firm, as applicable. Therefore, no registered representative may:

1. call the issuer on the customer's behalf;
2. send any documents to the customer regarding the issuer; or
3. answer any questions about the issuer or the investment.

11.03 Regulation D Offerings

Under the Securities Act of 1933, as amended, (the “Securities Act”) any offer to sell securities by a corporation must either register with the SEC or meet one of the available exemptions from such registration requirements. Regulation D provides three exemptions from the registration requirements, allowing some smaller companies to offer and sell their securities without having to register the securities with the SEC.

Regulation D is intended to be a basic element in limited offering exemptions consistent with the provisions of Sections 18 and 19(c) of the Securities Act. In those states that have adopted Regulation D, or any version of Regulation D, special attention should be directed to the applicable state laws and regulations, including those relating to registration of persons who receive remuneration in connection with the offer and sale of securities, to disqualification of issuers and other persons associated with offerings based on state administrative orders or judgments, and to requirements for filings of notices of sales.

Rule 501- Key Definitions of Terms

As used in Regulation D, the following term shall have the meaning indicated:

Definition of Accredited Investor

An "Accredited investor" shall mean any person who comes within any of the following categories, or who the issuer reasonably believes comes within any of the following categories, at the time of the sale of the securities to that person:

- Any bank as defined in Section 3(a)(2) of the Securities Act, or any savings and loan association or other institution as defined in Section 3(a)(5)(A) of the Securities Act whether acting in its individual or fiduciary capacity; any broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, as amended; any insurance company as defined in Section 2(13) of the Securities Act; any investment company registered under the Investment Company Act of 1940, as amended, or a business development company as defined in section 2(a)(48) of that Act; any Small Business Investment Company licensed by the U.S. Small Business Administration under section 301(c) or (d) of the Small Business Investment Act of 1958; any plan established and maintained by a state, its political subdivisions, or any agency or instrumentality of a state or its political subdivisions, for the benefit of its registered representatives, if such plan has total assets in excess of $5,000,000; any registered representative benefit plan within the meaning of the Employee Retirement Income Security Act of 1974 if the investment decision is made by a plan fiduciary, as defined in Section 3(21) of such Act, which is either a bank, savings and loan association, insurance company, or registered adviser, or if the registered representative benefit plan has total assets in excess of $5,000,000 or, if a self-directed plan, with investment decisions made solely by persons that are accredited investors;
- Any private business development company as defined in Section 202(a)(22) of the Investment Advisers Act of 1940, as amended;
- Any organization described in Section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts or similar business trust, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of $5,000,000;
- Any director, executive officer, or general partner of the issuer of the securities being offered or sold, or any director, executive officer, or general partner of a general partner of that issuer;
- Any natural person whose individual net worth, or joint net worth with that person's spouse or spousal equivalent, exceeds $1,000,000:
  (i) Except as provided in paragraph (a)(5)(ii) of this section, for purposes of calculating net worth under this paragraph (a)(5):
  (A) The person's primary residence shall not be included as an asset;
  (B) Indebtedness that is secured by the person's primary residence, up to the estimated fair market value of the primary residence at the time of the sale of securities, shall not be included as a liability (except that if the amount of such indebtedness outstanding at the time of sale of securities exceeds the amount outstanding 60 days before such time, other than as a result of the acquisition of the primary residence, the amount of such excess shall be included as a liability); and
  (C) Indebtedness that is secured by the person's primary residence in excess of the estimated fair market

value of the primary residence at the time of the sale of securities shall be included as a liability;

- Any natural person who had an individual income in excess of $200,000 in each of the two most recent years or joint income with that person's spouse or spousal equivalent in excess of $300,000 in each of those years and has a reasonable expectation of reaching the same income level in the current year;
- Any trust, with total assets in excess of $5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person as described in Rule 506(b)(2)(ii); or
- Any entity in which all of the equity owners are accredited investors.
- “knowledgeable employees,” as defined in Rule 3c-5(a)(4) under the Investment Company Act, of a private fund to qualify as accredited investors for investments in the fund. Rule 3c-5(a)(4) under the Investment Company Act defines a “knowledgeable employee” with respect to a private fund as: (i) An executive officer, director, trustee, general partner, advisory board member, or person serving in a similar capacity, of the private fund or an affiliated management person (as defined in Rule 3c-5(a)(1)) of the private fund; and (ii) an employee of the private fund or an affiliated management person of the private fund (other than an employee performing solely clerical, secretarial or administrative functions with regard to such company or its investments) who, in connection with his or her regular functions or duties, participates in the investment activities of such private fund, other private funds, or investment companies the investment activities of which are managed by such affiliated management person of the private fund, provided that such employee has been performing such functions and duties for or on behalf of the private fund or the affiliated management person of the private fund, or substantially similar functions or duties for or on behalf of another company for at least 12 months.
- Any natural person who holds certain professional certifications and designations and other credentials from an accredited educational institution as qualifying for accredited investor status, with such designation to be based upon consideration of all the facts pertaining to a particular certification, designation, or credential.
    - As of December 8, 2020 - the General Securities Representative license (Series 7), the Private Securities Offerings Representative license (Series 82), and the Licensed Investment Adviser Representative (Series 65) are the initial certifications, designations, or credentials designated by the Commission under Rule 501(a).
- Any Indian tribe, governmental body, fund or any entity organized under the laws of foreign countries, that own “investments,” as defined in Rule 2a51-1(b) under the Investment Company Act, in excess of $5,000,000 and that was not formed for the specific purpose of investing in the securities offered.
- Any limited liability company, SEC or state -registered Investment Adviser, Exempt Reporting Adviser or a rural business investment company (RBIC) with $5,000,000 in assets.
- Any family office with at least $5,000,000 in assets under management and their “family clients,” as each term is defined under the Investment Advisers Act.
- Any trust, with total assets in excess of $5,000,000, not formed for the specific purpose of acquiring the securities offered, whose purchase is directed by a sophisticated person as described in § 230.506(b)(2)(ii);

For purposes of these procedures and pursuant to the definition in FINRA Conduct Rule 3110(c)(4) the term “institutional account” shall mean the account of:

- A bank, savings and loan association, insurance company, or registered investment company;
- An investment adviser registered either with the Securities and Exchange Commission under Section 203 of the Investment Advisers Act of 1940 or with a state securities commission (or any agency or office performing like functions); or
- Any other entity (whether a natural person, corporation, partnership, trust, or otherwise) with total assets of at least $50 million.

The Designated Principals will review and verify that all underwriting customers complete a suitability questionnaire to determine if they meet to definition of an institutional account or an accredited investor.

Rule 502- General Conditions to be met

The following conditions shall be applicable to offers and sales made under Regulation D:

All sales that are part of the same Regulation D offering must meet all of the terms and conditions of Regulation D. Offers and sales that are made more than six (6) months before the start of a Regulation D offering or are made more than six (6) months after completion of a Regulation D offering will not be considered part of that Regulation D offering, so long as during those six (6) month periods there are no offers or sales of securities by or for the issuer that are of the same or a similar class as those offered or sold under Regulation D, other than those offers or sales of securities under an registered representative benefit plan as defined in Rule 405 under the Securities Act.

If the issuer offers or sells securities for which the safe harbor rule in paragraph (a) of Rule 502 is unavailable, the determination as to whether separate sales of securities are part of the same offering (i.e., are considered "integrated") depends on the particular facts and circumstances.

Generally, transactions otherwise meeting the requirements of an exemption will not be integrated with simultaneous offerings being made outside the United States in compliance with Regulation S (See Release No. 33-6863).

The following factors should be considered in determining whether offers and sales should be integrated for purposes of the exemptions under Regulation D:

- whether the sales are part of a single plan of financing;
- whether the sales involve issuance of the same class of securities; whether the sales have been made at or about the same time; and
- whether the same type of consideration is being received; and whether the sales are made for the same general purpose.

When Information must be furnished

If the issuer sells securities under Rule 505 or Rule 506 to any purchaser that is not an accredited investor, the issuer shall furnish the information specified in paragraph (b)(2) of this section to such purchaser a reasonable time prior to sale. The issuer is not required to furnish the specified information to purchasers when it sells securities under Rule 504, or to any accredited investor. Moreover, when an issuer provides information to investors pursuant to paragraph (b)(1), it should consider providing such information to accredited investors as well, in view of the anti-fraud provisions of the federal securities laws.

Type of Information to be furnished

If the issuer is not subject to the reporting requirements of section 13 or 15(d) of the Exchange Act, at a reasonable time prior to the sale of securities, the issuer shall furnish to the purchaser, to the extent material to an understanding of the issuer, its business, and the securities being offered:

Non-Financial Statement Information

If the issuer is eligible to use Regulation A, the same kind of information as would be required in Part II of Form 1-A. If the issuer is not eligible to use Regulation A, the same kind of information as required in Part I of a registration statement filed under the Securities Act on the form that the issuer would be entitled to use.

Financial Statement Information

- For offerings up to $2,000,000, the required information shall be in Item 310 of Regulation S-B, except that only the issuer's balance sheet, which shall be dated within 120 days of the start of the offering, must be audited;
- For offerings up to $7,500,000, the required financial statement information shall

be in Form SB-2. If an issuer, other than a limited partnership, cannot obtain audited financial statements without unreasonable effort or expense, then only the
issuer's balance sheet, which shall be dated within 120 days of the start of the offering, must be audited. If the issuer is a limited partnership and cannot obtain the required financial statements without unreasonable effort or expense, it may furnish financial statements that have been prepared on the basis of Federal income tax requirements and examined and reported on in accordance with generally accepted auditing standards by an independent public or certified accountant;

- For offerings over $7,500,000, the required financial statement information shall be
in a registration statement filed under the Act on the form that the issuer would be entitled to use. If an issuer, other than a limited partnership, cannot obtain audited financial statements without unreasonable effort or expense, then only the issuer's balance sheet, which shall be dated within 120 days of the start of the offering, must be audited. If the issuer is a limited partnership and cannot obtain the required financial statements without unreasonable effort or expense, it may furnish financial statements that have been prepared on the basis of Federal income tax requirements and examined and reported on in accordance with generally accepted auditing standards by an independent public or certified accountant; If the issuer is a foreign private issuer eligible to use Form 20-F, the issuer shall disclose the same kind of information required to be included in a registration statement filed under the Act on the form that the issuer would be entitled to use.If the issuer is subject to the reporting requirements of section 13 or 15(d) of the Exchange Act, at a reasonable time prior to the sale of securities, the issuer shall furnish to the purchaser the information
  - The issuer's annual report to shareholders for the most recent fiscal year, if such annual report meets the requirements of Rule14a-3 or Rule14c-3, the definitive proxy statement filed in connection with that annual report, and, if requested by the purchaser in writing, a copy of the issuer's most recent Form 10-K and 10- KSB;
    - The information contained in an annual report on Form 10-K or 10-KSB or in a registration statement on Form S-1, SB-1 , SB-2 or S-11 or on Form 10 or Form 10-SB , whichever filing is the most recent required to be filed;
  - The information contained in any reports or documents required to be filed by the issuer under sections 13(a), 14(a), 14(c), and 15(d) of the Exchange Act and a brief description of the securities being offered, the use of the proceeds from the offering, and any material changes in the issuer's affairs that are not disclosed in the documents furnished;
  - If the issuer is a foreign private issuer, the issuer may provide the information contained in its most recent filing on Form 20-F or Form F-1.

Exhibits required to be filed with the SEC as part of a registration statement or report, other than an annual report to shareholders or parts of that report incorporated in a Form 10-K and Form 10-KSB report, need not be furnished to each purchaser that is not an accredited investor if the contents of materials are identified and made available to a purchaser, upon his written request, a reasonable time prior to his purchase.

At a reasonable time prior to the sale of securities to any purchaser that is not an accredited investor in a transaction under Rule 505 or Rule 506, the issuer shall furnish to the purchaser a brief description in writing of any material written information concerning the offering that has been provided by the issuer to any accredited investor but not previously delivered to such unaccredited purchaser. The issuer shall furnish any portion or all of this information to the purchaser, upon his written request a reasonable time prior to his purchase.

The issuer shall also make available to each purchaser at a reasonable time prior to his purchase of securities in a transaction under Rule 505 or Rule 506 the opportunity to ask questions and receive answers concerning the terms and conditions of the offering and to obtain any additional information which the issuer possesses or can acquire without unreasonable effort or expense that is necessary to verify the accuracy of information furnished under Rule 502.

For business combinations or exchange offers, in addition to information required by Form S-4, the issuer shall provide to each purchaser at the time the plan is submitted to security holders, or, with an exchange, during the course of the transaction and prior to sale, written information about any terms or arrangements of the proposed transactions that are materially different from those for all other security holders.

At a reasonable time prior to the sale of securities to any purchaser that is not an accredited investor in a transaction under Rule 505 or Rule 506, the issuer shall advise the purchaser of the limitations on resale.

Limitations on Resale

Except as provided in Rule 504(b)(1), securities acquired in a transaction under Regulation D shall have the status of securities acquired in a transaction under section 4(2) of the Act and cannot be resold without registration under the Act or the appropriate exemption. The issuer shall exercise reasonable care to assure that the purchasers of the securities are not underwriters within the meaning of section 2(11) of the Act, which reasonable care may be demonstrated by the following:

- Reasonable inquiry to determine if the purchaser is acquiring the securities for himself or for other persons;
- Written disclosure to each purchaser prior to sale that the securities have not been registered under the Act and, therefore, cannot be resold unless they are registered under the Act or unless an exemption from registration is available; and;
- Placement of a legend on the certificate or other document that evidences the securities stating that the securities have not been registered under the Act and setting forth or referring to the restrictions on transferability and sale of the securities.

Limitations on Solicitation and Advertising

Except as provided in Rule 504(b)(1) and 506(c), neither the issuer nor any person acting on its behalf shall offer or sell the securities by any form of general solicitation or general advertising, including, but not limited to, the following:

- Any advertisement, article, notice or other communication published in any newspaper, magazine, or similar media or broadcast over television or radio; and;
- Any seminar or meeting whose attendees have been invited by any general solicitation or general advertising;

Designated Principals are responsible for oversight of communications and monitoring for imappropriate solicitations. The Designated Principals shall report incidents that may represent violations to the CCO.

Rule 503- Filing of Notice of Sales

The following are the notice and filing requirements for Reg D offerings. The Firm's Designated Principals are required to monitor that all of the proper filings are made for each of a Reg D offering:

- An issuer offering or selling securities in reliance on Rule 504, Rule 505 or Rule 506 shall file with the SEC five (5) copies of a notice on Form D (17 CFR 239.500) no later than 15 days after the first sale of securities;
- One copy of every notice on Form D shall be manually signed by a person duly authorized by the issuer;
- If sales are made under Rule 505, the notice shall contain an undertaking by the issuer to furnish to the SEC, upon the written request of its staff, the information furnished by the issuer under Rule 502(b)(2) to any purchaser that is not an accredited investor;
- Amendments to notices filed under paragraph (a) of this Rule 503 need only report

the issuer's name and the information and any material change in the facts;

- A notice on Form D shall be considered filed with the SEC under Rule 503 as of the date on which it is received at the SEC's principal office in Washington, D.C.; or as of the date on which the notice is mailed by means of U.S. registered or certified mail to the SEC's principal office in Washington, D.C., if the notice is delivered to such office after the date on which it is required to be filed.

Rule 504- Exemptions for Limited Offers and Sales of Securities Not Exceeding $1,000,000

Offers and sales of securities that satisfy the conditions in Rule 504 by an issuer that is not:

- subject to the reporting requirements of section 13 or 15(d) of the Exchange Act;
- an investment company; or
- a development stage company that either has no specific business plan or purpose or has indicated that its business plan is to engage in a merger or acquisition with an unidentified company or companies, or other entity or person, shall be exempt from the provisions of section 5 of the Act under section 3(b) of the Act.

General Conditions
The aggregate offering price for an offering of securities under Rule 504, as defined in Rule 501(c), shall not exceed $1,000,000, less the aggregate offering price for all securities sold within the twelve (12) months before the offering of securities under this Rule in reliance on any exemption under section 3(b), or in violation of section 5(a) of the Securities Act.
To qualify for exemption under this Rule 504, offers and sales must satisfy the terms and conditions of Rule 501 and Rule 502(a), (c) and (d), except that the provisions of Rule 502(c) and (d) will not apply to offers and sales of securities under this Rule 504 that are made:

- Exclusively in one or more states that provide for the registration of the securities, and require the public filing and delivery to investors of a substantive disclosure document before sale, and are made in accordance with those state provisions;
- In one or more states that have no provision for the registration of the securities or the public filing or delivery of a disclosure document before sale, if the securities have been registered in at least one state that provides for such registration, public filing and delivery before sale, offers and sales are made in that state in accordance with such provisions, and the disclosure document is delivered before sale to all purchasers (including those in the states that have no such procedure); or
- Exclusively according to state law exemptions from registration that permit general solicitation and general advertising so long as sales are made only to "accredited investors" as defined in Rule 501(a).

Although there may be no specific disclosure delivery requirements for this type of sale, the Firm must, however, avoid violating the antifraud provisions of the securities laws when engaging in this activity. As such, the Firm will monitor that any information provided to investors must be free from false or misleading statements or information.

Rule 505- Exemptions for Limited Offers and Sales of Securities Not Exceeding $5,000,000

Offers and sales of securities that satisfy the conditions of Rule 505 by an issuer that is not an investment company shall be exempt from the provisions of section 5 of the Act under section 3(b) of the Act.

General Conditions
To qualify for exemption under this section, offers and sales must satisfy the terms and conditions of Rule 501 and Rule 502.

Specific Conditions

- The aggregate offering price for an offering of securities under Rule 505 shall not exceed $5,000,000, less the aggregate offering price for all securities sold within the twelve (12) months before the start of the offering of securities under Rule 505;
- The issuer reasonably believes that there are no more than 35 purchasers of securities from the issuer in any offering under Rule 505;
- No exemption under this section shall be available for the securities of any issuer described in Regulation A, except under certain circumstances.

Under this exemption, the company may sell to an unlimited number of "accredited investors" and up to 35 other persons who need not satisfy the sophistication or wealth standards associated with other exemptions. Purchasers must buy for investment only, not for resale, as the issued securities are restricted. Consequently, a company must inform investors that they may not sell for at least a year without registering the transaction. The company may not use general solicitation or advertising to sell the securities.

As long as it does not violate the antifraud provisions, the company may decide what information to give accredited investors. However, the company must give non-accredited investors disclosure documents that generally are the same as those used in registered offerings. If it provides information to accredited investors, it must make this information available to the non-accredited investors as well. The company must also be available to answer questions by prospective purchasers.

Rule 506 (b) Exemption for Limited Offers and Sales without Regard to Amount of Offering

Rule 506 is a "safe harbor" for the private offering exemption. The company can be assured that it satisfies the Section 4(2) exemption if it satisfies the following standards:

- The company can raise an unlimited amount of capital;
- The company cannot use general solicitation or advertising to market the securities;
- The company can sell securities to an unlimited number of accredited investors (see Rule 505) and up to 35 other purchasers. Unlike Rule 505, all non-accredited investors, either alone or with a purchaser representative, must be sophisticated; they must have sufficient knowledge and experience in financial and business matters to be capable of evaluating the merits and risks of the prospective investment;

- The company may decide what information to give accredited investors, as long as it does not violate the antifraud prohibitions. However, it must give non-accredited investors disclosure documents that generally are the same as those used in registered offerings. If it provides information to accredited investors, it must make this information available to the non-accredited investors as well;
- The company must be available to answer questions by prospective purchasers; Financial statement requirements are the same as for Rule 505; and
- Purchasers receive restricted securities. Consequently, purchasers may not freely trade the securities in the secondary market after the offering.

11.04 Accredited Investor Exemption – Section 4(6)

Section 4(6) of the Securities Act exempts from registration offers and sales of securities to accredited investors when the total offering price is less than $5,000,000. The definition of accredited investors is similar to that used in Regulation D. This exemption does not permit any form of advertising or public solicitation and there are no document delivery requirements. All transactions are subject to the antifraud provisions of the securities laws. The Designated Principals for Regulation D offerings are also responsible for ensuring that all offerings are in compliance with all applicable rules and regulations.

11.05 Regulation A Offerings

Section 3(b) of the Securities Act authorizes the SEC to exempt from registration small securities offerings. By this authority, the SEC created Regulation A, an exemption for public offerings not exceeding $5 million in any 12-month period. If it chooses to rely on this exemption, the company must file with the SEC an offering statement consisting of a notification, offering circular, and exhibits.

Regulation A offerings share many characteristics with registered offerings. For example, a company must provide a purchaser with an offering circular that is similar in content to a prospectus. Like registered offerings, the securities can be offered publicly and are not restricted, meaning they can be traded freely in the secondary market after the offering.

In comparison to that of a full registration process, some of the advantages of Regulation A offerings are as follows:

- Financial statements are often simpler and do not require auditing of such books and records;
- There are no Exchange Act reporting obligations after the offering unless the company has more than $10 million in total assets and more than 500 shareholders; Companies may choose among three formats for the offering circular, one of which is a simplified question-and-answer document; and A company may "test the waters" to determine if adequate interest in its securities exists before going through the expense of filing with the SEC.

All types of companies which do not report under the Exchange Act may use Regulation A, except "blank check" companies (those with an unspecified business) and investment companies registered or required to be registered under the Investment Company Act of 1940. In most cases, shareholders may use Regulation A to resell up to $1.5 million of securities.

If it "tests the waters," a company can use general solicitation and advertising before filing an offering statement with the SEC. By doing so, the company can gauge market interest before incurring the full range of legal, accounting, and other costs associated with filing an offering statement. The company may not, however, solicit or accept money until the SEC staff completes its review of the filed offering statement and the company delivers prescribed offering materials to investors.

The Designated Principals shall discuss with outside counsel whether the Firm is qualified to conduct an offering under Regulation A.

11.06 Regulation S Offerings

Regulation S is a safe harbor from registration requirements in the United States for the offer and sale of securities to investors outside the United States. The Designated Principals should take notice that a Regulation S underwriting can be extremely complex and extensive in nature. As a result, the Designated Principals have an obligation to monitor that the Firm completely reviews all applicable laws, rules and regulation, both foreign and domestic, as they apply to Regulation S.

Note: The following information is intended to be an overview for the Designated Principals, further research and review is required for each specific underwriting as warranted.

Prior to conducting Regulation S offering, the Designated Principals shall monitor that such an exemption applies to the underwriting. The Designated Principals shall review potential investors in the Regulation S underwriting to monitor that none of the purchasers are U.S. Citizens or U.S. companies. Furthermore, the principal shall monitor that the securities may not be resold U.S. citizen unless certain exemptions apply. Securities that are sold under the Regulation S exemptions are considered restricted stock under SEC Rule 144. As such, the Designated Principals must monitor that such securities are not resold unless such a transaction is done so under specific conditions of Regulation S. The principal must also monitor that purchasers does not engage in any hedging transaction with these securities or use promissory notes to pay for securities.

11.07 Rule 144A Offerings

Rule 144A permits the private resale of securities to institutional purchasers. The Designated Principals are

responsible for reviewing all potential purchasers to monitor that they meet the standards for a Qualified Institutional Buyer before a purchase is made. The principal is also responsible for making written notification to inform each purchaser that the transaction is being conducted under an SEC Rule 144A exemption. Such notification shall also confirm the Firm's acknowledgement and understanding that the purchaser is a Qualified Institutional Buyer as defined in the rule.

Internally, the Designated Principals are responsible to notify traders as to which securities are being sold under SEC Rule 144A restrictions. The principal must also notify the Financial and Operations Principal (FINOP) for net capital computation purposes if the Firm acquires or takes on any Rule 144A securities in its inventory.

The Designated Principals will monitor that all records, including notification, offering memorandum and any other documents associated with the offering, will be maintained and preserved according to SEC Rules 17a-3 and 17a-4.

Control and restricted stock may only be sold if the stock is registered or an exemption is available. SEC Rule 144 under the Securities Act of 1933 is the typical exemption used to sell control or restricted stock. In general, Rule 144 can be summarized as follows:

- the issuer must be a reporting company under the Exchange Act and must be current in its SEC filings.
- For restricted stock, the holder must have been the beneficial owner for at least one year at the time of the sale.
- Sales in any three-month period by any person may not exceed the greater of (a) on percent (1%) of the shares outstanding or (b) the average weekly volume for the four full calendar weeks prior to the sale.
- Sales must be either in an agency transaction without solicitation of the buyer or directly to a market maker.
- A notice on Form 144 must be completed and sent to the SEC and to the principal exchange, if any, on which the security is listed at the time the order is placed. If the amount to be sold does not exceed 500 shares and a value of $10,000, Form 144 need not be filed.

If the owner of the securities has beneficially owned the securities for at least two years and is not an officer, director, or other shareholder by virtue of their influence or control over the management of such issuer for at least three months prior to the proposed sale, the restrictions noted above do not apply.

The sale of restricted stock must be coordinated with the issuer, its counsel, the seller, and the transfer agent as there are a number of technical requirements, which must be complied with. Holders of control or restricted securities may also find it convenient to sell their holdings under an effective registration, often called a shelf registration. Like restricted stock, sales under shelf registrations must receive prior approval from the Designated Principal. Sales of stock obtained by the seller in a Rule 145 transaction involving a corporate business combination must also be cleared by the Supervisory Principal. The Exchange Act prohibits officers, directors and ten percent shareholders from engaging in short sales. Representatives should not accept orders for short sales of an issuer's securities from such persons. Designated Principals are responsible for monitoring for compliance and shall report potential violations to the CCO.

11.08 Best Efforts Distribution of Securities (SEC Rule 15c2-4)

Prohibited Representations in Connection with Certain Offerings

In accordance with SEC Rule 10b-9, the Firm and any registered representatives, in connection with the offer or sale of any security, are prohibited from making any representation:

- To the effect that the security is being offered or sold on an "all-or-none" basis, unless the security is part of an offering or distribution being made on the condition that all or a specified amount of the consideration paid for such security will be promptly refunded to the purchaser unless (i) all of the securities being offered are sold at a specified price within a specified time, and (ii) the total amount due to the seller is received

by him by a specified date; or

- to the effect that the security is being offered or sold on any other basis whereby all or part of the consideration paid for any such security will be refunded to the purchaser if all or some of the securities are not sold unless the security is part of an offering or distribution being made on the condition that all or a specified part of the consideration paid for such security will be promptly refunded to the purchaser unless (i) a specified number of units of the security are sold at a specified price within a specified time, and (ii) the total amount due to the seller is received by him by a specified date.
- This rule shall not apply to any offer or sale of securities as to which the seller has a firm commitment from underwriters or others (subject only to customary conditions precedent, including "market outs") for the purchase of all the securities being offered.

Designated Principals are responsible for monitoring for compliance and shall report potential violations to the CCO.

Best Efforts Distribution of Securities (SEC Rule 15c2-4)

SEC Rule 15c2-4 applies to best efforts distributions of securities. The Rule details rules and regulations for distributions that are conducted on an “all-or-none” basis, and/or any other basis where payment is not made to the issuer until a predetermined event or contingency occurs.

Under this rule, broker-dealers are required to take one of the following actions concerning customer funds:

(1) Promptly deposit funds received by the investor into a separate bank account, as agent or trustee for the investors; or
(2) Promptly transmit such funds to a bank escrow agent, pending the occurrence of the contingency.

The Rule is intended to protect investor funds in an offering from unlawful activities by, or to financially benefit the broker-dealer participating in the offering. The division of investor and broker-dealer funds is to monitor that the issuer will receive the full proceeds promptly upon occurrence of a predetermined contingency. Should the contingency of the offering fail to occur, the Rule protects the investor by compelling the broker-dealer to promptly reimburse all funds to investors.

As stated above, the Firm may be obligated to pursue a specific course of action when customer funds are invested. The firm’s minimum net capital requirement shall determine if the Firm is to act as an agent/trustee or simply transmit such funds to an escrow account. A broker-dealer with a $25,000 net capital requirement has two options in dealing with investor funds, including:

(1) Act as agent or trustee for a separate bank account until the contingency occurs; or
(2) Transmit the monies to an unaffiliated bank to hold the funds in escrow for the investors until the contingency occurs.
(3)

A broker-dealer with a $ 5,000 net capital requirement may only receive and promptly transmit investors' checks which are made payable to an unaffiliated bank escrow agent. Under the Rule, such a broker-dealer is prohibited from holding customer funds or accepting funds made payable to the broker-dealer.

SEC Rule 15c2-4 does not apply to the following securities:

- Money market funds;
- Corporate equity or debt securities;
- Repurchase agreements;
- Bankers acceptances;
- Commercial paper;
- Municipal securities.

11.09 Interstate Offerings

The firm may choose to participate in an offering in which the issue is sold only to residences of the state in

which the issuer is located. These offerings are referred to as intrastate offerings, and exemption for such offerings are provided under Section 3(a)11 of the Securities Act of 1933. Section 3(a)(11) permits securities to be offered and/or sold only to individuals who reside and/or do business in the same state or territory as the issuer. SEC Rule 147 addresses some of the finer points involved with an issue offered under Section 3(a)(11).

Issuer

The Designated Principals are responsible to monitor that the issuer of the offering qualifies for the exemptions offered under Section 3(a)(11). The principal must verify that the Firm is incorporated within the state it is making the offering in and that it maintains its principal executive offices within the state as well. Furthermore, the principal must monitor that the issuer derives 80% of its revenue and maintains 80% of its assets within the state, and that 80% of the offering proceeds will be used in the state as well.

Purchaser

Finally, the principal must monitor that the securities offered are being sold to individuals who are domiciled in the same state as the issuer. These securities must be sold to individuals who intend to purchase for investment purposes and will not sell the securities for a period of at least nine months. Designated Principals are responsible for monitoring for compliance and shall report potential violations to the CCO.

The Designated Principals shall evidence all reviews of the issuer and clients as it relates to Rule 147. Such documentation will be maintained and preserved according to SEC Rules 17a-3 and 17a-4.

11.10 Private Placements of Delaware Statutory Trusts (DSTs) Interests

When DSTs are offered and sold together with other arrangements, they generally would constitute investment contracts and thus securities under the federal securities laws. An investment contract includes any contract, transaction or scheme in which persons invest their money in a common enterprise, with the expectation of profits to be derived predominantly from the efforts of others. DST interests are generally investment contracts because investors invest in an undivided fractional interest in the rental real property by pooling their assets and sharing in the risks and benefits of the enterprise, while obtaining profits derived predominantly from the efforts of others, such as through contracts concerning leasing, management and operation of the acquired property. In addition to managing the property, DST sponsors typically structure the DST and negotiate the sale price and the loan. The fact that investors in a particular DST program might have authority to terminate a management contract, or even to maintain or repair the property, would not demonstrate that the DST interest is not an investment contract.

Application of FINRA Rules to DST Exchanges

DST interests are a type of non-conventional investment ("NCI"). In accordance with NTM 03-71 and NTM 05-18, the firms that are engaged in the sale of NCIs must monitor that those products are offered and sold in a manner consistent with the firm's general sales conduct obligations, as well as address any special circumstances presented by the sale of those products. Among the issues highlighted in the referenced notices are firms' responsibilities to:

- conduct appropriate due diligence;
- perform a reasonable-basis suitability analysis;
- perform customer specific suitability analysis for recommended transactions;
- monitor that promotional materials used by the Firm are fair, accurate,
- and balanced
- implement appropriate internal controls;
- enforce appropriate recordkeeping requirements and
- provide appropriate training to registered persons involved in the sale of these products.

Suitability and Due Diligence

Before recommending a DST exchange, the Firm must have a clear understanding of the investment goals and current financial status of the investor. In many cases, a DST interest will constitute a significant portion of an investor's total assets. Because of the favorable tax treatment, investors often elect to invest the entire proceeds from the sale of an investment property in a DST exchange.

Concentration of an investor's assets in a single asset class, however, is not suitable for many investors. The Firm must, with respect to each customer for whom they make a recommendation, consider the risks from over-concentration against the benefits of tax deferral and the investment potential of the underlying real estate asset(s).

DST interests are illiquid securities. The investors form of ownership may require unanimous consent to sell a DST interest. The subsequent sale of DST interests may only be possible at a significant discount to the net asset value of the undivided interest in the real estate. As fees charged in connection with a DST exchange increase, the money saved as a consequence of tax deferral will be offset. Accordingly, the Firm should consider the effect of fees on each DST exchange

DST exchange sponsors routinely obtain legal opinions regarding whether a particular DST's offering structure will qualify as a like-kind exchange of real property under Section 1031. Given the importance of that tax treatment, the Firm should obtain a "clean" legal opinion that a DST "should" or "will" qualify for exchange under Section 1031. If a sponsor failed to obtain a legal opinion, or only obtained a "more likely than not" opinion, that would be a material fact. In such a case, the Firm, as part of its due diligence responsibilities would be required to ascertain the specific tax status risks of the DST exchange and inform the investor of the risks involved. (Ref. NTM 05-18).

Payment of Referral Fees

Real estate agents sometimes refer their customers to broker- dealers that offer DST exchanges. Moreover, some states may require that a licensed real estate agent participate in the transfer of a DST interest to an investor. A broker-dealer that pays a fee to the real estate agent or splits its brokerage commissions with the agent in connection with a DST exchange may be deemed to have violated Rule 2420. This rule generally prohibits the payment of commissions and fees to entities that operate (or based on the proposed activities, would operate) as unregistered broker-dealers.

Under Section 3(a)(4)(A) of the Securities Exchange Act of 1934, a "broker" is defined as a person "engaged in the business of effecting transactions in securities for the account of others." Section 15(a) of the Exchange Act sets forth the general registration requirements for brokers and dealers. The determination of whether an entity should be registered as a broker-dealer rests with the SEC. Among the activities the SEC staff has found require registration are:

- receiving transaction-based compensation;
- participating in presentations or negotiations;
- making securities recommendations or discussing or presenting the
- attributes of a securities investment
- structuring securities transactions; and
- recommending lawyers, underwriters, or broker-dealers for the distribution or marketing of securities in the secondary market.

The SEC staff may deem a real estate agent's receipt of a referral fee from a broker-dealer in connection with the sale of a DST interest to be the type of activity that would render the real estate agent an unregistered broker-dealer. Therefore, under Rule 2420, the Firm may not pay a real estate agent who is not registered as a broker-dealer for participating in the transfer of a DST interest that is structured as a security, nor may the Firm pay such real estate agent for referring DST business that involves securities. The Firm also may not evade Rule 2420 through indirect payments; for example, the Firm may not engage in an arrangement in which it reduces its normal commission for a DST exchange so that the customer will pay the difference to the

real estate agent for participating in the DST exchange or for referring business to the broker-dealer. (Ref. NTM 05-18).

Licensing, Supervision and Recordkeeping

Associated persons selling DST interests pass the appropriate qualification examinations. Because DSTs are typically structured as direct participation programs ("DPPs"), associated persons who sell them generally must pass either the Series 7 or the Series 22 (Limited Representative- Direct Participation Program securities). In addition, most states require the Series 63 State Agent's license. Also, as with any security, a DST interest transaction must be reviewed and endorsed by a qualified principal in accordance with the Firm's supervisory procedures. A qualified principal for supervising DST interests would be either a General Securities Principal (Series 24) or a DPP principal (Series 39). (Ref. NTM 05-18).

Private Offering Exemption

Many DST transactions are conducted without registration under the Securities Act of 1933 as private placements, most in reliance on Regulation D under that statute. Please refer to the Firm's procedures regarding Regulation D private placements.

Designated Principals are responsible for monitoring for compliance with these policies and procedures and shall report potential violations to the CCO.

11.11 Mergers and Acquisition Services

Due Diligence (Initial Document Request List)

The Firm require the use of certain documentation checklists to facilitate the capture of client data for due diligence purposes. More specifically, the Firm will request the following documentation with respect to its mergers and/or acquisition services:

1. Articles of Incorporation (including all amendments)
2. By-Laws
3. Acquisition Agreements
4. Employment Agreements, Consulting Agreements and Confidentiality/Non-Compete Agreements with employees & contractors
5. Customer Agreements
6. Supplier Agreements
7. Licensing Agreements
8. Distribution Agreements
9. Lease Agreements for offices/facilities or other significant property
10. All other significant contracts to which the company is a party
11. Revenue contributed by each major service or product for the last two fiscal years and forecast for the current fiscal year
12. List of major customers and revenues received from each such customer for the last two fiscal years and forecast for the current fiscal year.
13. Current sales pipeline
14. Accounting records
15. Insurance declaration pages

Fairness Opinions

Fairness opinions assist directors in fulfilling their fiduciary obligations. Under the business judgment rule, a corporate board of directors is protected from liability to a company's shareholders for decisions made in good faith, in an informed manner and on a rational basis. A number of courts have held that directors can fulfill their fiduciary duty of care by relying in good faith on fairness opinions. Fairness opinions typically provide that the opinion is for the use and benefit of the board of directors, but the opinions are disclosed in various SEC

forms and investors often refer to them.

The SEC's proxy rules require that when a company's board of directors obtains a fairness opinion that is referred to in the proxy statement, the opinion must be fairly summarized and describe:

- the procedures followed;
- findings and recommendations;
- bases for and methods of arriving at such findings and recommendations;
- any instruction received from the subject company concerning the investigation; and
- any limitation imposed by the subject company on the scope of the investigation

It is recommended that broker-dealer firms establish procedures on the identification and disclosure of any conflicts by firms that provide fairness opinions in corporate control transactions. Such a procedure could require a firm to provide in any fairness opinion that will be included in a proxy statement a clear and complete description of any significant conflict of interest by the Firm, including, if applicable, that the Firm has served as an advisor on the transaction in question and the nature of compensation that the Firm will receive upon the successful completion of the transaction (including any variance or contingency in the fee charged for the fairness opinion). Such procedures also could require a broker-dealer firm to disclose the extent to which the Firm relied on key information supplied by a company or its management, or whether it independently verified certain information.

The new procedures that firms must follow to guard against conflicts of interest in rendering fairness opinions. Such procedures also could address the substantive factors used by firms in reaching a fairness opinion. These procedures could address:

- the process by which fairness opinions are approved by a firm, including whether the Firm uses a fairness committee, and, if so, the selection of personnel for the fairness committee, the level of experience of such persons, procedures designed to provide balanced review, and whether steps have been taken to require review by persons whose compensation is not directly related to the underlying transaction of the fairness opinion;
- the process to determine whether the valuation analyses used are appropriate for the type of transaction and the type of companies that propose to participate in the transaction; and
- the process to evaluate the degree to which the amount and nature of the compensation from the transaction underlying the fairness opinion benefits any individual officers, directors or employees, or class of such persons, relative to the benefits to shareholders of the company, is a factor in reaching a fairness determination.

11.12 Public Investment in Private Equity (PIPEs)

PIPE transactions are privately issued equity or equity-linked securities that are sold to accredited investors under Regulation D by public companies. PIPE issuers range in size from small OTC Bulletin Board companies to large-cap NYSE-traded companies. Transaction sizes have ranged from under $1 million to over $200 million.

Within the spectrum of equity alternatives for a publicly traded company, a PIPE transaction generally best fits companies with a market capitalization under $400 million that seek an equity infusion of less than $75 million. Traditional public equity alternatives include add-on equity offerings ("secondary" or follow-on offerings) and 144A convertible securities. These transactions are typically underwritten and require extensive institutional and/or retail distribution networks. Due to the need for liquidity in the secondary trading market for these types of securities, as well as the overhead requirement on the part of the underwriter, the minimum transaction size can range from $65 million to $100 million to achieve optimal execution for traditional public offerings.

While a PIPE transaction is marketed to a limited number of investors over a short period of time, a traditional public transaction may require a broader marketing process and, in the case of an add-on offering, the filing of a registration statement with the SEC prior to pricing. This filing process tends to create an overhang in the market, resulting in an "announcement effect" on the issuer's stock. This announcement effect has been studied, and most practitioners use a proxy of a 15% decline in the stock price prior to pricing. For companies

that are able to access traditional public alternatives for larger amounts (typically above $75 million), pricing at the close of the transaction may be more issuer- friendly than a PIPE transaction due to broader marketing and the lack of any liquidity discount associated with receiving unregistered securities. However, careful review of the entire process must be conducted to determine the full array of strengths and weaknesses associated with each alternative.

ISSUER CONSIDERATIONS

Following are the benefits a potential issuer may consider when evaluating a PIPE transaction:

- Does not require SEC registration prior to offering
- Allows for a more flexible transaction size than traditional public alternatives
- Improves balance sheet strength and financial flexibility
- Offers greater confidentiality and eliminates typical price declines on filing of traditional public offering (“announcement effect”)
- Requires minimal preparation before launch
- Increases issuer’s trading liquidity levels and diversifies shareholder base
- Allows for a targeted marketing process, reducing management’s time contribution

PIPE TRANSACTION TYPES

PIPE transactions may be issued in a variety of forms, including registered common stock (“registered directs”), unregistered common stock, convertible preferred stock, convertible debt and equity credit lines (“ECLs”).

Registered Direct Common Stock	Common stock issued under an existing and effective registration statement. Essentially a traditional add-on offering marketed to, and negotiated with, a select investor universe vs. broad marketing from an institutional and retail sales force. This security offers the investor the benefits of receiving registered shares. Issuers have the benefit of mitigating a liquidity discount and broadening the investor base.
Common Stock	Common stock issued as a private placement under RegulationD with an agreement to register the shares as soon as possible after the transaction closes. Provides investors with the ability to build a position in a security and enables the issuer to quickly and quietly access the equity market. A liquidity discount is typically incorporated into the pricing due to the fact that the investor is unable to trade the shares until they are registered.
Convertible Preferred or Convertible	Equity-linked security structured as preferred stock or Debt subordinated debt. The security is issued as a private placement with an agreement to register the underlying shares as soon as possible after the transaction closes. Provides an investor with a senior position relative to the common shareholders as well as current income in the form of a dividend or coupon. Provides an issuer with broad flexibility with regard to structure and the ability to issue stock at a premium to a straight common stock alternative. Issuers should understand that convertible transactions tend to cause “overhang” in the market, i.e., the downward pressure on stock prices due to the existence of a sizeable block of securities that will be released into the market. Depending on the structure, consideration should also be given to rating agency treatment and senior debt covenants, if applicable.
Equity Credit Line	A contractual agreement between an issuer and investor that enables the investor to purchase a formula-based quantity of stock

at set intervals of time, typically monthly, at future stock prices. Formulas tend to be based on trading liquidity. An effective registration statement must be maintained in order for drawdowns to be completed.

11.13 FINRA Rule 5122 Member Private Offerings & Finra Rule 5123 Private Placement

Disclosure Requirements

FINRA believes that every investor in an MPO should receive basic information concerning the offering. Consequently, Rule 5122(b)(1) requires firms to provide a written offering document to each prospective investor in an MPO, whether or not accredited, and that the offering document disclose the intended use of offering proceeds as well as offering expenses and selling compensation. If the offering has a private placement memorandum or term sheet, then such memorandum or term sheet must be provided to each prospective investor and must contain these disclosures. If the offering does not have a private placement memorandum or term sheet, then the Firm must prepare an offering document that discloses the intended use of offering proceeds as well as offering expenses and selling compensation. The rule does not require a particular form of disclosure.

Filing Requirements

Rule 5122(b)(2) requires that the Firm file a private placement memorandum, Term sheet or other offering document with FINRA's Corporate Financing Department at or prior to the first time such document is provided to any prospective investor. The firm must also file any amendments or exhibits to the offering document with FINRA within ten days of being provided to any investor or prospective investor. The filing requirement is intended to allow FINRA staff to identify those offering documents that are deficient "on their face" from the other requirements of the rule. Offering documents should be submitted as PDFs to the Corporate Financing Department via email at corpfin@finra.org. Firms must include their CRD number for identification purposes as part of their email submission. As provided in the rule, information filed with FINRA pursuant to FINRA Rule 5122 will be subject to confidential treatment. In addition, the rule imposes no additional requirements regarding the filing of advertisements or sales materials, which continue to be governed by NASD Rule 2210.

Filing Responsibilities

A Senior Managing Director, shall make the 5122 filing. The Senior Managing Director may rely on one or more of the Designated Principles for information regarding the filing's accuracy and timeliness. See separate attachment for individual names associated with titles.

Use of Offering Proceeds

Rule 5122(b)(3) requires that each time an MPO is closed at least 85 percent of the offering proceeds raised be used for business purposes (excluding offering costs, discounts, commissions or any other cash or non-cash sales incentives). The use of offering proceeds also must be consistent with the required disclosures to investors, as described above. This requirement was created to address abuses where firms or control entities used substantial amounts of offering proceeds for selling compensation and related party benefits, rather than business purposes. The rule, however, does not limit the total amount of underwriting compensation, although no more than 15 percent of the money raised from investors in the private placement could be used to pay underwriting expenses. This percentage is consistent with the limitation of offering fees and expenses, including compensation, in FINRA Rule 2310 (Direct Participation Programs), and the North American Securities Administrators Association (NASAA) guidelines with respect to public offerings subject to state regulation.

Finra Rule 5123- Private Placements (Filing requirements/Exemptions)

(a) Filing Requirements

Each firm that sells a security in a non-public offering in reliance on an available exemption from

registration under the Securities Act ("private placement") must: (i) submit to FINRA, or have submitted on its behalf by a designated member, a copy of any private placement memorandum, term sheet or other offering document, including any materially amended versions thereof, used in connection with such sale within 15 calendar days of the date of first sale; or (ii) indicate to FINRA that no such offering documents were used.

(b) Exemptions

The following private placements are exempt from the requirements of this Rule:

(1) offerings sold by the Firm or person associated with the Firm solely to any one or more of the following:

(A) institutional accounts, as defined in Rule 4512(c);
(B) qualified purchasers, as defined in Section 2(a)(51)(A) of the Investment Company
(C) qualified institutional buyers, as defined in Securities Act Rule 144A;
(D) investment companies, as defined in Section 3 of the Investment Company Act;
(E) an entity composed exclusively of qualified institutional buyers, as defined in Securities Act Rule 144A;
(F) banks, as defined in Section 3(a)(2) of the Securities Act;
(G) employees and affiliates, as defined in Rule 5121, of the issuer;
(H) knowledgeable employees as defined in Investment Company Act Rule 3c-5;
(I) eligible contract participants, as defined in Section 3(a)(65) of the Exchange Act; and
(J) accredited investors described in Securities Act Rule 501(a)(1), (2), (3) or (7).

(2) offerings of exempted securities, as defined in Section 3(a)(12) of the Exchange Act;
(3) offerings made pursuant to Securities Act Rule 144A or SEC Regulation
(4) offerings of exempt securities with short term maturities under Section 3(a)(3) of the Securities Act and debt securities sold by firms pursuant to Section 4(2) of the Securities Act so long as the maturity does not exceed 397 days and the securities are issued in minimum denominations of $150,000 (or the equivalent thereof in another currency);
(5) offerings of subordinated loans under SEA Rule 15c3-1, Appendix D (see NASD Notice to Members 02-32 (June 2002));
(6) offerings of "variable contracts," as defined in Rule 2320(b)(2);
(7) offerings of modified guaranteed annuity contracts and modified guaranteed life insurance policies, as referenced in Rule 5110(b)(8)(E);
(8) offerings of non-convertible debt or preferred securities that meet the transaction eligibility criteria for registering primary offerings of non-convertible securities on Forms S-3 and F-3;
(9) offerings of securities issued in conversions, stock splits and restructuring transactions that are executed by an already existing investor without the need for additional consideration or investments on the part of the investor;
(10) offerings of securities of a commodity pool operated by a commodity pool operator, as defined under Section 1a (11) of the Commodity Exchange Act;
(11) business combination transactions as defined in Securities Act Rule 165(f);
(12) offerings of registered investment companies;
(13) standardized options, as defined in Securities Act Rule 238; and
(14) offerings filed with FINRA under Rules 2310, 5110, 5121 and 5122, or exempt from filing there under in accordance with Rule 5110(b)(7).

(c) Filing Responsibilities

A Designated Principal or a designee, shall make the 5123 filing. See separate attachment for individual names associated with titles.

11.14 Municipal Securities Advisory Services

A municipal financial advisory relationship shall be deemed to exist when a broker, dealer, or municipal securities dealer renders or enters into an agreement to render financial advisory or consultant services to or on behalf of an issuer with respect to the issuance of municipal securities, including advice with respect to the structure, timing, terms and other similar matters concerning such issue. For purposes of this rule, a financial advisory relationship shall not be deemed to exist when, in the course of acting as an underwriter and not as a financial advisor, a broker, dealer or municipal securities dealer renders advice to an issuer, including advice

with respect to the structure, timing, terms and other similar matters concerning the issuance of municipal securities.

The Firm does not currently offer Municipal Securities Advisory Services and in the event the Firm elects to provide such services, the Firm will establish procedures for such services.

11.15 Foreign Finders

The Firm may pay to a nonregistered foreign person (the "finder") transaction-related compensation based upon the business of customers the finder directs to the Firm if the following conditions are met:

(1) the Firm has assured itself that the finder who will receive the compensation is not required to register in the United States as a broker-dealer nor is subject to a disqualification as defined in Article III, Section 4 of FINRA's By-Laws, and has further assured itself that the compensation arrangement does not violate applicable foreign law;
(2) the finder is a foreign national (not a U.S. citizen) or foreign entity domiciled abroad;
(3) the customers are foreign nationals (not U.S. citizens) or foreign entities domiciled abroad transacting business in either foreign or U.S. securities;
(4) customers receive a descriptive document, similar to that required by Rule 206(4)-3(b) of the Investment Advisers Act, that discloses what compensation is being paid to finders;
(5) customers provide written acknowledgment to the Firm of the existence of the compensation arrangement and such acknowledgment is retained and made available for inspection by FINRA;
(6) records reflecting payments to finders are maintained on the Firm's books, and actual agreements between the Firm and the finder are available for inspection by FINRA; and
(7) the confirmation of each transaction indicates that a referral or finders fee is being paid pursuant to an agreement.

For purposes of FINRA Rule 2040, FINRA expects the Firm to determine that their proposed activities would not require the recipient of the payments to register as a broker-dealer and to reasonably support such determination. If the Firm is uncertain as to whether an unregistered person may be required to be registered under Section 15(a) of the Exchange Act by reason of receiving payments from the Firm can derive support for their determination by, among other things, (1) reasonably relying on previously published releases, no-action letters or interpretations from the SEC or their staff that apply to their facts and circumstances; (2) seeking a no-action letter from the SEC staff; or (3) obtaining a legal opinion from independent, reputable U.S. licensed counsel knowledgeable in the area. The Firms' determination must be reasonable under the circumstances and should be reviewed periodically if payments to the unregistered person are ongoing in nature. In addition, the Firm must maintain books and records that reflect the Firm's determination.

The Designated Principals shall be responsible for supervising and reviewing all agreements with foreign finders and for determining compliance with FINRA Rule 2040.

Exhibit A: New account form on the FlashFunders portal

Profile

This information is used to verify your identity and create your investor account. All information is stored securely and used solely for the purpose of investing on FlashFunders.

1 **AMOUNT** 2 PROFILE 3 SIGN DOCS 4 FUND

INVESTMENT PROFILE

Select to invest as an individual or as a legal entity where you are an authorized signatory. If you have any questions, you can contact us at: investors@flashfunders.com

INVEST AS AN INDIVIDUAL

Invest and execute agreements in your own name.

INVEST AS AN ENTITY

Invest as a legal entity (such as an LLC, trust, partnership, or corporation) where you are an authorized representative.

PERSONAL INFORMATION

First Name | MI | Last Name

Date of Birth Why? | SSN / Tax ID Why?

mm/dd/yyyy | ###-##-####

CONTACT

Address Line 1 (P.O. Boxes not accepted) | Address Line 2

Country | City

Select One

State / Province / Region

- Not Applicable -

Zip / Postal Code

Contact Phone

ID INFORMATION Why?

ID Type

Select One

ID Number

Place of Issuance

Issue Date

mm/dd/yyyy

Expiration Date

mm/dd/yyyy

Are you a U.S. citizen?

Yes

No

EDUCATION INFORMATION

Provide your present, or most recent, educational institution you attended.

Institution

From

mm/yyyy

To

mm/yyyy

Degree

Select One

Please list all other educational institutions you have attended (including colleges and specialized training schools). If you have no additional educational institution to list, please so state. Please use the following format for each additional entry. E.x. Institution, From-To, Degree.

EMPLOYMENT INFORMATION

Provide your present employment history. If currently retired or unemployed, please provide your last/most recent employment history.

Employment Status

Select One

Role / Occupation

Employer Name

Years with this Employer

Select One

In addition to the above, provide any additional business experience or other occupations held during the last 10 years. If the above employment entry is the only occupation held in the last 10 years, please so state. Please use the following format for each additional entry. E.x. Employment Status, Role/Occupation, Employer Name, Years with this Employer.

Describe, in greater detail, your present or most recent business or occupation. Provide such information as the nature of your employment, the principal business of your employer, the principal activities under your management or supervision and the scope (e.g., dollar volume, industry rank, etc.) of such activities.

Describe any significant business you engage in or intend to engage in other than as specified above.

INVESTOR SUITABILITY

Investment opportunities on FlashFunders in restricted securities of private or thinly traded enterprises are inherently speculative/aggressive and high-risk, with liquidity time horizons potentially several years away. Investors on FlashFunders MUST be comfortable with the risk of losing their entire investment.

The following questionnaire will help us determine your personal investor profile and whether an investment on FlashFunders aligns with your financial goals and investment strategy. These answers will directly determine if your investment will be accepted.

RISK TOLERANCE

- **Speculative.** You are willing to accept substantial risk. May endure extensive volatility and very limited liquidity. Values maximizing long-term returns over principal preservation.
- **Aggressive.** You are willing to accept considerable risk. May endure high volatility and limited liquidity. Values long-term appreciation over principal preservation.
- **Moderate.** You are willing to accept limited risk. May endure some volatility and illiquidity. Values enhancing returns and principal preservation equally. You are willing to risk losing MUCH of your investment.
- **Conservative.** You are willing to accept low risk for greater stability and liquidity. Values minimizing risk and maximizing principal preservation.

INVESTMENT OBJECTIVES

What is your primary investment objective? (select one)

Select One

If Other, provide other investment objective.

TIME HORIZON AND LIQUIDITY NEEDS

From the dropdown menu, indicate your time horizon and liquidity needs:

Time Horizon

Select One

Liquidity Needs

Select One

INCOME, NET WORTH, AND TAX STATUS

From the dropdown menu, indicate your annual income, net worth, and tax rate:

Annual Income

Select One

Net Worth

Select One

Liquid Net Worth

Select One

Tax Rate (Highest Marginal)

Select One

From the dropdown menu, indicate your net worth, after making this investment and exclusive of homes, furnishings, and automobiles:

Select One

Provide in the space below the underlying source of the funds in which will be used to remit payment for this investment. (e.g. profits of business, investment income, savings, etc.)

INVESTMENT EXPERIENCE

From the dropdown menu, indicate the length of time of prior experience in the areas of investment listed below:

Stocks & Bonds

Select One

Penny Stocks

Select One

Private Placements

Select One

Other Securities for which no market exists

Select One

Government Securities

Select One

Municipal (tax-exempt) Securities

Select One

Stock Options

Select One

Commodities

Select One

Real Estate Programs

Select One

Limited Partnerships (tax deferred)

Select One

Investments generally

Select One

For those investments for which you indicated "2 years or more" above, do you make your own investment decisions with respect to such investments? (Select the appropriate box with respect to your involvement in making investment decisions)

Decisions

Select One

What are your principal sources of investment knowledge or advice? (Select at least one)

- ☐ First-hand experience with industry
- ☐ First-hand current industry licensure or credential
- ☐ Financial Publication(s)
- ☐ Trade or Industry Publication(s)
- ☐ Financial Advisor(s)
- ☐ Banker(s)
- ☐ Broker(s)
- ☐ Attorney(s)
- ☐ Accountant(s)
- ☐ Other

If other, provide other investment knowledge.

From the dropdown menu, indicate the value that best represents your current holdings in the following investment types:

Brokerage

Select One

Commodities

Select One

REITs / BDCs

Select One

Restricted Investments

Select One

Other Investments

Select One

From the dropdown menu, indicate the percentage of your net worth invested in restricted securities (e.g. private placements):

Select One

From the dropdown menu, indicate the approximate number and total dollar amount of your prior investments in restricted securities (e.g. private placements):

No. of Investments

Select One

Total Amount

Select One

Provide in the space below any additional information which would indicate that you have sufficient knowledge and experience in financial and business matters so that you are capable of evaluating the merits and risks of investing in restricted securities of private or thinly traded enterprise.

From the dropdown menu, indicate the length of time you have maintained each type of account over which you, rather than a third-party, exercise investment discretion.

Securities (cash)

Select One

Securities (margin)

Select One

Commodities

Select One

INDUSTRY AND OTHER AFFILIATIONS

Are you, your spouse, or any other immediate family members, including parents, in-laws, and siblings that are dependents, an officer, director or greater than ten percent (10%) shareholder of the Company offering securities?

Yes No

Are you, your spouse, or any other immediate family members, including parents, in-laws, and siblings that are dependents, employed by or associated with the securities industry (for example, investment advisor, sole proprietor, partner, officer, direct, branch manager or broker at a broker/dealer firm or municipal securities dealer) or a financial regulatory agency, such as FINRA or the New York Stock Exchange?

Yes No

If Yes, provide the name and contact information for such firm.

Are you a senior military, governmental or political official in a non-US country?

Yes No

If Yes, provide the name of the country.

Did anyone at Boustead Securities, LLC or Sutter Securities, Inc. recommend the investment to you?

Yes No

If yes, provide the name of the broker.

TRUSTED CONTACT PERSON INFORMATION (OPTIONAL)

By choosing to provide information about a trusted contact person, you authorize us to contact the trusted contact person listed below and disclose information about your account to that person in the following circumstances: to address possible financial exploitation, to confirm the specifics of your current contact information, health status, or the identity of any legal guardian, executor, trustee or holder of a power of attorney, or as otherwise permitted by FINRA RULE 2165 (Financial Exploitation of Specified Adults):

Name Phone

###-###-####

Finish Later Save and Continue

11.16 Illiquid Securities - Concentration

The Designated Principals responsible for reviewing client investments will consider the investor's concentration of investments in illiquid securities. The review may involve, but will not be limited to an assessment of the percentage of illiquid investments versus other liquid investments held by the client, a review of the concentration of illiquid investments in the context of the client's income needs and other sources of income, consideration of the overall risk profile and/or investment objectives of the client. The Designated Principals may, at their discretion, take action when concentration of illiquid investments represents potential for undue risk in a particular client situation including but not limited to contact with the client to discuss the risk, consultation with the registered representative associated with the account, refusal to accept the investment, or other such action.

OTC Corporate Fixed Income Securities & TRACE 12.00

Introduction

The Firm has elected to engage in the trading of corporate fixed income securities (otherwise referred to as "fixed income securities") issued by public and private corporations. Therefore, in the course and scope of engaging in a fixed income securities business, the Firm will act in accordance with FINRA Rule Series 6700 and other relevant rules and regulations as set forth herein.

12.01 General Supervision of Fixed Income Trading

The Firm will create and implement effective procedures for the supervision of customer accounts and orders relating to the trading of fixed income securities. In order to properly supervise all activities associated with fixed income securities, the Firm shall designate an appropriately qualified principal (or principals) to supervise such activities, as well as identify all related responsibilities involving the supervision of the Firm's fixed income trading business.

12.02 Trade Reporting and Compliance Engine ("TRACE")

The SEC approved proposed rules that will require FINRA firms to report OTC secondary market transactions in eligible fixed income securities to FINRA, in addition to requiring the dissemination of certain transaction reports. Prices on these trades are then shown to the investing public, subject to certain restrictions and limitations, for purposes of ascertaining comparability.

As a result, FINRA developed the Trade Reporting and Compliance Engine (TRACE) in order to facilitate this mandatory reporting. All broker-dealers who are FINRA firms have an obligation to report eligible secondary market, over-the-counter transactions in corporate bonds to TRACE under an SEC-approved set of rules.

Key Definitions

The following is a brief list of some of the key definitions as they apply to the Trade Reporting and Compliance Engine ("TRACE") in accordance with FINRA Rule 6710:

Trade Reporting and Compliance Engine ("TRACE"). The automated system developed by FINRA that, among other things, accommodates reporting and dissemination of transaction reports where applicable in TRACE-eligible securities.

TRACE-eligible security. All United States dollar denominated debt securities that are depository eligible securities under Rule 11310(d); Investment Grade or Non-Investment Grade; issued by United States and/or foreign private issuers; and: (1) registered under the Securities Act; or (2) issued pursuant to Section 4(2) of the Securities Act and purchased or sold pursuant to Securities Act Rule 144A. The term "TRACE-eligible security" excludes debt issued by government- sponsored entities, mortgage- or asset-backed securities, collateralized mortgage obligations, and money market instruments. For purposes of the Rule 6700 Series, the term "money market" instrument means a debt security that at issuance has a maturity of one year or less. (Ref. NTM 09-24)

Reportable TRACE Transaction. Any secondary market transaction in a TRACE eligible security except transactions exempt from reporting as specified in Rule 6730(e) transactions in TRACE-eligible securities that are listed on a national securities exchange registered under section 6 of the Securities Exchange Act of 1934, when such transactions are executed on, and reported to the exchange and the transaction information is disseminated publicly, or transactions in any TRACE-eligible security that is listed and quoted on NASDAQ, rather than only convertible debt securities, provided that the other two requirements for the exemption are also present (i.e., the transaction is reported to NASDAQ and the information is publicly disseminated). (Ref. NTM 07-61)
Parties to the transaction. A customer, in addition to an introducing broker-dealer, if any, and an executing

broker-dealer. Also, for the purposes of FINRA Rule 6710(e), "customer" includes a broker-dealer that is not a FINRA firm. (Ref. NTM 03-12)

TRACE Participant. Any FINRA firm that directly or indirectly reports transactions to the TRACE system.

Investment Grade. Any TRACE-eligible security rated by a nationally recognized statistical rating organization in one of its four highest generic rating categories.

Non-Investment Grade. Any TRACE-eligible security that is unrated, non- rated, split-rated (where one rating falls below Investment Grade), or otherwise does not meet the definition of Investment Grade.

Split-rated. Any Investment Grade or a Non-Investment Grade security that is assigned ratings by multiple nationally recognized statistical rating organizations for an Investment Grade security, are not in the same generic Investment Grade rating category, or, for a Non-Investment Grade security, are not in the same generic Non-Investment Grade rating category. (NTM 04-65; effective September 3, 2004)

Participation in TRACE

In accordance with FINRA Rule 6720, firm participation in TRACE for trade reporting purposes is mandatory. Such mandatory participation obligates the Firm to submit transaction reports in TRACE-eligible securities in conformity with the FINRA Rule 6700 Series. Participation in TRACE is contingent upon the TRACE Participant's initial and continuing compliance with the following requirements:

- Execution of, and continuing compliance with, a TRACE Participant application agreement and all applicable rules and operating procedures of FINRA and SEC; and
- Maintenance of the physical security of the equipment located on the premises of the TRACE Participant to prevent unauthorized entry of information into TRACE.

As a TRACE Participant, the Firm shall notify FINRA of non-compliance with, or changes to, any of the aforementioned participation requirements.

Participation Obligations in TRACE

A TRACE Participant, the Firm may begin to input and validate all relevant trade information in TRACE-eligible securities once FINRA has received and executed the Firm’s TRACE Participant application agreement. TRACE Participants may access the service via an FINRA-approved facility during the hours of operation.

Clearing Obligations

As a TRACE Participant, the Firm understands that in the event that it fails to maintain a clearing arrangement, it shall be removed from the TRACE system until such time as a clearing arrangement is re-established and notice of such arrangement is provided to FINRA. If, however, FINRA finds that the Firm’s failure to maintain a clearing arrangement is voluntary, the withdrawal will be considered voluntary and unexcused.

12.03 Securities Classifications for TRACE Reporting Rules

Transactions/Securities Subject to Mandatory Trade Reporting

- Fixed income transactions that must be reported under the new TRACE Rules are those OTC secondary market transactions involving a "TRACE-eligible security";
- The term "TRACE-eligible security" means all United States dollar denominated debt securities that are depository-eligible securities; Investment Grade and Non- Investment Grade (as defined in the TRACE Rules); issued by United States and/or foreign private corporations; and: (1) registered with the SEC; or (2) issued pursuant to Section 4(2) of the Securities Act of 1933

(Securities Act) and purchased or sold pursuant to Rule 144A under the Securities Act;
- The term "TRACE-eligible security" specifically excludes debt securities that are not depository eligible; sovereign debt; development bank debt; mortgage- or asset-backed securities, collateralized mortgage obligations, and money market instruments.

The following classes of securities are subject to TRACE reporting rules:

- Investment grade debt (including Rule 144A/DTC-eligible issues);
- High yield and unrated debt of the U.S. companies' foreign private companies (including Rule 144A/DTC-eligible issues);
- Medium term notes;
- Convertible debt;
- Capital trust companies;
- Equipment trust companies;
- Floating rate notes;
- Global bonds issued by U.S. companies and foreign private companies.

The following classes of securities are not subject to TRACE reporting rules:

- Non-U.S. dollar denominated securities;
- Debt securities that are not depository-eligible
- Sovereign debt;
- Development bank debt;
- Debt of Government-sponsored entities that including agency bonds;
- Mortgage- or asset-backed securities;
- Collateralized mortgage obligations;
- Money market instruments.

12.04 Trade Reporting Obligations in TRACE

The Firm is obligated to report both sides of every transaction in eligible corporate bonds. TRACE will accept the trade reports of reporting firms or their designated third-party reporting intermediaries. The reporting party is determined as follows:

Transaction Parties	Reporting Obligation
Two FINRA firms	The Buy and Sell sides A FINRA firm and a non-
FINRA firm	The FINRA firm A FINRA firm and a customer The FINRA firm

Note: FINRA firms cannot qualify each other as "customers." Only an end customer (a non-FINRA firm institution or retail account) can be designated "C" (for Customer) in the trade report.

Reporting Transaction Information

It is the Firm's policy that each TRACE trade report shall contain the following information:

- CUSIP number or FINRA symbol;
- Transaction price (or the elements necessary to calculate price, which are contract amount and accrued interest);
- Number of bonds;
- A transaction symbol indicating buy or a sell order;
- Date of Trade Execution (as/of trades only);
- Contra-party's identifier;
- Capacity -Principal or Agent (with riskless principal reported as principal);
- Time of trade execution;
- Reporting side executing broker as "give-up" (if any);
- Contra side Introducing Broker in case of "give-up" trade;

- Stated commission;
- Trade modifiers as required by TRACE rules or the TRACE users guide; and
- Yield as required by SEC Rule 10b-10 (See Note below)

Note: Regarding the lower of yield to call or yield to maturity, the Firm is not required to report yield when the TRACE-eligible security is a security that is in default, a security for which the interest rate is floating; a security for which the interest rate will be or may be increased (e.g., certain "step-up bonds") or decreased (e.g., certain "step-down bonds") and the amount of increase or decrease is an unknown variable; a pay-in-kind security ("PIK"); any other security where the principal or interest to be paid is an unknown variable or is an amount that is not currently ascertainable, or any other security that the Association designates if the Association determines that reporting yield would provide inaccurate or misleading information concerning the price of, or trading in, the security. When yield is not reported and the reporting method chosen provides a "memo" field, the reason must be stated in the "memo" field.

Reporting Agency Transactions

In order to capture a complete audit trail for regulatory use, agency transactions need to be reported in the same way that principal transactions are reported. What this means is that if your firm acts as agent for your customer, the trade reports you must submit will “look” like you stood between your customer and the contra party.

Another aspect to be careful of is the calculation of yield for agency transactions. The yield you report must be inclusive of commissions charged, which is in line with what is done for customer confirmations. The yield is a corollary of price. The general understanding with regard to agency trades is that you “Buy Plus Commission”, and “Sell Less Commission”. It is the customer that is buying plus the commission, but the TRACE trade reports are always from the FINRA firm’s point of view. Therefore, when you incorporate the commission charged into the price for yield calculation, you must SUBTRACT the commission on BUY trade reports, and ADD the commission on SELL trade reports. This makes sense, because when the customer is Buying, the Firm is Selling, based on the way the reports must be made.

Transaction Reporting Time Requirements

Each firm that is a Party to a Transaction in a TRACE-Eligible Security must report the transaction. The firm must report transaction information within 15 minutes of the Time of Execution, except as otherwise provided below, or the transaction report will be “late.” The firm must transmit the report to TRACE during TRACE System Hours.

Firms have an ongoing obligation to report transaction information promptly, accurately, and completely. The firm may employ an agent for the purpose of submitting transaction information; however, the primary responsibility for the timely, accurate, and complete reporting of transaction information remains the non-delegable duty of the Firm obligated to report the transaction. The firm may be required to report as soon as practicable to the Market Regulation Department on a paper form, the transaction information required under Rule 6730 if electronic submission into TRACE is not possible. Transactions that can be reported into TRACE, including transactions executed on a Saturday, Sunday or holiday as provided in (a)(4) above, and trades that can be submitted on the trade date or on a subsequent date on an "as/of" basis, shall not be reported on a paper form.

Transactions in TRACE-Eligible Securities That Occur in Connection with Options, Credit Default Swaps (CDSs), Other Swaps or Similar Instruments

Currently, the TRACE System accepts reports on transactions in TRACE-eligible securities resulting from the exercise or settlement of an option or a similar instrument, or the termination or settlement of a CDS, other type of swap or a similar instrument (collectively, Derivative-Related Transactions). As amended, FINRA Rule 6730 exempts such Derivative-Related Transactions from the TRACE reporting requirements. FINRA determined that Derivative-Related Transactions should be exempt from TRACE reporting because the

information regarding price (and yield) being reported to FINRA and disseminated to the public does not reflect currently negotiated transaction prices.
Further, reporting and dissemination of certain Derivative-Related Transactions does not foster price discovery and may contribute to investor confusion. In addition, because prices from Derivative-Related Transactions do not contribute to price discovery, the costs of continuing to require such reporting, including potential investor confusion, support exempting such transactions from TRACE reporting and dissemination.

In a related amendment to Rule 6710(c), FINRA simplified the defined term, “reportable TRACE transaction,” to exclude generally any transaction exempted under Rule 6730(e).
Because such Derivative-Related Transactions will no longer be reported, FINRA also is rescinding NTM 05-77 (November 2005), which provides guidance regarding the reporting of such transactions to TRACE. NTM 05-77 is rescinded effective December 13, 2007 (Notice 07-61; Dec. 2007)

Procedures for Reporting Price, Capacity, Volume

For principal transactions, the Firm must report the price, which must include the mark-up or mark-down. (However, if a price field is not available, report the contract amount and the accrued interest.) For agency transactions, report the price, which must exclude the commission. (However, if a price field is not available, report the contract amount and the accrued interest.)

For agency and principal transactions, the Firm must report the actual number of bonds traded, with $1,000 par value equal to 1 bond. If a bond has a par value of less than $1,000 ("baby bond") or the par value is not an even multiple of $1,000, report the fractional portion of $1,000 in decimals.

For in-house cross transactions, the Firm must report two transactions, which are the Firm's purchase transaction and the Firm's sale transaction.

Non-Reportable Transactions

The following types of transactions shall not be reported:

- Transactions that are part of a primary distribution by an issuer;
- Transactions in securities that are listed on a national securities exchange, when such transactions are executed on and reported to the exchange and the transaction information is disseminated publicly, and transactions in convertible debt securities that are listed and quoted on Nasdaq, when such transactions are reported to Nasdaq and the transaction information is disseminated publicly; and
- Transactions where the buyer and the seller have agreed to trade at a price substantially unrelated to the current market for the TRACE- eligible security.

12.05 Review of TRACE System Alerts and Daily Lists

TRACE System Alerts
System Alerts are messages generated to quickly notify you of system and market warnings. System Alerts will notify you of system-related issues, such as system open, early close, and administrative broadcast messages, as well as trading-related issues, such as halts, etc., on a particular security. The System Alerts page is reached by clicking on the Alerts menu option on the menu bar. The resulting page will list all the alert messages broadcasted for the current date.

Daily Lists

The Daily List is a summary of the additions, deletions, and symbol changes made to the TRACE securities master file on a given day. This can give you a “heads up” on changes in your trade reporting responsibilities. Clicking on the Daily List menu item will take you directly to the most recent Daily List available. You can view previous Daily Lists by clicking on the yearly links at the upper-right part of the page.

12.06 "Give Up" Arrangements (GUs) vs. "Automatic Give Up" Arrangements (AGUs)

Differences between a "Give Up" and an AGU

A "Give Up" trade report is reported by one FINRA firm on behalf of another FINRA firm who had a reporting responsibility. In order to do this, "Give Up" agreements are required for every firm for which the reporting firm will submit. A simple example of a Give Up would be a clearing firm that reports on behalf of its correspondent firms. The clearing firm reports the trade, but "gives up" the name of the correspondent in the Give Up field. The trade report will be considered to have come from the correspondent for regulatory and billing purposes.

An Automatic Give Up, or AGU, is a trade report representing both sides of a transaction. Alternative Trading Systems (ATS) and Electronic Communications Networks (ECN), and even clearing firms have the ability to match buy and sell orders, and create "locked- in" executions ready for settlement that require no further comparison by the involved parties. ATS and ECN that are FINRA firms (as opposed to those registered as an exchange) have the ability to report on behalf of multiple parties using a single trade report to TRACE and indicate that the trade is "locked-in" by using the AGU flag. A clearing firm that executes a trade with one of its correspondents can likewise submit a "locked-in" trade, since the clearing firm clears the trade for the correspondent. In order to do this, "Give Up" agreements (GUs and AGUs are covered by the same agreement) are required for every firm for which the ATS/ECN or clearing firm will submit trade reports. A "One-sided" or "Two-sided" AGU can be submitted.

12.07 Accepted and Rejected Trade Reports

Accepted Trades

When a trade report is submitted, TRACE will validate the transaction and, if accepted, will return a confirmation message in the status line located at the top of the entry page. The confirmation message will return a TRACE Control #, CUSIP, Symbol, and the description of the issue. You should monitor that the information displayed is correct. If the information is not correct, you may Cancel or Modify (No/Was) the transaction through the Trade Scan screen. Cancel and No/Was can only be performed on transactions submitted to TRACE today. Transactions submitted on previous days must be canceled using a Reversal, or modified using a Reversal / Resubmission combination.

Rejected Trades

If the trade is rejected after submitting the trade entry, TRACE will return up to five different error codes in the status line located at the top of the entry page. All originally entered data will remain on the Trade Entry page for editing. The Firm may re-submit the transaction after making the necessary corrections. recognizes that some the Firm may be using a reporting technology that does not immediately relay a message to the Firm that a transaction report has been rejected. Thus, the Firm may be unaware for a substantial part of the 45-minute reporting period that they must resubmit the trade report. Accordingly, in these circumstances, as a general rule, expects that firms will correct and resubmit rejected trade reports as soon as practicable, but not later than 90 minutes from the time of execution. ("45-Minute Extension").However, there are three scenarios when the Firm may NOT rely on the 45-Minute Extension. The scenarios are set forth below:

- If the Firm executes a trade less than 45 minutes before the closing of the TRACE System (on or after 5:45:01 p.m. Eastern Time through 6:29:59 p.m. Eastern Time), under Rule 6230(a)(1), the Firm has the option to report the transaction to TRACE the same day, or the next day that the TRACE System is open, within 45 minutes of the opening. In both of these scenarios, the Firm is not entitled to rely on the 45-Minute Extension to comply with the obligation to timely report.
- If the firm reports the transaction to TRACE before the TRACE System closes and the transaction report is rejected, the Firm must report the transaction the next day the TRACE System is open, within the first 45 minutes that the System is open in order for the report to be timely. The 45-Minute Extension does not apply in these circumstances.
- If the Firm opts to first file the transaction report on the next business day that the TRACE

System is open, and the transaction report is rejected, the Firm must correct and resubmit the transaction report as soon as possible and not later than one hour after the TRACE System opens. The
45-Minute Extension does not apply in these circumstances.

- If the Firm executes a trade when the TRACE System is closed, the Firm is required under Rule 6730(a)(2) through (4) to report the transaction the first day that the TRACE System is open, within 45 minutes. If the transaction report is rejected, the Firm must correct and resubmit a transaction report as soon as possible, but not later than one hour after the TRACE System opens. In this case also, the Firm has 45 minutes to report the transaction and is granted only an additional 15 minutes to comply with its reporting obligation. In addition, the 45-Minute Extension does not apply (Ref. NTM 03-58).

12.08 Dissemination of Transaction Information

In accordance with FINRA Rule 6750, will disseminate information on all transactions in TRACE- eligible securities immediately upon receipt of the transaction report, except those transactions pursuant to Rule 144A as referenced below. (Ref. NTM 06-01; Effective Date January 9, 2006)

Rule 144A

will not disseminate information on a transaction in a TRACE-eligible security that is effected pursuant to Rule 144A under the Securities Act of 1933 (Ref. NTM 06-01; Effective Date January 9, 2006)
Note: has amended Rule 6750 to eliminate all provisions for delayed dissemination and provide that information on all transactions in TRACE-eligible securities, except transactions executed pursuant to Rule 144A, be disseminated immediately. Therefore, broker-dealers that execute and report transactions in TRACE-eligible securities that are subject to dissemination delays under current subparagraphs (a)(1) and (2) and (b)(2)(A) and (B) of Rule 6750 prior to the effective date of the amendments, will look to the date that the trade was executed and reported to determine the applicable dissemination protocol. Information about these transactions will not be disseminated until the period of delay has run. For broker-dealers that execute transactions in TRACE-eligible securities that are subject to dissemination delays under Rule 6750 as referenced above prior to the effective date of the amendments, but report such transactions on or after the effective date, will look to the date that the transactions were reported to determine the applicable dissemination protocol, with the result that the information will be disseminated immediately upon receipt (Ref. NTM 06-01; Effective Date January 9, 2006)

Managing Underwriter Obligation to Obtain CUSIP

In accordance with Rule 6760, in order to facilitate trade reporting and dissemination of secondary transactions in TRACE-eligible securities, the firm that is the managing underwriter or that are the group of underwriters of a distribution or offering, excluding a secondary distribution or offering, of a debt security that, upon issuance will be a TRACE-eligible security ("new issue"), must obtain and provide information to the TRACE Operations Center as required below. If a managing underwriter is not appointed, the group of underwriters must provide the information required under this rule. The information must be provided by facsimile or e-mail.

Notices

For such new issues, the managing underwriter or group of underwriters must provide to the TRACE Operations Center: (1) the CUSIP number; (2) the issuer name; (3) the coupon rate; (4) the maturity;(5) whether Rule 144A applies; (6) a brief description of the issue (e.g., senior subordinated note, senior note); and, (7) information, as determined by , to implement the provisions of Rule 6250(a) and such other information deems necessary to properly implement the reporting and dissemination of a TRACE-eligible security, or if any of items (2) through (7) has not been determined, such other information as deems necessary. The managing underwriter or group of underwriters must obtain the CUSIP number and provide it and the information listed as (2) through (7) not later than 5:00 p.m. Eastern Time on the business day preceding the day that the registration statement becomes effective, or, if registration is not required, the day before the securities will be priced. If an issuer notifies a managing underwriter or group of underwriters, or

the issuer and the managing underwriter or group of underwriters determine, that the TRACE-eligible securities of the issuer shall be priced, offered and sold the same business day in an intra- day offering under Rule 415 of the Securities Act of 1933 or Section 4(2) and Rule 144A of the Securities Act of 1933, the managing underwriter or group of underwriters shall provide the information not later than 5:00 p.m. Eastern Time on the day that the securities are priced and offered, provided that if such securities are priced and offered on or after 5:00 p.m. Eastern Time, the managing underwriter or group of underwriters shall provide the information not later than 5:00 p.m. Eastern Time on the next business day. The managing underwriter or group of underwriters must make a good faith determination that the security is a TRACE-eligible security before submitting the information to the TRACE Operations Center.

12.09 NSCC Specifications and Systems Interface to TRACE System

In an effort to achieve improved price transparency for OTC corporate bonds, FINRA has mandated reporting of interdealer (street side) and customer OTC corporate bond trades to its TRACE system. FINRA, includes a specially developed reporting interface between NSCC and FINRA.

As outlined in Important Notice A #5240 dated March 19, 2001, NSCC will streamline participants' trade submission to TRACE via an automated interface with FINRA. The NSCC developed the interface at the request of participants to accommodate compliance requirements with the trade-reporting mandate imposed by FINRA. NSCC's application eliminates the need for duplicate participant trade submission of street side trades and leverages existing data communications links to facilitate the reporting of customer trades. The NSCC corporate bond reporting flow will be similar to the process currently utilized for the reporting of municipal trades to the MSRB. In the event such an arrangement is applicable, one of the following reporting mechanisms may apply:

Reporting Mechanisms

The Firm is able to choose from among several different mechanisms in order to meet their reporting obligations:

- Firms may report directly through a computer-to-computer interface (CTCI). This method requires a dedicated line using the TCP/IP network protocol. It will be possible to send TRACE CTCI messages over an existing line that the Firm may use at this time to communicate with various Nasdaq reporting systems;
- Firms may report manually through a secure Web-based application that FINRA will provide. The Web application will be supported under Windows 95/98/NT/2000, and Sun Solaris 2.61. Web browsers that will be supported include Microsoft Internet Explorer 4.01SP1 for Windows and Sun, and Netscape Navigator Windows version
  4.6 and above, or Sun version 4.0 or higher;
- Vendors and service bureaus will be able to provide a reporting service for their clients by developing a CTCI interface and reporting on behalf of their clients;
- FINRA and the National Securities Clearing Corp. ("NSCC") have agreed that the Firm may forward transaction reports to the NSCC, which will forward them to FINRA. NSCC and FINRA have developed a set of transaction layouts that build upon the layouts used by NSCC for Street-side transactions and upon the customer layouts used by the MSRB for municipal customer transaction reporting. The NSCC interface will allow firms to transmit initial transaction reports for T-date and "as of" transactions; however, cancellations and corrections must be reported through the FINRA Web browser. The NSCC interface will also support regulatory reporting for those transactions not clearing/settling through NSCC (e.g., cash trades).

12.10 Compliance with TRACE Reporting Requirements

Compliance with Reporting Obligations

The Firm acknowledges that any pattern or practice of late reporting without exceptional circumstances may be considered conduct that is inconsistent with high standards of commercial honor and just and equitable

principles of trade, in violation of Rule 2010

Therefore, pursuant to SEC Rule 10b-5 and Rule 2010, no employee of the Firm shall directly or indirectly, by the use of any means or instrumentality of interstate commerce, or of the mails or of any facility of any national securities exchange,

- Employ any device, scheme, or artifice to defraud;
- Make any untrue statement of a material fact or to omit to state a material fact; and
- Engage in any act, practice, or course of business which operates as a fraud or deceit upon any person, in connection with the purchase or sale of any security.

Clock Synchronization Requirements

In accordance with FINRA Rule 6753, Synchronization of Firm Business Clocks, all firms with an obligation under any FINRA rule to record the date and time of any event (such as the time of execution of a transaction under TRACE Rule 6710(d) and Rule 6730(c)) must synchronize their business clocks, including computer system clocks and mechanical clocks. The clock synchronization requirements apply to all firms with a time-reporting obligation under any FINRA Rule, and therefore apply to all firms in reporting under the TRACE Rules. (Ref. NTM 02-76

12.11 Electronic Transmission of Order - Control Procedures

Please refer to Section 15.16.

Investment Company Securities (Mutual Funds) 13.00

Introduction

It is the responsibility of the Firm's Designated Principals to provide adequate supervision and overall compliance as it relates to its participation in the recommendation of investment company securities (mutual funds).

13.01 Mutual Fund Classes

In order to make appropriate recommendations concerning mutual fund sales, registered representatives of the Firm must know the key points regarding the mutual funds he or she recommends or sells to customers. Material facts may include, but are not limited to the following information:

- The fund's investment objective;
- The fund's portfolio, historical income, or capital appreciation; fund's expense ratio and sales charges;
- Risks of investing in the fund relative to other investments;
- The fund's hedging or risk amelioration strategies.

There are a variety of sales charges and service charges associated with fund sales. It is imperative that each registered representative of the Firm recommend the most suitable mutual fund, based on the investment objectives and financial status of the client, and that the registered representative discloses the sales charges and service charges to the client.

Common Mutual Fund Share Types

Numerous classes of mutual fund shares are available to investors. However, there is little or no consistency across fund company designations. For example, front-loaded shares may be called "A shares" by one fund family and "D shares" by a different fund family. Following are the most common types of shares:

Front-end Load Funds or "A Shares"

Front-loaded shares are most often referred to as "A shares". The client pays an up-front sales charge and the fund sponsor pays an up- front commission to the registered representative. Some fund families pay a small annual trail commission to the registered representative. Investors in "A shares" may qualify for a reduced sales charge through a breakpoint. However, funds that are classified as "A shares" are usually also subject to *12b-1 fees*.

Back-end Load Funds or "B Shares"

Back-end Loaded shares are usually designated as "B shares". The client invests at Net Asset Value (NAV). There is a contingent deferred sales charge ("CDSC") assessed if the shares are liquidated within a certain pre-determined time frame. Fund families pay an annual trail commission that is normally higher than that paid on front-loaded shares. "B shares" typically deduct higher *12b- 1 fees* from the client's account than "A shares". Funds that are classified as "B shares" may automatically convert to "A shares" at NAV at some specified time after the expiration period of the CDSC.

Back-end Load Funds

When a registered representative of the Firm sells a back-end loaded mutual fund, it may be appropriate (and in some instances may be required) for the client to sign a *Mutual Fund Disclosure Form* or *Explanation of Your Investment* form. Forms should be maintained in the client file. The statement should

also be forwarded to the Firm.

Level Loaded Shares or “C Shares”

Level loaded shares, most often called "C shares", can be constructed in a number of ways. Some bear a small up-front load (generally around 1%), a small deferred sales charge (again about 1%), and an annual trailing commission (also 1%). Others have no up-front load and pay an annual trailing commission (usually 1%) that begins after the third month. In either case, 12b-1 fees are higher than those of an "A share". The level of fees deducted may cause the long-term shareholders to ultimately pay more for their shares than a front- loaded fund. For that reason, "C shares" may not be the best choice for clients looking for a long-term investment unless the shares revert back into traditional "A shares". In some fund families, the level loaded shares revert back into traditional "A shares" after a certain period of time. At that point, the fees deducted annually from the client account would be reduced.

13.02 Disclosure Requirements

The Firm acknowledges the existence of certain disclosure requirements when engaging in business activity involving investment company shares. Although most disclosures are included in the prospectus, it is the responsibility of the Firm to monitor that the customer is properly informed and understands the details and scope of the transaction.

In recommending the purchase or sale of a mutual fund to a client, the registered representative must disclose all material facts to the client. To determine adequately whether a fact concerning a mutual fund investment would be material to a client, each registered representative of the Firm must obtain information sufficient to evaluate the suitability of the proposed investment for that client. Material facts may include, but are not limited to the following:

- Mutual fund’s investment objectives;
- Mutual fund’s portfolio and top holdings;
- Historical income and capital appreciation;
- Tax consequences of purchasing, selling/redeeming shares;
- Sales charges and applicable expense ratios;
- Mutual fund’s management strategy;
- The risks of investing in the fund relative to other investments;
- The fund's hedging or risk amelioration strategies;
- Associated risks of the fund;
- Structure of the fund;
- Potential risk of a fund’s inclusion in financial derivatives.

Such disclosure is generally made by providing the prospectus to the client.

Disclosure of one or more of the following facts concerning a proposed investment is required if the circumstances surrounding the investment decision lead one to believe the client would regard a fact as “material” to his or her decision whether to invest in the fund:

Sales Charges and Fees

To the extent there are sales charges associated with such a purchase or sale (such as contingent deferred sales charges on either the fund to be liquidated or the fund to be purchased), the registered representative should discuss with the client the effect of those charges on the anticipated return on investment. Further, if the registered representative recommends the purchase of a fund from a particular fund family based on the ability to switch easily between funds in the family, the registered representative must disclose all fees or charges that may be imposed.

Tax Issues

Concerning tax issues, each registered representative of the Firm should remind investors, where appropriate, that distributions of interest, dividends, and capital gains are subject to federal income taxes even though the client chooses to have the dividends reinvested. A high portfolio turnover also generates higher transaction costs and may affect taxes. When exchanging or switching mutual funds, the client should be aware of potential tax consequences and should be advised to consult a tax advisor to resolve questions.

Expense Ratios

To the extent that the Firm's registered representatives refer to expense ratios as "material" to an investor purchasing fund shares, these expense ratios need to be explained and compared with those of other mutual funds. Expense ratios are derived by dividing a fund's annual operating expenses by average net assets. Operating expenses may include management fees, investment advisory fees, director fees, 12b-1 fees and expenses for preparing and mailing prospectuses and financial reports.

Mutual Fund Classes

The registered representative of the Firm must explain to the client the differences between the various classes of shares (e.g., A, B, C shares, etc.) available from the fund companies and assist the client in selecting the class which best fits his or her investment objectives. As a general rule, single mutual fund purchases in excess of $250,000 should utilize "A" shares in order to take advantage of breakpoints.

Prospectuses disclose many of the details of these products. However, each registered representative of the Firm must provide sufficient information for investors to understand and evaluate the structure of multi-class and master-feeder funds. As the number of share classes continues to increase, it is imperative that investors are told the differences among a front-end load, a spread load (deferred sales charge and 12b-1 fee) and a level load. They should be instructed about why one type of fee may be higher or lower than another. Another important disclosure relates to explaining how factors such as the amount invested, the rate of return, the amount of time the investor remains in the fund, and the fund's conversion features affect an investor's overall costs.

Funds Investing in Financial Derivatives

In offering funds that invest in financial derivatives, the registered representative of the Firm must clarify the risks involved to each investor. For example, funds that use repurchase agreements, purchase mortgage-related securities, purchase securities on a "when issued" basis, or purchase or sell securities on a "forward commitment" basis, all involve special risks. Such risks are material to an investor's decision as to whether the mutual fund is a suitable investment. Each registered representative of the Firm should familiarize themselves with a fund's investment objective, portfolio techniques, and policies as noted in the prospectus, and should convey such information to investors.

Clarification of Total Return

When recommending mutual funds, each registered representative of the Firm should make certain that investors understand the concept of total return. When explaining total return, the registered representative should emphasize that total return measures overall performance of a mutual fund, whereas current yield is based only on interest or dividend income received by the fund. Where appropriate, the registered representative should explain to investors the difference between return of principal and return on principal.

Clarification of Distribution Rates and Current Yield

Registered representatives of the Firm are reminded that the SEC requires that a yield quotation in an advertisement be restricted to a quotation of the current yield based on the SEC formula, as calculated in the Statement of Additional Information, and the quotation must be accompanied by quotations of total

return. Thus, when presenting information to clients regarding distribution rates, the registered representative must fully explain the difference between distribution rate and current yield.
information that may enter into the determination of whether a particular fact concerning a proposed fund investment is material includes, but is not limited to:

- The relative risks and rewards of the investment being liquidated to the proposed investment;
- The risk aversion of the client, and
- The age and/or life expectancy of the client.

While many of these items are inextricably intertwined with the suitability determination, merely determining that an investment may be suitable for a particular client does not excuse the Firm or its registered representatives from disclosing material information to that client.

Although the prospectus and sales material of a fund include disclosures on many matters, oral representations by registered representatives that contradict the disclosures in the prospectus or sales literature may nullify the effect of the written disclosures and therefore the Firm prohibits its represntatives from making oral statements that contradict the disclosures in the prospectus or sales literature may nullify the effect of the written disclosures.

Designated Principals are responsible for monitoring Representative communications for compliance with these requirements and shall report potential violations to the CCO.

13.03 Determining Suitability

In the recommendation of investment company shares, each registered representative of the Firm must first establish reasonable grounds for believing that the recommended product is suitable for the individual customer. A starting point in a registered representative's recommendation of a mutual fund is to clearly define the investor's objectives and financial situation. The need for current income, liquidity, diversification and acceptable levels of risk are important considerations common to most investors. In recommending mutual funds, the registered representative should match the investor's objective with the stated objective and investment strategy of a particular fund. An added concern relative to funds having multiple fee structures is not only matching the type of fund to the investor's objective, but also recommending the appropriate fee structure.

Each registered representative of the Firm should be able to demonstrate the rationale for his or her recommendation and overall determination of suitability. Therefore, in determining customer suitability, a reasonable effort will be made to obtain suitability information from the customer on the Firm’s profile document.

Designated Principals are responsible for monitoring representative communications for compliance with these requirements and shall report potential violations to the CCO.

Supervision of Recommendations after a Registered Representative Changes Firms

Registered representatives with an established customer base may, from time to time, change their association from one firm to another and may wish to bring with them customer assets, including mutual funds. When a representative who has sold such a product chooses to associate with a new firm, however, there may be impediments to the representative’s ability to continue selling or servicing these investments, as well as receiving trail commissions from the sponsor for products the representative previously sold or serviced.

In these situations, the transferring representative may be tempted to recommend to customers that they replace their existing mutual funds with other investments, without adequately considering the customer’s

best interests and the suitability for the customer of those recommendations. Such inappropriate recommendations might be premised upon the fact that the new firm or the representative will no longer receive trail commissions for the customer's current investments or that the representative will generate more income by replacing an investment than recommending that the customer continue to hold the investment through the representative's prior firm.

A recommendation to liquidate, replace or surrender an existing investment must be suitable and based upon the customer's investment needs and not the financial needs of the firm or its associated persons. A firm may consider the fact that the firm lacks a dealer or servicing agreement with the product sponsor and, therefore, the registered representative cannot provide the customer with the service that the customer desires with respect to the product. The suitability analysis must also include other considerations, however, including whether the customer's mutual fund is subject to a contingent deferred sales charge or a required holding (surrender) period, or has other features that materially affect its value or liquidity, and the fees and expenses associated with the new product being recommended. (NTM 07-06; February 2007

13.04 Issuance of the Prospectus

Registered representatives, while recommending the purchase of a mutual fund, must provide the customer with a prospectus. In addition to issuing a prospectus at the time of recommendation, a copy of the mutual fund prospectus may also be sent to the customer via mail.

Designated Principals are responsible for monitoring representative communications for compliance with these requirements and shall report potential violations to the CCO.

13.05 Breakpoints

The Firm acknowledges that some mutual funds contain provisions that reduce the amount of associated sales charges if certain monetary investment thresholds or "breakpoints" are met. A breakpoint is the point at which a reduction in the sales charge occurs based on the dollar volume of the purchase exceeding a certain minimum. If a proposed fund or fund family offers breakpoint discounts, the registered representative must disclose the existence of the breakpoints to enable the client to evaluate the desirability of making a qualifying purchase. In this regard, recommending diversification among several fund families with similar investment objectives may not be in the best interest of a client, especially if the purchases of those funds occur at prices just below the breakpoints of one or more of the funds purchased. The Firm prohibits this type of sales practice.
Many mutual funds offer a reduced sales load to investors who commit to a specified additional purchase over a stated period of time. If a client indicates the intent to make additional purchases, the registered representative of the Firm must advise the client of the advantages of completing a *Letter of Intent (LOI)* dollar amount is close to a breakpoint, a client must be advised that he or she can receive a reduced sales charge by either purchasing additional shares or by indicating an intention to make additional purchases of the same fund over an extended period of time. When an order falls 5% or less below a breakpoint level, or when orders are made into multiple fund families by splitting the total dollar amount invested such that some or all of the purchase no longer qualifies for a breakpoint, and the client does not wish to commit to additional purchases at a later date, the client must complete a *Letter of Acknowledgment regarding mutual fund purchases*. This Letter will be maintained in the client file.

Therefore, it is the responsibility of the Designated Principals to monitor that any sales of investment company shares that are close to or at certain established breakpoints must be disclosed to the customer. The disclosing of breakpoint information will assist the investor in properly evaluating his/her investment decision. The failure to disclose such information in connection with a purchase, sale, or transaction involving investment company shares will be strictly prohibited.

Refunding of Fees (Breakpoint Discounts)

FINRA firms will make refunds to customers where they are aware that customers did not receive the appropriate sales load discount to which they were entitled. This shall apply to customers who did not receive available breakpoint discounts. (Ref. NTM 03-47).

13.06 Letter of Intent (LOI)

A letter of intent (LOI) is a written statement by an investor to a fund in which the investor states that he/she intends to purchase a stated dollar amount of fund shares over a specified period (generally, 13-months). As a result, the customer is charged the reduced sales charge that applies to the total amount of the customer's intended purchase on his/her very first purchase and all subsequent purchases. Most funds offer "look-back" provisions that permit shareholders to create a letter of intent at any time and include all purchases made during a previous period (usually 90 days) prior to creating the letter of intent.

The existence of a LOI is generally described either in a fund's prospectus or in its statement of additional information, and in applications to purchase fund shares supplied by a fund.

Designated Principals are responsible for monitoring representative communications for compliance with these requirements and shall report potential violations to the CCO.

13.07 Rights of Accumulation (ROA)

Rights of Accumulation (ROA) is the reduction in sales charges based upon the aggregate quantity of purchased or acquired securities plus any additional securities purchases thereafter. Rights of Accumulation may occur when a customer makes two or more purchases, where each separate purchase is not enough to qualify for a breakpoint sales charge reduction, but meets the qualification criteria in the aggregate amount. If such qualifications are met, the customer may be entitled to a reduction in sales charge for any subsequent purchases made after such breakpoint is met. The Firm will inform the customer of any available Rights of Accumulation involving mutual fund transactions and any interest on the part of the customer to aggregate purchases with the purpose of qualifying for a reduced sales charge. Failure to inform clients regarding the use of letters of intent (LOI) or rights of accumulation (ROA), and failure to use these devices when warranted, is prohibited.

Designated Principals are responsible for monitoring representative communications for compliance with these requirements and shall report potential violations to the CCO.

13.08 Switching

The process of “switching” can occur when a mutual fund with certain underlying investment objectives is sold, redeemed, or liquidated to purchase another mutual fund with similar investment objectives but within a different fund family. Based on the potential for additional sales charges and tax implications, it becomes necessary for the Firm to establish a justification for the switch as well as overall customer suitability.

Registered representatives of the Firm have an obligation to evaluate the net investment advantage of any recommended switch from one fund to another. Switching among certain fund types may be difficult to justify if the financial gain or investment objective to be achieved by the switch is undermined by the transaction fees associated with the switch.

A registered representative of the Firm may not encourage a client to switch mutual fund investments primarily to induce sales charges or commissions. When a client liquidates a mutual fund or other long term investments, then re-invests the proceeds in similar investments, the registered representative must obtain a signed *Letter of Acknowledgement Regarding Change in Investment Portfolio.* This form must be reviewed by the Designated Principals and maintained in the client file when the trades are completed. This requirement does not apply to exchanges between mutual funds within the same family of funds.

Long-term investment transactions requiring switch letters include, but are not limited to transactions

between and among mutual funds, unit investment trusts, annuities, and life insurance. When exchanging or switching mutual funds, the client should be aware of potential tax consequences and should refer this activity to a tax advisor.

The Firm prohibits any excessive activity or practices in a client's account which may be deemed as "churning" or "over-trading". The standards to measure the excessiveness of suspect activity will be evaluated with consideration to the client investment objectives, client investment history and client correspondence.

Designated Principals are responsible for monitoring representative communications for compliance with these requirements and shall report potential violations to the CCO.

13.09 Selling Dividends

During a recommended purchase of investment company shares, registered representatives of the Firm will not suggest, state or otherwise imply that the purchase of such shares before an ex- dividend date is beneficial to the purchaser unless there are clear tax advantages for the customer. Such a purchase generally is not to the client's advantage because he or she may receive taxable income immediately and the value of the shares decrease by the amount of the dividend. Additionally, the Firm shall avoid any representation that distribution of long-term capital gains by an investment company are or should be viewed as part of the income yield from the investment company.

Designated Principals are responsible for monitoring representative communications for compliance with these requirements and shall report potential violations to the CCO.

13.10 Contingent Deferred Sales Charges

In the event that an investor purchases Class B shares, the investor pays no initial sales charge and a higher annual distribution/service fee, with a declining charge applied to principal amounts withdrawn in the first six years after their initial investment in the funds. The withdrawal charge is called a "Contingent Deferred Sales Charge", or CDSC. The documentation of all sales of Class B shares must include the *Contingent Deferred Sales Charge (CDSC) Disclosure Statement.*

As a standard policy, the Firm will not offer or sell open-end investment company shares registered under the *Investment Company Act of 1940*, if the sales charges described in the prospectus are considered excessive as set forth in *Rule 2830(d).*

Confirmation Disclosures of Deferred Sales Charges

Any purchases of investment company shares that impose deferred sales charges on redemptions are required to have a disclosure statement on the front of each written confirmation in at least 8-point type. The statement should read, *"On selling your shares, you may pay a sales charge. For the charge and other fees, see the prospectus."*

13.11 Advertising and Sales Literature

In Addition to the general provisions of *Rule 2210 Communications with Customers and the Public*, the Firm's Designated Principals shall be responsible for monitoring any mutual fund related advertising and sales literature

Approval/ Evidencing Procedures

All maintained records of mutual fund advertisements, sales literature and correspondence should include the names and signatures of the person(s) who *prepared* the documentation, as well as the signature or initials of the registered principal(s) who *approved* such documentation prior to distribution.

Advertisements and sales literature concerning registered investment companies that are not governed by Rule 2210(c)(3) or Rule 2210(c)(4) must be filed with the FINRA Advertising Regulation Department within 10 business days of first use or publication.

Record keeping Requirements
maintain a separate file for all mutual fund correspondence, advertisements, and sales literature, for a period of three (3) years from the date of use, with the first two (2) years maintained in an easily accessible location.

Registered Investment Companies (with rankings and comparisons)

All advertisements and sales literature concerning Registered Investment Companies to include mutual funds, variable contracts, and unit investment trusts not covered in *Rule 2210(c)(2)*, should be filed with the FINRA Advertising Regulation Department *within ten days of first use or publication*.

FINRA rule 2211 (Use of Rankings in Investment Companies Advertisements and Sales Literature) modifies the current ranking guidelines by the following:

- The rule makes clear that no advertisement or sales literature may present a ranking, except those (1) created and published by a Ranking Entity, which the ranking guidelines define to include certain independent entities, or (2) created by an investment company or an investment company affiliate but based on the performance measurements of a Ranking Entity;
- the ranking guidelines in the rule apply only to advertisements and sales literature; and
- The rule permits the use of investment company family rankings, provided that when a particular investment company is being advertised, the individual rankings for that investment company also must be presented. However, as with all performance rankings, use of an investment company family ranking must comply with the other applicable requirements of Rule 2211.

Required Disclosures for Rankings in Advertisements and Sales Literature Headlines/Prominent Statements

A headline or other prominent statement must not state or imply that an investment company or investment company family is the best performer in a category unless it is actually ranked first in the category.

Required Prominent Disclosure
All advertisements and sales literature containing an investment company ranking must disclose prominently:

- the name of the category (e.g., growth);
- the number of investment companies or, if applicable, investment company families, in the category;
- the name of the Ranking Entity and, if applicable, the fact that the investment company or an affiliate created the category or subcategory;
- the length of the period (or the first day of the period) and its ending date; and
- criteria on which the ranking is based (e.g., total return, risk- adjusted performance).

Other Required Disclosures

All advertisements and sales literature containing an investment company ranking also must disclose:

- the fact that past performance is no guarantee of future results;
- for investment companies that assess front-end sales loads, whether the ranking

takes those loads into account;

- if the ranking is based on total return or the current SEC standardized yield, and fees have been waived or expenses advanced during the period on which the ranking is based and the waiver or advancement had a material effect on the total return or yield for that period, a statement to that effect;
- the publisher of the ranking data (e.g., "ABC Magazine, June 2003"); and
- if the ranking consists of a symbol (e.g., a star system) rather than a number, the meaning of the symbol (e.g., a four-star ranking indicates that the fund is in the top 30% of all investment companies).

Time Periods

Current Rankings

investment company ranking included in an item of sales literature must be, at a minimum, current to the most recent calendar quarter ended prior to use. Any investment company ranking included in an advertisement must be, at minimum, current to the most recent calendar quarter ended prior to the submission for publication. If no ranking that meets this requirement is available from the Ranking Entity, then a firm may only use the most current ranking available from the Ranking Entity unless use of the most current ranking would be misleading, in which case no ranking from the Ranking Entity may be used.

Rankings Time Periods; Use of Yield Rankings

Except for money market mutual funds:

- advertisements and sales literature may not present any ranking that covers a period of less than one year, unless the ranking is based on yield;
- an investment company ranking based on total return must be accompanied by rankings based on total return for a one year period for investment companies in existence for at least one year; one and five year periods for investment companies in existence for at least five years, and one, five and ten year periods for investment companies in existence for at least ten years supplied by the same Ranking Entity, relating to the same investment category, and based on the same time period; provided that, if rankings for such one, five and ten year time periods are not published by the Ranking Entity, then rankings representing short, medium and long term performance must be provided in place of rankings for the required time periods; and
- an investment company ranking based on yield may be based only on the current SEC standardized yield and must be accompanied by total return rankings for the time periods specified in paragraph (d)(2)(B).

Categories

- The choice of category (including a subcategory of a broader category) on which the investment company ranking is based must be one that provides a sound basis for evaluating the performance of the investment company.
- An investment company ranking must be based only on (A) a category or subcategory created and published by a Ranking Entity or (B) a category or subcategory created by an investment company or an investment company affiliate but based on the performance measurements of a Ranking Entity.
- An advertisement or sales literature may not use any category or subcategory that is based upon the asset size of an investment company or investment company family, whether or not it has been created by a Ranking Entity.

Multiple Class/Two-Tier Funds

Investment company rankings for more than one class of Investment Company with the same portfolio must be accompanied by prominent disclosure of the fact that the investment companies or classes have a common portfolio.

Investment Company Families

Advertisements and sales literature may contain rankings of investment company families, provided that these rankings comply with the guidelines above, and further provided that no advertisement or sales literature for an individual investment company may provide a ranking of an investment company family unless it also prominently discloses the various rankings for the individual investment company supplied by the same Ranking Entity, as described in paragraph (d)(2)(B). For purposes of this IM-2210-3, the term "investment company family" means any two or more registered investment companies or series thereof that hold themselves out to investors as related companies for purposes of investment and investor services.

Bond Mutual Fund Volatility Ratings

Interpretive Material IM2210-5 permits firms and their associated persons to include bond mutual fund volatility ratings in supplemental sales literature (mutual fund sales material that is accompanied or preceded by a fund prospectus), subject to certain conditions. Rule 2210(c)(3) requires supplemental sales literature containing bond mutual fund volatility ratings to be filed with the FINRA Advertising Regulation Department for review and approval at least 10 days prior to use (or such shorter period as the Department may allow in particular circumstances). If the Department requests changes to the material, the material must be withheld from publication or circulation until the requested changes have been made or the material has been re-filed and approved. (Ref. NTM 03-48) The Firm must provide with each filing the actual or anticipated date of first use. Any filing of sales literature pursuant to this requirement shall include any supplemental information requested by the Department pertaining to the rating that is possessed by the Firm (Ref. NTM 03-38)

IM-2210-5 permits the use of bond fund volatility ratings only in supplemental sales literature and only if certain conditions are met:

- The word "risk" may not be used to describe the rating;
- The rating must be the most recent available and be current to the most recent calendar quarter ended prior to use;
- The rating must be based exclusively on objective, quantifiable factors;
- The entity issuing the rating must provide detailed disclosure on its rating methodology to investors through a toll-free telephone number, a Web site, or both;
- A disclosure statement containing all of the information required by the rule must accompany the rating. The statement must include such information as the name of the entity issuing the rating, the most current rating and the date it was issued, and a description of the rating in narrative form containing certain specified disclosures.

Additional Information/Procedures

- Firms should file all advertisements in advance of first use;
- Any additional filings of unchanged previously filed advertisements/sales literature is not required;
- Each filing should contain the anticipated and actual date of first use; and
- Filing should include copies of any ranking or comparison reports between the filing investment company and other investment companies.

Registered Investment Companies (with internally produced rankings)

New Rule 2210(c)(4) maintains the 10-business day pre-filing requirement for registered investment company advertisements and sales literature that include or incorporate self-created rankings or comparisons.

Cold Calling
cold call activity regarding mutual funds must be conducted in compliance with the Firm's procedures on cold calling. The Firm maintains a central "do not call" list where each registered representative is required to check prior to making any cold calls.

"Dealer Use Only" Materials

Registered representatives must not deliver to the public any material marked "Dealer- Use-Only." Such material is intended for distribution only to dealers and registered representatives and has not been subjected to the screening and filing requirements associated with sales literature intended for the public.

Fund sponsors, dealers and wholesalers often use this material to educate sales personnel about the benefits of a fund and to provide marketing ideas. This material is not required to be filed with FINRA as "sales literature" because it is considered an internal communication and is exempt from FINRA filing requirements. Additionally, oral presentations should not be based on information contained in dealer-use-only material. This practice could present a potential regulatory problem, as there can be no assurance that the information provided to investors is in accordance with applicable rules.

Additional Information/Procedures

- All filings are subject to approval by the FINRA Advertising Regulation Department prior to use and distribution to the public;
- All filings should be changed upon the recommendation of FINRA Advertising Regulation and should be re-filed until approved for distribution;
- Each filing should contain the anticipated and actual date of first use; and
- Filing should include copies of any ranking or comparison reports between the filing investment company and other investment companies.

New Performance Advertising Standards

On July 5, 2006, the SEC approved amendments to Rules 2210 and 2211 to impose certain disclosures and presentation requirements on performance sales material. Specifically, Rule 2210(d)(3)(A) requires that such performance sales material disclose the standardized performance mandated by SEC Rule 482 and Rule 34b-1, and to the extent applicable, the maximum sales charge imposed on purchases or the maximum deferred sales charge, and the expense ratio, gross of any fee waivers or expense reimbursements. Both the sales charges and the expense ratio should reflect the amounts stated in the investment company's prospectus fee table, current as of the date of submission of an advertisement for publication, or as of the date of distribution of other communications with the public. And if performance sales material appears in a print advertisement, the required information must be presented in a prominent text box.

Prominence Requirements

Rule 2210(d)(3)(B) provides that all of the information required by paragraph (A) must be set forth "prominently." FINRA will apply the same prominence and proximity standards for disclosure of the expense ratio as those used for standardized performance and sales charges under the SEC rules. For example, the quotations of the standardized average annual total returns for one-, five- and 10-year periods must be set forth with equal prominence, and any quotations of non-standardized performance may not be set forth in greater prominence than the standardized performance. Similarly, the disclosures of a fund's maximum sales load and expense ratio generally would have to be presented in print advertisements in a type size at least as large as and of style different from, but at least as prominent as, that used in the major portion of the advertisement. When fund performance data is presented on a Web site, firms may present standardized performance through the use of a hyperlink, provided that the standardized performance is presented prominently and is consistent with the standards of SEC Rule 482.

Designated Principals are responsible for monitoring representative communications for compliance with these requirements and shall report potential violations to the CCO.

Text Box Requirement

Rule 2210(b)(3)(B) also provides that, in any print advertisement, the information required by paragraph (A) must be set forth in a prominent text box that contains only the required information and, at the firm's option, comparative performance and fee data and other disclosures that are required to be in the advertisement under Rule 482 and Rule 34b-1. Thus, for example, a text box may include the prospectus disclosure language required by Rule 482, the performance of a relevant benchmark index, or a comparison of the fund's expense ratio to the average expense ratio of similar funds. The text box requirement applies only to advertisements that appear in print advertisements, such as a print newspaper, magazine or other periodical. *The text box requirement does not apply to printed sales literature, such as fund fact sheets, brochures or form letters, nor does it apply to Web sites, television or radio commercials, or any other electronic communication.*

Designated Principals are responsible for monitoring representative communications for compliance with these requirements and shall report potential violations to the CCO.

Annual Fund Operating Expense Ratio

Rule 2210(d)(3)(A)(ii)(b) requires performance sales material to disclose a fund's total annual operating expense ratio, *gross* of any fee waivers or expense reimbursements (the unsubsidized expense ratio), as stated in the fee table of the fund's prospectus. This requirement to disclose the unsubsidized expense ratio applies even if a fund's prospectus also discloses its expense ratio net of fee waivers or reimbursements (the subsidized expense ratio).

The rule does not preclude performance sales material from also presenting a fund's subsidized expense ratio, as long as the firm presents both expense ratios in a fair and balanced manner in accordance with the standards of Rule 2210. In this regard, FINRA expects a firm that also presents a subsidized expense ratio to disclose in the sales material whether the fee waivers or expense reimbursements were voluntary or mandated by contract, and the time period during which the fee waiver or expense reimbursement obligation, if any, remains in effect. In print advertisements, a firm may show the subsidized expense ratio in the text box with the unsubsidized expense ratio as long as they are presented in a fair and balanced manner.

13.12 Correspondence

In addition to the general provisions of *Rule 2210 Communications with Customers and the Public*, the compliance department or Designated Principals are responsible for monitoring any mutual fund related correspondence including, but not limited to, the following areas:

Comparisons

Marketing the Firm's products in comparison with those of any other company is strictly forbidden, unless such comparison has been previously approved by the Firm and FINRA. The compliance department and/or the Designated Principals shall control the approval of such comparisons.

Performance Projections

Performance projections are strictly prohibited. During a sales presentation, only prospectus and literature authorized by the Firm may be used as reference material. Registered representatives of the Firm are not to make any representation other than those contained in the prospectus or in such referenced material.

General Misrepresentations

- Any representation that distribution of long-term capital gains by an investment company are or should be viewed as part of the income yield from the investment company;
- The description of an investment company as “no load” or having “no sales charge” if the investment company has a front-end or deferred sales charge or service fees which exceed .25 of 1% of average net assets per annum;
- Recommendations of switching and/or unsuitable transactions; and
- Letters that include portions of prospectuses that if taken out of context could be considered misleading.

Designated Principals are responsible for monitoring representative communications for compliance with these requirements and shall report potential violations to the CCO.

13.13 Sales Contests

The Firm strictly prohibits sales contests.

13.14 Acceptance/Receipt of Mutual Fund Concessions

The term “concession” can be defined as any fee, discount, or commission in connection with the sales or distribution of investment company securities that are in the form of securities, or other non-cash form, and/or not disclosed in the prospectus. It is the responsibility of the Designated Principals to monitor any cash and non-cash compensation or other incentives received by registered representatives of the Firm.

General Sales Practices

Registered representatives of the Firm may not favor the sale of shares of particular mutual funds or groups of funds because of brokerage commission or any form of extra compensation received or expected to be received by such registered persons. The client's interest must come first. Moreover, fund sponsors are required to do business with the Firm only and not with the registered representatives of the Firm.

Registered representatives of the Firm may not receive compensation for the sale of mutual fund shares from any organization or individual other than the Firm. Outside the regular compensation structure, each registered representative may receive only token gifts directly from the underwriter of the mutual fund shares. In the event that a registered person receives any form of compensation outside of the normal compensation structure, they are required to disclose any/all payments or gifts to the Firm.

Any cash compensation (i.e. discounts, fees, commissions, loans, overrides, etc.) involving the sale or distribution of investment company shares must be disclosed in the prospectus unless otherwise specified.

Non-Cash Compensation

to the concessions disclosed in the prospectus, the following is a list of non-cash compensation considered not to be of “material value” as specified in *Rule 2830(l)(3)(C).*

- An occasional dinner, sporting, or other entertainment event for one or more registered representatives that is not based on the sale of investment company shares;
- A breakfast, luncheon, dinner or other similar function given for a group of registered representatives in connection with a business or sales meeting at the location of a fund;
- Unconditional gifts with an aggregate value not to exceed $100 per person per year.

13.15 Mutual Fund Redemptions

In accordance with *Rule 2830(j),* no firm who is a principal underwriter of a security issued by an open-end investment company or a closed-end investment company that makes periodic repurchase offers pursuant to Rule 23c-3(b) under the 1940 Act and offers its shares on a continuous basis pursuant to Rule 415(a)(1)(xi) under the Securities Act of 1933 shall repurchase such security, either as principal or as agent for the issuer, from a dealer acting as principal who is not a party to a sales agreement with a

principal underwriter, nor from any investor, unless such dealer or investor is the record owner of the security so tendered for repurchase. No firm who is a principal underwriter shall participate in the offering or in the sale of any such security if the issuer voluntarily redeems or repurchases its securities from a dealer acting as principal who is not a party to such a sales agreement nor from any investor, unless such dealer or investor is the record owner of the security so tendered for repurchase. Nothing in this paragraph shall relate to the compulsory redemption of any security upon presentation to the issuer pursuant to the terms of the security.

Nothing in this Rule shall prevent any firm, whether or not a party to a sales agreement, from selling any such security for the account of a record owner to the underwriter or issuer at the bid price next quoted by or for the issuer and charging the investor to a reasonable charge for handling the transaction, provided that such firm discloses to such record owner that direct redemption of the security can be accomplished by the record owner without incurring such charges.

13.16 Verification of Customer Address Changes

In the event the Firm receives a request for a change of address from an existing customer, the Designated Principals will monitor that the Firm's procedures are complied with including sending verification to both the old and new address.

13.17 Signature Guarantee

A Medallion Signature Guarantee is a warranty made to a mutual fund by a third party that a signer of a letter of instruction or certificate has legal capacity to sign, that he or she is an "appropriate person" to sign and that the signature of the signer is genuine. If required by a mutual fund, a signature or signatures on a letter must be guaranteed by an institution that is an "eligible guarantor" as defined in Rule 17Ad-15 of the Securities Exchange Act of 1934. This would include such institutions as banks and brokerage firms. If the shares are registered in more than one name, the signature of each shareholder must be guaranteed separately. The requirement of a signature guarantee is to protect a shareholder's account from unauthorized transactions.

The Firm does not currently hold a signature guarantee stamp or provide any relevant services.

13.18 Receipt of "Block Letters"

In previous incidents of mutual fund trading, some firms have been accused of effecting mutual fund exchanges for customer accounts that had exceeded, or was otherwise inconsistent, with a fund's annual exchange limit as stated in its prospectus which resulted in the issuance of a "block letter." As such, the Firm will remain diligent in reviewing for any registered representatives engaging in deceptive conduct so customers could exchange funds in excess of prospectus limits, or using different account numbers to evade or otherwise circumvent "block restrictions."

Designated Principals are responsible for monitoring representative communications for compliance with these requirements and shall report potential violations to the CCO.

13.19 Mutual Fund Late Trading

Investment Company Act Rule 22c-1(a) generally requires that redeemable securities of investment companies be sold and redeemed at a price based on the net asset value (NAV) of the fund computed after the receipt of orders to purchase. It is a violation of FINRA Rule 2010, and may be a violation of the federal securities laws and FINRA Rule 2020, for firms and their associated persons to knowingly or recklessly effect mutual fund transactions that are priced based on NAV that is computed prior to the time the order to purchase or redeem was given by the customer. Furthermore, it may be a violation of FINRA Rule 2010 and the federal securities laws to knowingly or recklessly facilitate certain mutual fund transactions, such as market timing transactions, in conjunction with, or with the acquiescence of, a mutual fund sponsor, fund administrator, investment adviser, underwriter, or any other affiliated person where those other parties acted contrary to a representation made in the prospectus or statement of additional information pursuant to which the mutual fund shares are offered. (Ref. NTM 03-50).

Designated Principals are responsible for monitoring representative communications for compliance with these requirements and shall report potential violations to the CCO.

13.20 Mutual Fund Market Timing

Most mutual funds are intended for long-term investment purposes only and not for market timing or excessive trading. As such, market timing activity may be disadvantageous to a fund and its shareholders. Market timers seek potential price differentials that may occur with securities that trade in a different time zone. The potential for these price differentials is more prevalent in international funds. For that reason, the Firm monitors any international stock funds more extensively than others funds.

The Firm is contractually obligated to, and pursuant to applicable rules and regulations (including Rule 22c-1under the Investment Company Act of 1940), required to comply with each Funds' current prospectus disclosure, including each Funds' policies and procedures regarding market timing. The Firm will diligently investigate any possible or actual violations and consider any appropriate remedies of corrective action.

Designated Principals are responsible for monitoring representative communications for compliance with these requirements and shall report potential violations to the CCO.

13.21 Mutual Fund Directed Brokerage Arrangements

In accordance with Rule 2830(k)(2), no firm shall sell shares of, or act as underwriter for, an investment company, if the firm knows or has reason to know that such investment company, or an investment adviser or principal underwriter of the company, has a written or oral agreement or understanding under which the company directs or is expected to direct portfolio securities transactions (or any commission, markup or other remuneration resulting from any such transaction) to a broker or a dealer in consideration for the promotion or sale of shares issued by the company or any other registered investment company. (Ref. NTM 05-04).

Designated Principals are responsible for monitoring representative communications for compliance with these requirements and shall report potential violations to the CCO.

13.22 Sales Charge Waivers (Exchanges and Reinstatements)

In most case, fund families will offer investors a *right to exchange* their holdings of a fund within the fund family for another fund within the fund family, without an additional sales charge.
Various conditions and restrictions may apply, depending on the fund family. The prospectus will outline the terms governing whether an investor can avoid paying a sales charge on an exchange. Some of those conditions and restrictions relate to:

- time frame (e.g., shares must be held for at least one day prior to the exchange);
- exchanges may be limited to the same class of fund previously held;
- exchanges may be limited to a maximum number per year; and
- fees may be charged for certain exchanges.

Some families of funds offer a *reinstatement feature* . This permits an investor who previously owned shares in a mutual fund to repurchase shares in the same fund (or in another fund within the same fund family) without paying a sales load. Some restrictions may apply; for instance, there may be a time limit (e.g., six months or a year from the date of initial sale) within which the reinstatement feature must be exercised, or it is lost. Funds may also limit the use of their reinstatement feature by an investor to one time for any given group of shares. Contingent deferred sales charges, paid by the investor at the time of sale, may be reimbursed upon reinstatement, depending upon the terms stated in the prospectus. Additionally, some fund families permit reinstatement at net asset value if the monies being reinstated are coming from the sale of shares from a different fund family where the customer previously paid a sales charge.

Designated Principals are responsible for monitoring representative communications for compliance with

these requirements and shall report potential violations to the CCO.

13.23 Books and Records Requirements (Breakpoint Documentation)

The requirement for broker/dealers to maintain books and records is detailed in *SEC Rule 17a-4*, as amended and effective May 2, 2003, which mandates the length of time that a firm's books and records must be preserved. Firms are generally required to keep records between three to six years, and in some cases for the life of the company. Furthermore, SEC Rule 17a-4, as amended and effective May 2, 2003, also stipulates that certain documents must be kept at convenient and accessible location for a designated period before being moved to a more remote long-term storage.

All relevant documentation and information used to implement the Firm's internal mutual fund breakpoint assessment will be maintained in accordance with books and records requirements in an effort to provide documentary evidence that the Firm complied with the required methodology pertaining to the breakpoint assessment.

Designated Principals are responsible for monitoring representative communications for compliance with these requirements and shall report potential violations to the CCO.

13.24 Electronic Transmission of Order - Control Procedures

Please refer to Section 15.16.

14.01 Supervision of Accounts

The Firm shall develop and implement a written program providing for the diligent supervision of all of its customer accounts, and all orders in such accounts relating to options contracts. In order to provide diligent supervision of its options business, the Firm has appropriately designated and identified a Registered Options and Security Futures Principal (ROSFP) as prescribed by applicable rules and regulations. The following information is a description of the duties and responsibilities of the designated ROSFP for the Firm's options business:

In accordance with Notice 08-28, FINRA amended its rules to allow firms to integrate the responsibility for supervision and compliance of its public customer options business into its overall supervisory and compliance program. As part of these changes, FINRA eliminated the requirement to designate a specific officer or general partner to serve as the Senior Registered Options Principal (SROP), and a specific individual (who may also be the SROP) to serve as the Compliance Registered Options Principal (CROP). The amendments provide firms with the flexibility to allow several individuals to fulfill these supervisory functions, in accordance with the firm's overall supervisory structure.

NASD Rule 1022 (Categories of Principal Registration) has been amended to delete the reference to the SROP and CROP and clarify that if a person is engaged in the supervision of a firm's options and security futures business, including a person designated pursuant to NASD Rule 3310(a)(2), then such person must be registered as a Registered Options and Security Futures Principal (ROSFP)

Designations/Responsibilities of the ROSFP

Registered Options and Security Futures Principal (ROSFP)

The Firm shall develop and implement a written program providing for the diligent supervision of all of its customer accounts, and all orders in such accounts, to the extent such accounts and orders relate to options contracts by a Registered Options and Security Futures Principal (ROSFP). A ROSFP will maintain responsibility and authority for supervision of transactions in security futures or options.

The following is a list of responsibilities for Registered Options Principals:

- Opening, review and approval of options accounts;
- Daily review of options transactions
- Maintain options agreements.
- Create/establish procedures for the supervision of options trading;
- Approve all discretionary accounts;
- Record and maintain all documentation on options trading;
- Review and approval of advertisements, sales literature and educational materials relating to options trading;
- Review assets and recommend changes to comply with options trading practices;
- Provide reports to compliance officer or management staff on the internal activities of the Firm's options trading business

Branch Office Supervision

All qualified branch offices of the Firm that transacts an options business must have a principal supervisor of such branch office accepting options transactions who has been qualified as either a ROP or a Limited Principal-General Securities Sales Supervisor; provided that this requirement shall not apply to branch offices in which no more than three (3) registered representatives are located, so long as the options activities of such branch offices are appropriately supervised by either a ROP or a Limited Principal-

General Securities Sales Supervisor.

Main Office Review of Accounts

The Firm's principal supervisory office having jurisdiction over any office servicing customer option accounts shall maintain information to permit review of each customer's options account to determine the following information:

- The compatibility of options transactions with investment objectives and with the types of transactions for which the account was approved;
- The size and frequency of options transactions;
- Commission activity in the account;
- Profit or loss in the account;
- Undue concentration in any options class or classes, and;
- Compliance with the provisions of Regulation T of the Federal Reserve Board.

14.02 Opening of Options Accounts

Required Approval

2360(b)(16)(A), the Firm shall not accept an order from a customer to purchase or write an option contract or approve the customer's account for the trading of such option, unless the Firm furnishes the appropriate options disclosure document(s) and the customer's account has been approved for options trading.

Due Diligence Process

In approving a customer's account for options trading, the Firm shall exercise due diligence to ascertain the essential facts relative to the customer, his financial situation and investment objectives. Based upon such information, the ROSFP shall specifically approve or disapprove the customer's account for options trading in writing. A record of the information obtained pursuant to this subparagraph and of the approval or disapproval of each such account shall be maintained by the firm as part of its permanent records.

In fulfilling their obligations pursuant to *FINRA Rule 2360(b)(16)(B),* with respect to options customers who are natural persons, firms shall seek to obtain the following information at a minimum (information shall be obtained for all participants in a joint account)

- Investment objectives (e.g., safety of principal, income, growth, trading profits, speculation);
- Employment status (name of employer, self-employed or retired);
- Estimated annual income from all sources;
- Estimated net worth (exclusive of family residence);

- Estimated liquid net worth (cash, securities, other);
- Marital status; number of dependents;
- Age; and
- Investment experience and knowledge (e.g., number of years, size, frequency and type of transactions) for options, stocks and bonds, commodities, others.

In addition, a customer's account records shall contain the following information, if applicable:

- Source or sources of background and financial information (including estimates) concerning the customer;
- Discretionary authorization agreement on file, name, relationship to customer and experience of person holding trading authority;
- Date disclosure document(s) furnished to customer;
- Nature and types of transactions for which account is approved (e.g., buying covered writing, uncovered writing, spreading, discretionary transactions);

- Name of registered representative;
- Name of ROSFP approving account; date of approval; and
- Dates of verification of currency of account information.

Verification of Customer Information

The Firm is required to send all background and financial information for every new options customer to the customer for verification within fifteen (15) days after the customer's account has been approved for options trading. All background and financial information currently on file with the Firm shall also be sent to the customer for verification within fifteen (15) days after the Firm is notified or becomes aware of any material change in the customer's financial situation.

Any refusal of a customer to provide any of the required background or financial information will be properly documented and maintained in the customer's records. It should be noted that the process of verifying customer background and financial information allows the customer the opportunity to complete and/or correct information on the account.

Account Agreement

Within fifteen (15) days after a customer's account has been approved for options trading, the Firm shall obtain from the customer a written agreement that the customer is aware of and agrees to be bound by all applicable rules to the trading of option contracts and, if he desires to engage in transactions in options issued by The Options Clearing Corporation (OCC), that the customer has received a copy of the current disclosure document(s) and that he/she is aware of and agrees to be bound by the rules of the OCC. Additionally, the customer should indicate on such written agreement that he/she is aware of and agrees not to violate established position limits and exercise limits in accordance with *FINRA Rule 2360*.

Uncovered Short Option Contracts

FINRA Rule 2360 (B)(16)(E)(iv) requires that each firm will establish a specific minimum net equity requirements for initial requirements and maintenance of customer accounts. The designated ROSFP will review each account prior to writing an uncovered short option contract to monitor that minimum net equity requirements have been met by each account.

14.03 Delivery of Current Disclosure Documents

The Firm shall deliver the appropriate current disclosure document(s) to each customer at or prior to the time such customer's account is approved for trading in the category of options issued by the OCC. In the case of customers approved for writing uncovered short options transactions, the required disclosure document shall be in a format prescribed by FINRA. FINRA will advise firms when a new or revised current disclosure document meeting the requirements of SEC Rule 9b-1 of the Act is available.

FINRA has amended the requirement to deliver amendments and/or revisions to the options disclosure documents in Rule 2360 to conform to similar rules of other self-regulatory organizations. Specifically, FINRA has amended the rule to more clearly delineate the particular delivery requirements applicable to the Characteristics and Risks of Standardized Options (commonly known as the ODD) and the Special Statement for Uncovered Option Writers (the Special Written Statement).

Rule 2360(b)(11)(A) previously required that amendments and revisions to both disclosure documents be distributed to each customer not later than the time a confirmation of a transaction is delivered to each customer who enters into a transaction in options issued by the OCC. As amended, the delivery of an amendment to the ODD is triggered by a customer transaction in an options contract to which such amendment pertains. The rule change harmonizes FINRA's rule for amendments to the ODD with the corresponding rules of the Options Exchanges. In addition, through a new subparagraph (2), FINRA clarified that revisions to the Special Written Statement must be distributed to each customer having an account approved for writing uncovered short options not later than the time a confirmation of a transaction

is delivered to each customer who enters into a transaction in options issued by the OCC. (Ref. NTM 06-54; Implementation Date Oct. 26, 2006).

Introducing Firms

Where an introducing firm enters orders for its customers with, or clears transactions through, a firm on a fully disclosed basis and that firm carries the accounts of such customers, the responsibility for delivering the current disclosure document(s) shall rest with the firm carrying the accounts. However, such firm may rely upon the good faith representation of the introducing broker or dealer that the current disclosure document(s) has been delivered in compliance with *FINRA Rule 2360(b)(11).*

14.04 Alerting Customers to Adjustments to Option Contracts

To help monitor that options customers understand the risks associated with options trading, the rules of the options exchanges and other SROs require firms to deliver the options risk disclosure document entitled "Characteristics and Risks of Standardized Options" at or prior to the time a customer's account is approved for options trading. In accordance with *FINRA NTM 02-17*, firms must provide customers with revised versions of the disclosure document as it is amended.

The options risk disclosure document discusses the effect that corporate actions, such as a stock dividend, stock distribution, stock split, reverse stock split, rights offering, distribution, reorganization, recapitalization, reclassification or similar event in respect to an underlying security, or a merger, consolidation, dissolution or liquidation of the issuer of the underlying security, may have on the terms of an options contract. As a general rule, corporate actions can result in an adjustment in the number of shares underlying an options contract or the exercise price, or both. Adjustments to options contracts are done to maintain fairness, so that the terms of the contract reflect the corporate action

Adjustments to the terms of listed options contracts are governed by the rules of the OCC. Adjustments to options contracts are made by a committee of those SROs on which the particular contract is traded on a case-by-case basis or by following statements of policy or interpretations having general application to specified types of events. The determinations of adjustments to particular contracts are disseminated to each options exchange as they are made. The OCC also provides information about adjustments to contracts on its Web Site at http://www.optionsclearing.com/market/info_memos.jsp. Each options exchange, in turn, provides for the dissemination of information concerning these adjustments to specific option contracts to the exchange's firms.

As a result, the Firm is required to inform their affected options customers regarding any specific information about contract adjustments. Although firms provide notice to customers of the risks of corporate actions on their options contracts generally through the options risk disclosure document, the OSRC believes that firms should consider additional steps to monitor that customers are informed of particular adjustments to options contracts they hold. Accordingly, the

OSRC advises firms to review their procedures, or develop procedures as necessary, to alert customers of adjustments to their options contracts.

14.05 Account Statements

The Firm is required to send *monthly* account statements showing security and money positions, entries, interest charges and any special charges that have been assessed against such account during the period covered by the statement to each customer in whose account there has been an entry during the preceding month with respect to an option contract.

The Firm is also required to send *quarterly* account statements to all customers having an open option position or money balance. Interest charges and any special charges assessed during the period covered by the statement need not be specifically delineated if they are otherwise accounted for on the statement and have been itemized on transaction confirmations.

Margin Accounts
For general margin accounts, such statements shall also provide the mark-to- market price and market value of each option position and other security position in the margin account, the total market value of all positions in the account, the outstanding debit or credit balance in the account, and the general (margin) account equity.

Legend Information

The statements shall bear a legend stating that further information with respect to commissions and other charges related to the execution of option transactions has been included in confirmations of such transactions previously furnished to the customer, and that such information will be made available to the customer promptly upon request. The statements shall also bear a legend requesting the customer promptly to advise the firm of any material change in the customer's investment objectives or financial situation.

14.06 Confirmations

The Firm will promptly furnish to each customer a written confirmation of each transaction in option contracts for each customer's account that discloses the following information:

- Type of option;
- Underlying security or index;
- Expiration month;
- Exercise price;
- Number of option contracts;
- Premium and commission;
- Trade and settlement dates;
- whether the transaction was a purchase or a sale (writing) transaction;
- whether the transaction was an opening or a closing transaction;
- whether the transaction was affected on a principal or agency basis; and
- Date of expiration for other than options issued by the OCC;
- Use of appropriate symbols to distinguish between exchange listed and Nasdaq option transactions and other transactions in option contracts.

14.07 Books and Records Requirements

In addition to the general books and records requirements as set forth in FINRA Rule 3110, the Firm will maintain and continuously update all options-related customer complaint information in a separate file to be located and easily accessed at the Firm's principal place of business. In the event that an options-related complaint is sent to an OSJ or other branch office that is subject of the complaint, the recipient of the complaint must retain a copy at the branch office location in addition to forwarding the complaint to the Firm's principal place of business within thirty days of receipt.

At a minimum, the Firm will maintain a central file that includes the following:

(i) identification of complainant;
(ii) date complaint was received;
(iii) identification of registered representative servicing the account;
(iv) general description of the matter complained of; and
(v)) a record of what action, if any, has been taken by the firm with respect to the complaint.

Each customer account, to include background information and customer account statements, will be maintained at the branch office responsible for the account as well as the corresponding OSJ in charge of supervising the branch office for the last six month time period.

14.08 Position and Exercise Limits

The Firm shall not engage in an options transactions for any account in which the Firm or person associated with the Firm has an interest, by exercising a number of option contracts of a particular class of options in excess of the limits for options positions within any five (5) consecutive business days in accordance with *FINRA Rule 2360(b)(4).* Certain exceptions may be granted only in highly unusual circumstances, and with the prior written approval of the FINRA pursuant to the Rule 9600 Series for good cause shown in each instance.

Options Position and Exercise Limits (Pilot Period)

FINRA Rule 2360(b)(3)(A) imposes a ceiling or position limit on the number of conventional and standardized equity options contracts in each class on the same side of the market (*i.e.*, aggregating long calls and short puts or long puts and short calls) that can be held or written by a firm, a person associated with a firm, a customer or a group of customers acting in concert. The rule provides that the position limits for stock options are determined according to a five-tiered system in which more actively traded stocks with larger public floats are subject to higher position limits.

Position Limits on Options Overlying Certain Foreign Securities

FINRA Rule 2360(b)(3)(A) imposes a ceiling or position limit on the number of conventional and standardized equity options contracts in each class on the same side of the market (*i.e.*, aggregating long calls and short puts, or long puts and short calls) that can be held or written by a firm, a person associated with a firm, a customer or a group of customers acting in concert. Position limits for standardized equity options are determined according to a five-tiered system in which more actively traded stocks with larger public floats are subject to higher position limits. Position limits for conventional equity options are the same as the limits for standardized equity options. However, because many foreign securities do not have standardized equity options overlying them, conventional equity options overlying foreign securities generally fall into the base tier.

Rule 2360(b)(3)(A)(viii) has provisions for a firm to make an application to FINRA's Market Regulation Department to obtain higher position limits. Recent rule changes now permit firms to calculate on their own the position limits for conventional equity options overlying foreign securities that are part of a designated index, currently the FTSE All-World Index Series, using the volume and float criteria. Therefore, a firm requesting higher limits will be able to make a post-trade notice filing within one business day to FINRA staff. Such filing shall be made to the Market Regulation Department, to the attention of Options/Foreign Securities Group, at fax number (240) 386-5135, and must provide the necessary trade data and/or current float data to support the firm's position limit calculation. (NTM 07-03; Effective February 12, 2007).

14.09 Reporting of Options Positions

According to *FINRA Rule 2360(b)(5)(A)(i),* the Firm is required to notify FINRA for all accounts in which the Firm maintains an interest. The reports required by *FINRA Rule 2360(b)(A)* shall identify the person or persons having an interest in such account and shall identify separately the total number of option contracts of each such class comprising the reportable position in such account. The reports shall be in such form as may be prescribed by FINRA and shall be filed no later than the close of business on the next business day following the day on which the transaction or transactions requiring the filing of such report occurred.

Whenever a report shall be required to be filed with respect to an account pursuant to this subparagraph, the firm filing such shall file with FINRA such additional periodic reports with respect to such account as FINRA may prescribe from time to time.

Definition of "Underlying Index"

Rule 2360(b)(5) requires firms to report large options positions (*i.e.*, positions of 200 or more contracts)

on the same side of the market covering the same underlying index. The SEC recently approved amendments to the definition of "underlying index." The revised definition of "underlying index" encompasses an index underlying (1) a "standardized index option," which is defined as an option that is issued by the OCC that is based on an index or (2) a "conventional index option," which is defined as an option that is not issued by the OCC and overlies a basket or index of securities that underlies a standardized index option or meets certain specified criteria. These criteria include, among other things, that the index or basket comprises nine or more equity securities, no equity security comprises more than 30% of the equity component of the basket's or index's weighting, and each equity security component of the basket or index is either (1) a component security in either the Russell 3000 Index or the FTSE All-World Index Series or (2) the security meets certain capitalization and trading volume criteria. (NTM 07-03; Effective February 12, 2007)

Reporting in Conventional Options

The Firm shall file with FINRA a report with respect to each account in which the firm has an interest, each account of a partner, officer, director or employee or such member, and each customer, non-firm broker, or non-firm dealer account, which has 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, combining long positions in put options with short positions in call options and short positions in put options with long positions in call options, provided, however, that such reporting with respect to positions in conventional index options shall apply only to an option that is based on an index that underlies, or is substantially similar to an index that underlies, a standardized index option. A conventional option is "any option contract not issued, or subject to issuance, by The Options Clearing Corporation." Firms also should be aware that a conventional option on an index that does not meet the definition of "conventional index option" will be treated as if the option were deconstructed into its equity security components, and each of the components will be separately subject to position and exercise limits and reporting requirements provided in Rule 2360. The burden of demonstrating that an option contract meets the definition of "conventional index option" rests with the firm. Accordingly, firms should maintain detailed records to be able to demonstrate promptly, upon a request from FINRA, that a particular "conventional index option" meets the necessary criteria. (NTM 07-03; Effective February 12, 2007)

Standardized Options

In the event that the firm conducts a business in standardized options but is not a member of the options exchange upon which the standardized options are listed and traded shall file with FINRA a report with respect to each account in which the firm has an interest, each account of a partner, officer, director or employee of such firm, and each customer, non-firm broker, or non-firm dealer account, which has 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, combining long positions in put options with short positions in call options and short positions in put options with long positions in call options. A standardized equity option is "any equity options contract issued, or subject to issuance by, The Options Clearing Corporation that is not a FLEX Equity Option."

Large Options Position Reports

Rule 2360(b)(5) requires firms to file, or cause to be filed, reports for each account that has an aggregate position of 200 or more of options contracts (whether long or short) on the same side of the market covering the same underlying security or index. These reports are referred to as LOPRs (Large Options Position Reports). LOPRs for both standardized and conventional options are filed electronically. LOPRs subject to the reporting requirements of Rule 2360 should be transmitted to SIAC no later than the close of business on the next day following the day on which the transaction or transactions requiring the filing of such report occurred. In addition, Rule 2360(b)(5)(B) requires each firm to promptly report to FINRA any instance in which the firm has reason to believe that a person, acting alone or in concert with others, has exceeded or is attempting to exceed the applicable exercise limits or position limits set forth in Rule

2360. Firms should review their LOPR filing procedures to monitor that they report only those positions that are required to be reported.

Options position reporting requirements apply to “access” firms (e.g. FINRA firms that conduct a business in exchange-listed options but are not themselves member of the options exchange of which such options are listed and traded) with respect to positions in standardized options, and all firms with respect to positions in conventional options, except for certain conventional index options. Additionally, firms availing themselves of the use of one of the equity option hedge exemptions must report the hedge instrument positions. (NTM 07-03; Effective February 12, 2007)

Additionally, the Firm is aware of its obligation to report all any incident where there are indications of exceeding or attempting to exceed options position or exercise limits as specified in*Rule 2360(b)(3) and (4).*

14.10 Discretionary Account

Issuance of Authorization and Approval

The Firm will *not* use discretionary power when trading options contracts in a customer’s account, except in compliance with the provisions of FINRA Rule 2510 and unless written authorization specifically authorizes options trading and the account received a written acceptance by the ROSFP.

This will not apply to discretion as to the price at which or the time when an order given by a customer for the purchase or sale of a definite number of option contracts in a specified security shall be executed, except that the authority to exercise time and price discretion will be considered to be in effect only until the end of the business day on which the customer granted such discretion, absent specific, written contrary indication signed and dated by the customer. This limitation shall not apply to time and price discretion exercised in an institutional account, as defined in Rule 3110(c)(4), pursuant to valid Good-Till-Cancelled instructions issued on a “not held” basis. Any exercise of time and price discretion must be reflected on the order ticket.

Responsibilities of the ROSFP

The Firm’s ROSFP will be responsible for reviewing each discretionary account as well as the explanation of the customer’s ability to understand the risks of options trading.
In the event that the Firm does not utilize computerized surveillance tools for the frequent and appropriate review of discretionary activity will establish and implement procedures to require specific ROSFPs who have been designated to review discretionary accounts to approve and initial each discretionary order on the day entered.

Suitability and Discretion

The Firm will *not* recommend or engage in the trading of options contracts with customers unless the Firm has conducted a thorough inquiry of the customer background and financial information and has established a reasonable belief that the customer is suitable for each transaction. Additionally, the Firm will *not* recommend or transact an options business with customers unless there is a reasonable belief that each customer is financially sophisticated
enough to adequately assess and bear the risks of the transaction.

14.11 Communications with the Public

In accordance with *FINRA Rule 2220*, Options Communications with the Public, the Firm is required to comply with all advertising rules and regulations as they apply to the business of options. When engaging in an options business, a designated ROSFP must approve all options-related advertisements, educational material, and sales literature before distribution or issuance to the public.

Approval by Compliance Registered Options Principal and Recordkeeping

All options advertisements, sales literature (except completed worksheets), and educational materials issued by the Firm shall be approved in advance by the ROSFP. All copies, together with the names of the persons who prepared the material, the names of the persons who approved the material and, the source of any recommendations (in the case of sales literature), shall be retained by the Firm and be kept at an easily accessible place for examination by FINRA for a period of three years.

Association Approval Requirements and Review Procedures

Each options advertisement and related educational materials of the Firm shall be submitted to the FINRA Advertising/Investment Companies Regulation Department at least ten (10) days prior to use for approval and, if changed or expressly disapproved by FINRA, shall be withheld from circulation until any changes specified by FINRA have been made or, in the event of disapproval, until the advertisement or educational material has been resubmitted for, and has received, FINRA approval.

Standards Applicable to Communications with the Public General Standards

The Firm shall avoid using any advertisement, educational material, sales literature or other communications to any customer or member of the public concerning options which:

- contains any untrue statement or omission of a material fact or is otherwise false or misleading;
- contains promises of specific results, exaggerated or unwarranted claims, opinions for which there is no reasonable basis or forecasts of future events which are unwarranted, or which are not clearly labeled as forecasts;
- contains hedge clauses or disclaimers which are not legible, which attempt to disclaim responsibility for the content of such literature or for opinions expressed therein, or which are otherwise inconsistent with such communication; or
- would constitute a prospectus as that term is defined in the *Securities Act of 1933*, unless it meets the requirements of Section 10 of said Act.

Specific Standards

The special risks attendant to options transactions and the complexities of certain options investment strategies shall be reflected in any advertisement, educational material or sales literature which discusses the uses or advantages of options. Such communications shall include a warning to the effect that options are not suitable for all investors. In the preparation of written communications respecting options, the following guidelines shall be observed:

- Any statement referring to the potential opportunities or advantages presented by options shall be balanced by a statement of the corresponding risks. The risk statement shall reflect the same degree of specificity as the statement of opportunities, and broad generalities should be avoided. Thus, a statement such as “with options, an investor has an opportunity to earn profits while limiting his risk of loss,” should be balanced by a statement such as “of course, an options investor may lose the entire amount committed to options in a relatively short period of time. “shall not be suggested that options are suitable for all investors;
- Statements suggesting the certain availability of a secondary market for options shall not be made.

Advertisements

- Advertisements may only be used (and copies of the advertisements may be sent to persons who have not received one or more options disclosure documents) if the material meets the requirements of *SEC Rule 134 under the Securities Act of 1933*. Under *Rule 134,* advertisements must be limited to general descriptions of the security being offered and of its issuer. Advertisements under this Rule shall state the name and address of the person from whom a current options disclosure document(s) may be obtained. Such advertisements may have the following characteristics:

- The text of the advertisement may contain a brief description of such options, including a statement that the issuer of every such option is the OCC;
- The advertisement may include any statement required by any state law or administrative authority;
- Advertising designs and devices, including borders, scrolls, arrows, pointers, multiple and combined logos and unusual typefaces and lettering as well as attention-getting headlines and photographs and other graphics may be used, provided such material is not misleading.

- The use of recommendations or of past or projected performance figures, including annualized rates of return, is not permitted in any advertisement pertaining to options.

Educational Materials

Educational material, including advertisements, pertaining to options may be used if the material meets the requirements of *SEC Rule 134A under the Securities Act of 1933*. Those requirements are as follows:

- The potential risks related to options trading generally and to each strategy addressed are explained;
- No past or projected performance figures, including annualized rates of return are used;
- No recommendation to purchase or sell any option contract is made;
- No specific security is identified other than a security which is exempt from registration under the Act, or an option on such exempt security, an index option, or foreign currency option;
- The material contains the name and address of a person or persons from whom the appropriate current Options Disclosure Document(s), as defined in SEC Rule 9b-1 of the Act, may be obtained.

Sales Literature

Sales literature pertaining to options shall conform to the following standards:

- Sales literature shall state that supporting documentation for any claims (including any claims made on behalf of options programs or the options expertise of sales persons), comparisons, recommendations, statistics or other technical data, will be supplied upon request;
- Such communications may contain projected performance figures (including projected annualized rates of return), provided that:
  - no suggestion of certainty of future performance is made;
  - parameters relating to such performance figures are clearly established;
  - o all relevant costs (commissions and interest charges) are disclosed;
  - such projections are plausible and are intended as a source of reference or a comparative device to be used in the development of a recommendation;
  - all material assumptions made in such calculations are clearly identified; o the risks involved in the proposed transactions are also discussed; and
  - in communications relating to annualized rates of return, that such returns are not based upon any less than a sixty-day experience; any formulas used in making calculations are clearly displayed; and a statement is included to the effect that the annualized returns cited might be achieved only if the parameters described can be duplicated and that there is no certainty of doing so.
- Such communications may feature records and statistics which portray the performance of past recommendations or of actual transactions, provided that:
  - any such portrayal is done in a balanced manner, and consists of records or statistics that are confined to a specific “universe” that can be fully isolated and circumscribed and that covers at least the most recent 12-month period;
  - such communications include the date of each initial recommendation or transaction, the price of each such recommendation or transaction as of such date, and the date and price of each recommendation or transaction at the end of the period or when liquidation was suggested or effected, whichever was earlier;

- such communications disclose all relevant costs, including commissions and interest charges (if applicable with regard to margin transactions) and, whenever annualized rates of return are used, all material assumptions used in the process of annualization;
- an indication is provided of the general market conditions during the period(s) covered, and any comparison made between such records and statistics and the overall market (e.g., comparison to an index) is valid;
- such communications state that the results presented should not and cannot be viewed as an indicator of future performance; and
- a ROP determines that the records or statistics fairly present the status of the recommendations or transactions reported upon and so initials the report.

14.12 Allocation of Exercise Assignment Notices

It is recommended that firms establish fixed procedures for the allocation to customers of exercise notices assigned in respect of a short position in option contracts in such firm's customer accounts. Such allocation shall be on a "first in-first out" or automated random selection basis that has been approved by FINRA or on a manual random selection basis that has been specified by the Association. Each firm shall inform its customers in writing of the method it uses to allocate exercise notices to its customer's accounts, explaining its manner of operation and the consequences of that system.
Moreover, Firms shall report its proposed method of allocation to FINRA and obtain the prior approval thereof, and such firms shall not change their method of allocation unless the change has been reported to and been approved by FINRA. This rule is not be applicable to allocation procedures submitted to and approved by another self-regulatory organization having comparable standards pertaining to methods of allocation.

Firms shall also preserve for a three -year period sufficient work papers and other documentary materials relating to the allocation of exercise assignment notices to establish the manner in which allocation of such exercise assignment notices is in fact being accomplished.

14.13 Electronic Transmission of Order - Control Procedures

Please refer to Section 15.16

Equities 15.00

The following section of the written supervisory procedure manual applies to broker-dealers conducting business in NASDAQ and over-the-counter (OTC) securities and include written supervisory procedures related to market making and proprietary trading activities. The Firm will conduct proprietary transactions in stock and warrants that are earned as the result of private placements and related underwriting services, and which are held until liquidation is favorable or necessary in its principal account.

Designated Principals are responsible for monitoring account holdings and activity for compliance with these requirements and shall report potential violations to the CCO.

15.01 General Supervision

Designated Principals

The Firm will appropriately designate an OTC trading supervisor to assume responsibility for monitoring overall compliance with the Firm's policies and procedures regarding OTC trading activities.

Account Supervision

The Firm's Designated Principals are responsible for monitoring all inventory positions on a daily basis in order to monitor inventory levels are maintained in accordance with the Firm's established guidelines and trading limits. The Head of Trading should also review the Firm's accounts (if any) for unusual trading patterns or indications of market manipulation.

15.02 Prompt Receipt and Delivery of Securities and Trading Limits

The Firm has implemented an internal policy to monitor the prompt receipt and delivery of all securities in accordance with FINRA Rule 11860.

Securities Purchases

The Firm may not accept a customer's purchase order for any security unless it has first ascertained that the customer placing the order or its agent agrees to receive securities against payment in an amount equal to any execution, even though such an execution may represent the purchase of only a part of a larger order.

Securities Sales

Long Sales

No member or persons associated with the firm shall accept a long sale order from any customer in any security (except exempt securities other than municipals) unless:

- The Firm has possession of the security;
- The customer is long in his account with the Firm;
- The Firm or person associated with the Firm makes an affirmative determination that the customer owns the security and will deliver it in good deliverable form within three (3) business days of the execution of the order; or
- The security is on deposit in good deliverable form with a FINRA broker-dealer, the Firm of a national securities exchange, a broker-dealer registered with the SEC, or any organization subject to state or federal banking regulations and that instructions have been forwarded to that depository to deliver the securities against payment.

Trading Limits

The Firm will implement and utilize its clearing firm, Vision Financial Markets ("Vision"), and order management system, ETNA Soft ("ETNA") and their sophisticated and commonly used tools to fulfill and manage its trading services.

Customer orders are entered into the ETNA platform or via Vision's order desk as a backup, . All pertinent information (customer, buy/sell, symbol, limit/market order, etc) are entered. Each order, and subsequent modification as appropriate, is automatically time stamped. Each order is generally routed to an execution venue for fulfillment. .

Orders placed on ETNA are reconciled overnight with Vision. ETNA will provide end of day files for OATS reporting purposes. The daily blotter for both client orders and proprietary trading will be reviewed daily and initialed manually or electronically by the respective Supervisor and filed daily.

The Firm will reject any DWAC request, or DTC receipt for a security that:

- Has had a closing price below $1.00 within the past 10 business days;
- Has stale or incomplete filings with SEC; or
- Is Non-exchange traded.

Other securities may be subject to additional review. The review process:

- May take up to two weeks; and
- May include research into the company and/or the client.

Characteristics that may trigger additional review include:

- Low Price;
- Large number of shares being deposited;
- Recent merger activity or name change;
- Restrictive legends;
- The company was a shell when the shares were issued;
- ACAT transfers that include substantial holdings with one or more of the above characteristics;
- Limited or no additional assets;
- Account equity of less than $10,000; or
- Other characteristics may also apply to the account or security under review.

The Firm will implement a risk mitigation strategy to limit its capital exposure in the market. Risks of trading will be mitigated as follows:

- The Firm will limit total overnight positions to $100,000 maximum, with no more than 25% in any one single position. Exceptions require Designated Principals approval; and
- The Firm will be required to have proprietary trading deposits.

Every trader will have a dollar trading limit tailored to their expected abilities and past experience. It will be mandatory, unless under special circumstance, that at the end of the month all traders will be flat (no negative exposure) in their positions. Holding positions over the month-end will require approval the CEO and such position(s) will be moved to a special Firm account and marked to the market. On a monthly basis, the Firm intends to make traders responsible for their respective principal trading losses. Should a trader at any time put firm capital beyond a reasonable risk threshold, the trader will be terminated.

Short Sales

Customer Short Sales

The Firm shall not accept a "short" sale order for any customer in any security unless the Firm or person associated with the Firm makes an affirmative determination that the Firm will receive delivery of the security from the customer or that the Firm can borrow the security on behalf of the customer

for delivery by settlement date. This requirement shall not apply, however, to transactions in corporate debt securities.

Proprietary Short Sales

The Firm shall not effect a “short” sale for its own account in any security unless the Firm makes an affirmative determination that the Firm can borrow the securities or otherwise provide for delivery of the securities by the settlement date.

Note: This requirement will not apply to transactions in corporate debt securities, to bona fide market making transactions by a FINRA broker-dealer in securities in which it is registered as a Nasdaq market maker, to bona fide market maker transactions in non- Nasdaq securities in which the market maker publishes a two-sided quotation in an independent quotation medium, or to transactions which result in fully hedged or arbitraged positions.

ACT or ORF Short Sale Reporting Requirements

The FINRA's short sale rule (Short Sale Rule or Rule 4320) generally prohibits firms from effecting short sales in NNM securities at or below the inside bid when the current inside bid is below the previous inside bid. FINRA Rule 7330, 6182, 6624 requires that firms indicate on ACT or ORF reports whether a transaction is a short sale or a short sale exempt transaction. In accordance with FINRA Rule 7330 (Trade Report Input), the ACT or ORF short- sale reporting requirements apply to all short-sale transactions in all securities reported to ACT or ORF, including: (i) NNM securities; (ii) SmallCap securities; (iii) OTC transactions in exchange- listed securities; (iv) OTC Bulletin Board securities; and (v) OTC equity securities.

Note: where execution systems such as the NASDAQ Market Center trade report to ACT or ORF on behalf of a firm, the Firm remains responsible for the proper reporting of the short-sale indicator and, therefore, must monitor that applicable short-sale information is entered accurately into the execution system. (NTM 04-40; Operative Date July 26, 2004)

Affirmative Determination Long Sales

To satisfy the requirements for an affirmative determination for long sales, the Firm must make a notation on the order ticket at the time the order is taken which reflects the conversation with the customer as to the present location of the securities in question, whether they are in good deliverable form and the customer’s ability to deliver them to the Firm within three (3) business days.

Short Sales

To satisfy the requirement for an affirmative determination for customer and proprietary short sales, the Firm must keep a written record which includes:

- If a customer assures delivery, the present location of the securities in question, whether they are in good deliverable form and the customer’s ability to deliver them to the Firm within three (3) business days; or
- If the Firm locates the stock, the identity of the individual and firm contacted who offered assurance that the shares would be delivered or that were available for borrowing by settlement date and the number of shares needed to cover the short sale; The Firm may rely on “blanket” or standing assurances (i.e., “Easy to Borrow” lists) that securities will be available for borrowing on settlement date to satisfy their affirmative determination requirements under this Rule.

For any short sales executed in Nasdaq National Market (NNM) or national securities exchange-listed (listed) securities, the Firm may rely on “Hard to Borrow” lists indicating NNM or listed securities that are difficult to

borrow or unavailable for borrowing on settlement date to satisfy their affirmative determination requirements under SEC Regulation SHO and FINRA Rule 11860, provided that:

- Any securities restricted pursuant to UPC 11830 must be included on such a list;
- The creator of the list attests in writing on the document or otherwise that any NNM or listed securities not included on the list are easy to borrow or are available for borrowing.

The Firm is permitted to use Easy to Borrow or Hard to Borrow lists under the following conditions:

- The information used to generate the list is less than 24-hours old;
- The member delivers the security on settlement date.

Note: "Hard to Borrow" lists only apply to NASDAQ National Market or exchange-listed securities. They do not apply to OTCBB and NASDAQ Small Cap securities. Broker-dealers must maintain a list of ALL securities that are AVAILABLE to be borrowed in OTCBB and NASDAQ Small Cap securities.

Expansion of the Affirmative Determination Requirements

Under Regulation SHO, the Firm is responsible for making an affirmative determination when receiving orders from non-firm broker-dealers. Rule 3370(b)(2) states that the firm may not accept a short sale order from a customer or non-firm broker-dealer unless it has made an affirmative determination that it will receive delivery of the security from the customer or non-firm broker-dealer or that the Firm can borrow the security on behalf of the customer or non-firm broker-dealer for delivery by settlement date.

The amendments to the affirmative determination requirements apply to all orders from non-firm broker-dealers, whether received manually via the telephone or electronically. The amendments, however, would not apply to those orders executed by the Firm as an “arm's length” transaction as defined by the absence of a commercial relationship between the non-firm broker-dealer and the Firm. Thus, the following relationships would not be considered arm's length:

1. arrangements in which a non-firm broker-dealer's order flow is sent to the Firm;
2. pre-existing understandings between a non-firm broker-dealer and the Firm regarding the execution of orders;
3. reciprocal business arrangements between a non-firm broker-dealer and the Firm;
4. de facto relationships between a non-firm broker-dealer and the Firm evidenced by the pattern or volume of order flow; or
5. any instance where an order sent by a non-firm broker-dealer is to be handled or "worked" by the Firm.

Furthermore, an arm's length transaction is not necessarily determined on an order-by- order basis. Firms are cautioned that execution of an order from a non-firm broker-dealer against its displayed quote may not be deemed an arm's length transaction if the totality of the circumstances of the relationship between the Firm and the non-firm broker-dealer indicate a commercial relationship. The concept of an arm's length transaction is intended to draw a distinction between those situations in which the Firm is acting merely as the buyer—as opposed to the facilitator—in respect of a non-firm broker-dealer's order flow. (NTM 04-21; Effective Date April 1, 2004)

Short Interest Reporting

FINRA Rule 4560 requires that the Firm maintains a record of total “short” positions in all proprietary and customer accounts in all equity securities (other than a “restricted equity security,” as defined in Rule 6420) and regularly report such information to FINRA in the manner FINRA prescribes.

Amended Rule 4560 codifies a previously issued interpretation that states that firms must record and report short positions existing in each individual firm or account on a “gross,” as opposed to a “net,” basis (including accounts of a broker-dealer): (1) that resulted from a “short sale,” as that term is defined in Rule 200(a) of

SEC Regulation SHO4 ; or (2) where the transaction(s) that caused the short position was marked “long,” consistent with SEC Regulation SHO due to the firm’s or the accounts net long position at the time of the transaction (e.g., aggregation units). Amended Rule 4560 also clarifies that firms are required to report only those short positions resulting from short sales that have settled or reached settlement date by the close of the FINRA-designated reporting settlement date. Therefore, short positions resulting from short sales that were effected but have not reached settlement date by the given designated reporting settlement date should not be included in a firm’s short-interest report for that reporting cycle. Of course, short-interest positions resulting from short sales that reached the expected settlement date, but failed to settle (i.e., resulted in a fail to deliver), must be included.

As a self-clearing broker-dealer, the Firm is required to submit short interest twice monthly. Short interest positions must be reported no later than 6pm Eastern Time, on the second business day after the reporting settlement date designated by FINRA. The Mid-Month Short Interest Report will continue to be based on short positions held by members on the settlement date of the 15th of each month. If the 15th falls on a weekend or another non-settlement date, the designated settlement date will be the previous business day on which transactions settled. The End-of-Month Short Interest Report will be based on short positions held on the last business day of the month on which transactions settle. All firms will continue to be required to report short positions in all securities they carry, irrespective of where the securities are listed.

Submission of Short Interest Data

The Firm shall file short its interest positions using one of the following methods: manual input into the Data Intake System; File Transfer Protocol (FTP); or an upload of a comma-separated values (“.csv”) file. All errors in the Firm’s file will be identified directly in the online draft, regardless of the method used to submit the data, for increased visibility and ease of correction. A firm will not be able to submit its filing to FINRA until it addresses all errors. The Firm has the option to delete all errors in its filing, if desired, by selecting “Delete Symbols with Errors.”

Reporting Positions That Are Active as of the Designated Settlement Date

FINRA requires firms to report short interest positions in securities that are active as of the close of the designated settlement date. It is the responsibility of each firm to monitor its data is complete and accurate, including confirming that each issue symbol is valid as of the designated settlement date.

The Firm can submit short interest reports on the designated settlement date. Because symbols can expire on an intra-day basis, the Firm may report a short interest position on the designated settlement date in an issue symbol that expires during the course of the business day and, thus, is invalid by the end of the day. To monitor that FINRA is collecting short interest positions for issue symbols that are active and valid as of the close of the designated settlement date, the new interface will not allow firms to report short interest positions on the designated settlement date; rather, it will accept the Firm’s short interest filings as of 8:00 a.m., Eastern Time, on the business day following the designated settlement date.

The Firm’s clearing agent, Vision, will submit short sale reporting pursuant to the procedures above.

If the 15th or last day of the month falls on a weekend or holiday, then the settlement date used will be the last settlement date prior to the weekend/holiday. The short interest report will be generated by the Firm’s clearing agent, Vision.

15.03 Order Ticket Review

The Designated Principals should review a representative sample of the Firm’s equities order tickets periodically to verify that all of the information is complete and accurate.

15.04 Customer Confirmation Review

The Designated Principals of the Firm should periodically review a representative sample of the Firm’s equities trade confirmations to verify that all of the information is complete and accurate.

FINRA Rule 2232 (Statements of Accounts to Customers)

FINRA Rule 2232 requires that confirmations of all transactions (including those made "over-the- counter" and on other exchanges) in securities admitted to dealings on the NYSE, sent by the Firm that are also firms of NYSE (Dual Members) to their customers, shall indicate the settlement date of the transaction and the name of the securities market on which the transaction was effected. This requirement also applies to confirmations or reports from a Dual Member to a correspondent, but does not apply to reports made by floor brokers to the Dual Member from which the orders were received.

With the adoption of Regulation NMS (Reg NMS), an increasing number of orders routed to a given market for execution are rerouted to other markets which at that time display a better quotation. This process, required under the Reg NMS Order Protection Rule, may often lead to relatively small orders receiving executions in multiple market centers. This has created an operational challenge for Dual Members to capture the name of the market of execution on a timely basis for inclusion on the transaction confirmation.

15.05 Customer Account Review

The Firm should conduct a periodic review of all customer accounts that engage in equities transactions to determine if there are any unusual trading patters or indications of sales practice abuses.

15.06 Fair Prices and Commissions

Principal Transactions

In accordance with Rule 2440, in the event that Firm buys from a customer or sells to a customer listed or unlisted OTC transactions from its own account, the Firm will monitor that it buy or sell at a price which is fair, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense involved, and the fact that he is entitled to a profit.

Agency Transactions

In the event that Firm acts as agent for its customer(s) in any such transaction, the Firm shall not charge its customer(s) more than a fair commission or service charge, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense of executing the order and the value of any service he may have rendered by reason of his experience in and knowledge of such security and the market.

Mark-up Policy ("5% Policy")

It shall be deemed a violation of FINRA Rule 2010 and FINRA Rule 2440 for a broker-dealer to enter into any transaction with a customer in any security at any price not reasonably related to the current market price of the security or to charge a commission which is not reasonable. With the adoption of the "5% Policy," the following details shall apply:

- The "5% Policy" is a guide, not a rule;
- A firm may not justify mark-ups on the basis of expenses which are excessive;
- The mark-up over the prevailing market price is the significant spread from the point of view of fairness of dealings with customers in principal transactions. In the absence of other bona fide evidence of the prevailing market, a firm's own contemporaneous cost is the best indication of the prevailing market price of a security;
- A mark-up pattern of 5% or even less may be considered unfair or unreasonable under the "5% Policy;"
- Determination of the fairness of mark-ups must be based on a consideration of all the relevant factors, of which the percentage of markup is only one.
- He Firm will charge a minimum commission of the lesser of $35 or actual sales proceeds

for listed securities, $75 or sales proceeds for shares purchased or sold for less than $1 per share or OTC trades.

Relevant Factors

The Firm should take into consideration the following factors in determining the fairness of a mark-up:

- 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 (1) the amount of commission charged in an agency transaction or (2) 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, particular attention should be given to the pattern of mark- ups;
- The Nature of the Firm's Business- there are certain differences in the services and facilities which are needed by, and provided for, customers of firms. 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 firm's mark-ups.
- Transactions to Which the Policy is Applicable

The "5% Policy" applies to all securities handled in the over-the-counter market in the following types of transactions:

- A transaction in which the Firm 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;
- A transaction in which the Firm 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 Firm 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;
- A transaction in which a broker-dealer purchases a security from a customer. The price paid to the customer or the mark-down applied by the broker-dealer must be reasonably related to the prevailing market price of the security;
- A transaction in which the broker-dealer acts as agent. In such a case, the commission charged the customer must be fair in light of all relevant circumstances;
- 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 Firm on the securities being liquidated, the proceeds of which are

used to pay for securities being purchased.

Transactions to Which the Policy is Not Applicable

The Mark-Up Policy does not apply to the sale of securities where a prospectus/offering circular is required to be delivered and the securities are sold at the specific public offering price.

15.07 Average Priced Trading

Occasionally, customers prefer to receive one confirmation representing an average price for multiple executions of the same security. SEC Rule 10b-10 mandates that broker-dealers provide confirmations for each transaction; however, the SEC has stated that it would permit average pricing of multiple executions if certain conditions are met.

The trader confirming an average price is responsible for ensuring that all of the following information is provided to the customer:

- All transactions, not just agency crosses, in Nasdaq listed and exchange-listed securities that are traded on a weighted average basis or effected based on other special pricing formula, to be reported with the .W modifier;
- The execution prices of each individual execution that filled the order must be averaged and the average price reported as the unit price on the confirmation. The confirmation must disclose that the price is an average price and that details regarding the actual process are available to the customer upon request;
- The confirmation must identify the capacity in which the Firm acted (principal; agent; or both principal and agent) and that details regarding the capacity of each execution fare available upon request; and
- The commission, markup, markdown, service charge, or other remuneration must be stated in a single amount for the transaction as a whole.

  Note: The trader's records must also include details of each execution comprising the average-priced transaction.

Volume-Weighted Average Price (VWAP) Transactions

In the event that the Firm executes a volume-weighted average price (VWAP) or other large, potentially market-moving transactions for a customer, the Firm must not engage in proprietary trading activity that compromises a customer's interest in favor of its own proprietary trading interest in accordance with just and equitable principles of trade under FINRA Rule 2010, and the Firm's best execution obligations pursuant to FINRA Rule 2320. Under such circumstances, the Firm has a duty to disclose in writing to the customer that the Firm may engage in hedging or other positioning activity that could affect the market for a security that is involved in the transaction. (NTM 05-51; Aug. 11, 2005).

When the Firm receives a customer's order, the Firm is obligated to: (1) refrain from any conduct that could disadvantage or harm the execution of a customer's order or place the Firm's financial interests ahead of those of its customer's, and (2) if applicable, disclose in writing to the customer that the Firm intends to engage in hedging and other positioning activity that could affect the market for the security that is the subject of the transaction, and consequently the cost or proceeds to the customer (collectively referred to as "the duty to refrain and disclose"). The disclosure will be made prior to receipt and/or execution of the order and be in the form of an affirmative consent letter that covers potential hedging and positioning transactions related to the handling of VWAP and other large orders. The Firm need not obtain affirmative consent on a transaction-by-transaction basis; however, such consent should occur at least annually to reaffirm their consent.

Marking of Orders

Depending on the terms and characteristics of an order, the Designated Principals will monitor that each VWAP order is properly classified as either long or short for purposes of order entry and reporting. Short sale

orders must be executed in compliance with all applicable FINRA and SEC short sale rules and regulations. With respect to a VWAP, both the individual trades by the Firm to accommodate the VWAP and the aggregate VWAP trade itself are subject to those short sale rules and regulations. In the event that the Firm is short the securities underlying a VWAP sell order, the Firm's order(s) may need to be marked "short" (or "short exempt," if applicable), depending on the Firm's (or aggregation unit's) overall position, even if the customer is long the subject securities.

Compensation

In the event that the Firm receives a VWAP or similar order, the Firm must disclose to the customer in writing the specifics of the terms of compensation it will receive to execute the order. Thus, for example, the Firm must disclose if intends to retain or split with the customer any profits that result if the Firm improves upon the VWAP.

The Designated Principals will conduct an evaluation of proprietary trading that took place in advance of the execution of VWAP orders. If applicable, the Designated Principals will reasonably monitor that customers affirmatively acknowledged the receipt of notice that the Firm may engage in hedging or other trading activity related to the execution of a customer's order.

All hedging or positioning trades will be reviewed by the Designated Principals prior to completing each trade. The Designated Principals will also review to monitor that, other than for the purpose of fulfilling the customer order, under no circumstances may the Firm trade for its proprietary account on the non-public information it receives from the current or prospective customer or communicate such non-public information to another entity or person outside of the Firm. In the event that suspicious activity is discovered (i.e. creating an artificial appearance of demand (supply) for the security or establishing artificially high (low) prices by engaging in unnecessary trading, increased quote activity, or entering orders around the close of when a VWAP or other large order is executed), the Designated Principals will promptly investigate the incident in an effort to resolve the matter. Any violations of Firm policies may result in disciplinary action.

15.08 Block Transactions

A "block transaction" is defined as 10,000 or more shares of a common security, or a quantity of any such security having a market value of $200,000 or more ("block size") that is traded on a qualified exchange. All appropriately licensed registered representatives of the Firm may engage in block transaction requests from customers as defined above. In order for block transactions to occur, the following conditions shall be met:

- Each registered representative who receives a block transactions shall obtain approval from the Designated Principals prior to conducting such transaction; and
- All block transaction requests from customers will be reviewed for suitability based on customer's investment experience, financial condition, and overall investment objectives.

15.09 Best Execution and Interpositioning

In accordance with FINRA Rule 2320, the Firm maintains a strict adherence to its responsibility to achieve best execution for its clients. In order to achieve this goal, in any transaction for or with a customer or a customer of another broker-dealer (Ref. NTM 06-58; Effective Nov. 8, 2006), the Firm shall use reasonable diligence to ascertain the best inter-dealer market for the subject security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions.

"Reasonable Diligence" Standard

The Firm has established policies and procedures to regularly and rigorously examine the execution quality to be obtained from the different markets or market makers trading in particular securities. This analysis must compare the quality of the executions the Firm is obtaining via current order routing and execution arrangements (including the internalization of order flow) to the quality of the executions that the Firm could obtain from competing markets and market centers. Accordingly, the Firm must evaluate whether opportunities exist for obtaining improved executions of customer orders.

Among the factors that will be considered in determining whether the Firm has used “reasonable diligence” are:

- the character of the market for the security, e.g., price, volatility, relative liquidity, and pressure on available communications;
- the size and type of transaction;
- the number of primary markets checked;
- accessibility of the quotation [location and accessibility to the customer’s broker-dealer of primary markets and quotations sources]; and
- the terms and conditions of the order which result in the transaction, as communicated to the Firm and persons associated with the Firm.

Execution of Customer Orders

FINRA requires executing broker-dealers to execute customer orders or executable limit orders in less than 60 seconds under normal market conditions. Unusual market conditions can include the market open, the resumption of trading after a market halt, or any other unusual situation that disrupts normal trading activity. However, executing broker-dealers must realize that even 60 seconds may be considered too long to execute a marketable order. Therefore, all executing broker-dealers firms should establish and enforce written supervisory procedures to monitor a regular and rigorous examination of all available markets to monitor that all customers receive best execution.

Interpositioning

In any transaction for or with a customer, the Firm will not interject a third party between the Firm and the best available market except in cases where the Firm can demonstrate that to its knowledge at the time of the transaction the total cost or proceeds of the transaction, as confirmed to the Firm while acting for or with the customer, was better than the prevailing inter-dealer market for the security.

In the event the Firm cannot execute directly with a market maker but must employ a broker’s broker or some other means in order to monitor an execution advantageous to the customer, the burden of showing the acceptable circumstances for doing so is on the retail firm. Examples of acceptable circumstances are where a customer’s order is “crossed” with another retail firm which has a corresponding order on the other side, or where the identity of the retail firm, if known, would likely cause undue price movements adversely affecting the cost or proceeds to the customer.

Failure to maintain or adequately staff an over-the-counter order room or other department assigned to execute customers’ orders cannot be considered justification for executing away from the best available market; nor can channeling orders through a third party as described above as reciprocation for service or business operate to relieve the Firm of his obligations. However, the channeling of customers’ orders through a broker’s broker or third party pursuant to established correspondent relationships under which executions are confirmed directly to the Firm acting as agent for the customer, such as where the third party gives up the name of the retail firm, are not prohibited if the cost of such service is not borne by the customer.

The obligations exist not only where the Firm acts as agent for the account of its customer but also where retail transactions are executed as principal and contemporaneously offset.

Best Execution for Non-Nasdaq Securities (Three Quote Rule)

Rule 2320(g) (Three Quote Rule) required broker-dealers that execute transactions in non- Nasdaq securities on behalf of customers to contact a minimum of three dealers (or all dealers if three or fewer) and obtain quotations in determining the best inter-dealer market. The Three Quote Rule is intended to create a standard to help monitor that firms fulfill their best execution responsibilities to customers in non-Nasdaq securities, particularly in transactions involving relatively illiquid securities with non-transparent prices.

Rule Amendments

In accordance with NTM 00-78, the SEC approved the following amendments to Rules 2320(g) and 3110(b):

- FINRA Rule 2320(g), as amended, now require broker-dealers to obtain quotations from three dealers (or all dealers if three or fewer) only when there are fewer than two priced quotations displayed in an inter-dealer
- quotation system that permits quotation updates on a real-time basis (such as the OTCBB or the electronic pink sheets);
- FINRA Rule 3110(b)(2), as amended, currently requires that broker-dealers indicate on the order ticket for each transaction in a non-Nasdaq security the name of each dealer contacted and the quotations received to determine the best inter-dealer market. Under the amendments, firms are not required to note such information on the order ticket if two or more priced quotations are displayed in an inter-dealer quotation system and FINRA Regulation has access to the quotation data

  Note: As a result, broker-dealers are relieved of certain recordkeeping burdens in which FINRA Regulation can validate and confirm compliance with applicable requirements directly through its internal historical data. Currently, FINRA has access to such data with respect to the OTCBB securities; however, it does not have access to historical quotation data for the electronic pink sheets.

- Finally, the amendments require broker-dealers that display priced quotations for the same security in two or more quotation mediums that permit quotation updates on a real-time basis to display the same priced quotations in each system. This obligation exists even where the quotation displayed represents a customer limit order.

IM-2320. Interpretive Guidance with Respect to Best Execution Requirements

Rule 2320(a) requires, among other things, that a firm or person associated with a firm comply with Rule 2320(a) when customer orders are routed to it from another broker-dealer for execution. This Interpretive Material addresses certain interpretive questions concerning the applicability of the best execution rule.

The term “market” has been in the text of Rule 2320 since its adoption, but it is an undefined term. For the purposes of Rule 2320, the term “market” or “markets” is to be construed broadly and it encompasses a variety of different venues, including, but not limited to, market centers that are trading a particular security. This expansive interpretation is meant to both inform broker-dealers as to the breadth of the scope of venues that must be considered in the furtherance of their best execution obligations and to promote fair competition among broker-dealers, exchange markets, and markets other than exchange markets, as well as any other venue that may emerge, by not mandating that certain trading venues have less relevance than others in the course of determining a firm’s best execution obligations

Rule 2320(a)(4) provides that one of the factors used to determine if a firm has used reasonable diligence in exercising best execution is the “location and accessibility to the customer’s broker-dealer of primary markets and quotations sources.” In the context of the debt market, this means that, when quotations are available, FINRA will consider the ‘’accessibility of such quotations’’ when examining whether the Firm has used reasonable diligence. For purposes of debt securities, the term “quotation” refers to either dollar (or other currency) pricing or yield pricing. FINRA notes, however, that accessibility is only one of the non-exhaustive reasonable diligence factors set out in Rule 2320. In the absence of accessibility, firms are not relieved from taking reasonable steps and employing their market expertise in achieving the best execution of customer orders.

Lastly, FINRA is clarifying that a firm’s duty to provide best execution in any transaction “for or with a customer of another broker-dealer” does not apply in instances when another broker-dealer is simply executing a customer order against the Firm’s quote. Stated in another manner, the duty to provide best execution to customer orders received from other broker-dealers arises only when an order is routed from the broker-dealer

to the Firm for the purpose of order handling and execution. This clarification is intended to draw a distinction between those situations in which the Firm is acting solely as the buyer or seller in connection with orders presented by a broker-dealer against the Firm's quote, as opposed to those circumstances in which the Firm is accepting order flow from another broker-dealer for the purpose of facilitating the handling and execution of such orders. (Ref. NTM 06-58; Effective Nov. 8, 2006)

Best Execution Report Cards

FINRA Regulation issues "Compliance Report Cards" for best execution to the Firms. This report card assists firms by reflecting the percentage of each firm's transactions where the Firm apparently has executed trades under a certain size at a price inferior to the NBBO. This report card sets forth in percentage terms the extent to which the Firm has (or has not) executed transactions at the NBBO and ranks such firms against others the Firms that execute a similar number of transactions.

The Firm will order the Best Execution Report Cards from NASDAQ Subscriber Services (www.nasdaqtrader.com) monthly to evaluate the Firm's Best Execution compliance.

15.10 Stock Volatility and Extreme Market Conditions

In accordance with NTM 99-11, broker-dealers are required to have adequate systems in place to properly handle high volume or high volatility trading days. As a result, all broker-dealer firms have a legal obligation to handling orders in a fair manner in addition to providing adequate and clear disclosures to customers about the risks arising out of evolving volatility and volume concerns and any related constraints on a firm's ability to process orders in a timely and orderly manner.

Therefore, all broker-dealer firms, both order entry firms (i.e., firms with a retail business that route orders to other firms for execution) and integrated firms (i.e., firms with a large retail business that also engage in market making and other activities), whether they offer on-line trading services or not are encouraged to consider making the following types of disclosures to educate retail customers about their procedures for handling the execution of a securities transaction, particularly during volatile market conditions, along with any additional disclosures they deem appropriate.

Delays

Firms should consider disclosing that high volumes of trading at the market opening or intra-day may cause delays in execution and executions at prices significantly away from the market price quoted or displayed at the time the order was entered. Firms should consider explaining to customers how order executions are handled by Market Makers, and explain that Market Makers may execute orders manually or reduce their size guarantees during periods of volatility, resulting in possible delays in order execution and losses.

Types of Orders

Firms should consider explaining in detail the difference between market and limit orders and the benefits and risks of each. In particular, firms should consider disclosing that they are required to execute a market order fully and promptly without regard to price and that, while a customer may receive a prompt execution of a market order, the execution may be at a price significantly different from the current quoted price of that security. Firms should tell customers that limit orders will be executed only at a specified price or better and that, while the customer receives price protection, there is the possibility that the order will not be executed.

As a related matter, firms should consider additional disclosure for customers who place market orders for initial public offering (IPO) securities trading in the secondary market, particularly those that trade at a much higher price than their offering price, or in "hot stocks" (those that have recently traded for a period of time under what is known as "fast market conditions," in which the price of the security changes so quickly that quotes for a stock do not keep pace with the trading price of the stock). Firms may disclose that in such cases customers' risk of receiving an execution substantially away from the market price at the time they place the order may be significantly reduced if they also include a cap (or floor) with the order above (or below) which

the order is not to be executed, by placing a limit order.

Access

Firms should consider alerting customers that they may suffer market losses during periods of volatility in the price and volume of a particular stock when systems problems result in inability to place buy or sell orders. Customers trading on-line may have difficulty accessing their accounts due to high Internet traffic or because of systems capacity limitations. Customers trading through brokers at full-service or discount brokerage firms or through representatives of on-line firms when on-line trading has been disabled or is not available because of systems limitations may have difficulty reaching account representatives on the telephone during periods of high volume. Firms should explain their procedures for responding to these access problems.

Communication with the Public

The Firm may use advertisements or sales literature to make claims about the speed and reliability of their trading services. These communications with the public must not exaggerate the Firm's capabilities or omit material information about the risks of trading and the possibilities of delayed executions. Moreover, firms should have the systems capacity to support any claims they make about their trading services.

Alternative Solutions for Handling Stock Volatility

Although some of the information above may be appropriate responses to trading in securities experiencing extraordinary volatility, they may not be sufficient or appropriate responses in all circumstances. Each action provides protection to the Firm and obviously also impacts a firm's customers wishing to trade those securities. Therefore, the following information provides additional alternatives for handling extreme stock volatility:

Hot IPOs and Hot Stocks

Under extreme stock volatility, a firm may also decide to halt on-line trading of hot IPOs and stocks, requiring customers to purchase these securities through a registered representative, either in person or via the telephone. When contacted, representatives can explain, for example, the difference between market and limit orders and the benefits and risks of each, and encourage customers whose primary goal is to achieve a target price and protect against sudden price moves, and who understand that there is a possibility that the order will not be executed, to enter limit orders. When used, this halt has been implemented only for a short period of time, typically one day.

Other firms may choose to not accept market orders for hot IPOs, requiring customers who wish to buy these stocks to enter a limit order specifying the highest price they would pay for these issues. Still other firms do not accept any orders for certain IPOs that are forecast to be hot until the IPO begins trading in the secondary market.

Margin

Some firms may raise margin requirements for volatile stocks. Some firms that permit on-line trading have raised the amount of equity that must be maintained in margin accounts (maintenance margin) for long positions in certain volatile stocks to between 40 percent and 100 percent. Increasing maintenance margin requirements protects both the Firm and customers by ensuring that investors have more equity in their margin accounts as protection in case of a large change in the value of a stock, which reduces the likelihood that the Firm will have to liquidate assets in the customer's account to meet a margin call.

Some on-line firms also have responded to recent volatility by prohibiting the use of margin to purchase certain securities. Some securities have been designated as "not marginable," requiring customers to purchase the securities with 100 percent initial margin, allowing payment to be made within three days of settlement. Firms also have designated certain securities as "cash on hand," requiring customers to have 100 percent of the purchase price of the security in the account before the transaction can be executed.

Investor Education

Many firms provide some kind of investor education on issues related to market volatility on their Web sites. This education may be found in a part of the Web site devoted generally to investor education and in firm newsletters. Many firms also have customer help desks and support agents, both of which provide answers to customer questions.

Pop-up or Splash Screens

Some firms may add a “pop -up” page that a customer must view when entering the customer account pages of their Web sites indicating, for example, that maintenance margin has been raised for certain listed securities; trade reports may be delayed; only limit orders will be accepted for certain securities; and the latest “real-time” quotes viewed on the site may not be reflective of the current trading price of a stock.

Operation of Automated Order Execution Systems during Turbulent Market Conditions

In accordance with NTM 99-12, broker-dealer firms should consider the following guidelines when evaluating whether their order execution algorithms or procedures are appropriate during turbulent market conditions.

- The treatment of customer orders under any order execution algorithm or procedure must remain fair, consistent, and reasonable;
- To the extent that a firm’s order execution algorithm or procedures are different during turbulent market conditions, the Firm should disclose to its order entry firms (and customers if applicable) the differences in the procedures from normal market conditions and the circumstances in which the Firm may generally activate these procedures;
- Modifications to order execution algorithms or procedures designed to respond to turbulent market conditions may be implemented only when warranted by market conditions. Accordingly, firms should document the basis for activation of their modified procedures;
- Frequent activation of modified order execution algorithms or procedures because a firm has failed to maintain adequate system capacity to handle exceptional loads may raise best execution concerns;
- Failure to maintain or adequately staff an over-the-counter order room or other department assigned to execute customers’ orders cannot be considered justification for executing away from the best available market.

15.11 Margin Requirements During Extreme Market Volatility

The Firm does not intend to offer margin to its customers. However, it has deemed the following procedures to be instructional and therefore left them in tact in the manual. The procedures will be implemented if the Firm is later approved to offer margin.

During periods of extreme market volatility, the Firm may incur additional risks from clients who effect transactions on a margin basis. General Market volatility or volatility in certain stocks can dramatically increase the Firm’s and the client’s risk of losses or forced liquidations due to maintenance calls. As a result, the Firm will reevaluate its margin requirements during periods of market volatility.

Pursuant to FINRA Rule 2520, the Designated Principals will be responsible to monitor that the Firm has adequate procedures to:

- Review margin limits and the various types of credit extended to clients;
- Compute its own (house) margin requirements above those required by SEC RegulationT; and
- Evaluate the necessity for implementing higher margin requirements.

When considering higher margin requirements the Designated Principals shall examine general market volatility, market capitalization, and fluctuations in particular stocks. The Designated Principals shall also create and maintain a list of “Non-Marginable” securities and monitor that the list is distributed to each registered person at the beginning of each day.

15.12 Left Intentionally Blank

15.13 Market Wide Trading Halts

In circumstances in which Nasdaq deems it necessary to protect investors and the public interest, Nasdaq may, in accordance with Rule 4120 halt trading in the following areas:

- Halt trading in the over-the-counter market of a security listed on Nasdaq to permit the dissemination of material news; or
- Halt trading in the over-the-counter market of a security listed on a national securities exchange during a trading halt imposed by such exchange to permit the dissemination of material news; or
- Halt trading by CQS market makers in a CQS security when a national securities exchange imposes a trading halt in that CQS security because of an order imbalance or influx ("operational trading halt");
- Halt trading in an ADR or other security listed on Nasdaq, when the Nasdaq-listed security or the security underlying the ADR is listed on or registered with a national or foreign securities exchange or market for regulatory reasons;
- Halt trading in a security listed on Nasdaq when Nasdaq requests from the issuer information relating to material news,
- Halt trading in a security listed on Nasdaq when extraordinary market activity in the security is occurring.

Pursuant to Notice-to-Members 99-05, the Firm will apply the following procedures during market wide trading halts due to extreme volatility or other technological circumstances.

- The Firm shall not effect any transaction or publish a quotation in any security as to which a trading halt is currently in effect;
- During market-wide trading halts of durations that will allow trading to resume on that same trading day, pending and new customer orders will be forwarded to the appropriate market for execution upon the resumption of trading. This should be done unless the Firm receives contrary instructions from the customer during the halt;
- During market-wide trading halts resulting from the triggering of circuit breakers, customer orders will be handled in the same manner as they would be handled during other regulatory trading halts concerning only individual stocks (see trading halts);
- During market-wide trading halts with durations that will close the market for the remainder of the trading day, pending and new customer orders should be treated as follows:

    - Unless otherwise instructed by the customer, orders that are pending at the time of the halt, and new orders received after the halt has commenced, will be treated as "Good-Till-Cancelled" orders and be held by the Firm for execution at the reopening of the next trading session.

    - "At-the-Close" orders (including "Market-at-Close" orders) pending at the time trading is halted will be treated as cancelled orders. Firms should not accept, or forward to a market, any new orders related to closing prices
      received during a trading halt.

15.14 Market Order Protection

Prohibiting Trading Ahead of Customer Market Orders under Certain Circumstances

Rule 2111 prohibits the Firm that accepts and holds a customer market order from trading for its own account on the same side of the market as the customer market order at prices that would satisfy the customer's order,

unless it immediately thereafter executes the customer market order up to the size and at the same price or better at which it traded for its own account. Similar to the application of the Manning Rule, customer market orders would include orders received from the Firm's own customers or customer orders received from another broker- dealer.

In addition, if the Firm is holding a customer market order that has not been immediately executed, Rule 2111 requires that the Firm make every effort to match the pending market order against any market orders, marketable limit orders or non-marketable limit orders priced better than the best bid or offer, received by the Firm on the other side of the market. Such orders must be executed at a price that is no less than the best bid, no greater than the best offer at the time the subsequent order is received by the Firm, and consistent with the terms of the pending market order.

In the event that the Firm is holding multiple orders on both sides of the market that have not been executed, the Firm must make every effort to cross or otherwise execute such orders in a manner that is reasonable and is consistent with the objectives of the rule and with the terms of the orders. Firms must have a written methodology in place governing the execution priority of all such pending orders, whether the Firm is holding one order or multiple orders on both sides of the market, and must monitor that such methodology is consistently applied.

Rule 2111 also applies to limit orders that are marketable at the time they are received by the Firm or that become marketable at a later time. Once marketable, such limit orders are treated as market orders for purposes Rule 2111; however, these orders must continue to be executed at their limit price or better. If a customer limit order is not marketable when received, the limit order must be provided the full protections of the Manning Rule, as applicable. In addition, if the limit order was marketable when received and then becomes non-marketable, once the limit order becomes non-marketable, it must be provided the full protections of Manning Rule.

Rule 2111 applies to the Firm irrespective of the market or market center upon which they trade. As such, if the Firm were to execute a proprietary trade on an exchange while holding a customer market order on the same side of the market, the Firm will be deemed to have violated Rule 2111 unless (1) the Firm immediately provides an execution to that market order at a price equal to or better than the proprietary trade; or (2) the Firm's proprietary trade was in accordance with a functional role, recognized within the rules of that exchange, of acting as a liquidity provider, such as acting in the role of a specialist or some other substantially similar capacity.

Rule 2111 also incorporates several of the same types of exclusions that apply to the Manning Rule.

- Rule 2111 permits the Firm to negotiate specific terms and conditions applicable to the acceptance of a market order with respect to a market order for customer accounts that meet the definition of an "institutional account" as that term is defined in Rule 3110(c)(4) or a market order that is for 10,000 shares or more, unless such order is less than $100,000 in value.
- Rule 2111 provides an exception for firm proprietary trades that are part of an execution, on a riskless principal basis, of another order from a customer (whether its own customer or the customer of another firm) (the "facilitated order"). This exclusion applies only if the following requirements are met: (1) the handling and execution of the facilitated order must satisfy the definition of a "riskless" principal transaction, as that term is defined in FINRA rules; (2) the Firm must give the facilitated order the same per-share price at which the Firm accumulated or sold shares to satisfy the facilitated order, exclusive of any markup or markdown, commission equivalent or other fee; (3) the Firm must submit, contemporaneously with the execution of the facilitated order, a report as defined in FINRA Rules 6380A/6181/6623, 4642(d)(3)(B)(ii), 4652(d)(3)(B)(ii), 6420(d)(3)(B)(ii) or 6282, or a substantially similar report; and (4) firms must have written policies and procedures to assure that riskless principal transactions relied upon for this exclusion comply with applicable FINRA rules. (NTM 05-69; Effective Jan. 9, 2006; Ref. NTM 06-03).

15.15 Trading Ahead of Customer Limit Order

Note: IM 2110-2 and NASD Rule were superseded by FINRA Rules 5320 and 6560 (Limit Order Protection Rule). A rule description was not published for 6560 therefore, the Firm will continue to see to IM-2110-2 and 6541 for guidance in the interim.

On February 26, 2007, the SEC approved amendments to Interpretive Material (IM) 2110-2, Trading Ahead of Customer Limit Order, to apply to over-the-counter (OTC) equity securities. The amendments also modify the minimum price improvement standards set forth in IM-2110-2 with respect to both NMS stocks and OTC equity securities. IM-2110-2, The amendments become effective on July 26, 2007.

IM-2110-2 generally prohibits the Firm from trading for its own account in an NMS stock at a price that is equal to or better than an unexecuted customer limit order in that security, unless the Firm immediately thereafter executes the customer limit order at the price at which it traded for its own account or a better price. Rule 6541 (Limit Order Protection), which is similar but not identical to IM-2110-2, applies the general principles of IM-2110 -2 to a subset of OTC equity securities—those that are quoted on the OTC Bulletin Board (OTCBB). On February 26, 2007, the SEC approved amendments that expand the scope of IM-2110-2 to apply to all OTC equity securities and delete Rule 6541, as those requirements are now subsumed in IM-2110-2.

Effective July 26, 2007, firms must comply with the requirements of IM-2110-2 for those limit orders previously covered by Rule 6541.

- First, both IM-2110-2 and Rule 6541 provide that the Firm is not deemed to have traded ahead of a customer limit order if the Firm provides a contemporaneous execution of the customer's order. Rule 6541 currently provides a maximum time limit of five minutes, within which an execution of a customer order will be deemed contemporaneous with an execution for the Firm firm's account. IM-2110-2 prescribes a shorter maximum time limit (as soon as possible, but absent reasonable and documented justification, within one minute) within which an execution of a customer order will be deemed contemporaneous with an execution for the Firm's account. In addition, Rule 6541 requires that the customer limit order be executed at the limit price, while IM-2110-2 requires that the customer limit order be executed at the price of the Firm's execution if better than the limit price. Accordingly, upon implementation of the amendments, firms must comply with the IM-2110-2 standard for all securities.

- Second, IM-2110-2 contains a higher dollar value threshold for the order size at which firms may negotiate terms and conditions to permit them to continue to trade alongside of, or ahead of, the limit order, if the customer agrees. Rule 6541 requires that an order be 10,000 shares or more and greater than $20,000 in value, while IM-2110-2 requires that an order be 10,000 shares or more and greater than $100,000 in value. Upon implementation of the amendments, firms must comply with the higher dollar value threshold for all securities.

- Third, IM-2110-2 applies from 9:30 a.m. to 6:30 p.m. Eastern Time (ET), whereas Rule 6541 currently applies only during the normal market hours of 9:30 a.m. to 4:00 p.m. ET

- Finally, IM-2110-2 and Rule 6541 contain different standards relating to the minimum level of price improvement that the Firm must provide to trade ahead of an unexecuted customer limit order. Rule 6541 requires that for customer limit orders priced at or inside the current inside spread, the minimum price improvement must be a minimum of the lesser of $.01 or one-half (1/2) of the current inside spread. IM-2110-2 currently requires a minimum price improvement of a $.01 for limit orders priced at or inside the best inside market. For customer limit orders priced outside the best inside market, IM-2110-2 currently requires minimum price improvement at a price at least equal to the next superior minimum quotation increment, while Rule 6541 does not set a minimum price level (although it does require price improvement in such circumstances)

The amendments revise the price-improvement standards for both NMS stocks and OTC equity securities, making them uniform depending on the price of the customer limit order and whether it is priced inside or outside the best inside market. Specifically, for customer limit orders priced greater than or equal to $1.00 that are at or inside the best inside market, the minimum amount of price improvement required is $0.01 for NMS stocks and the lesser of $0.01 or one-half (1/2) of the current inside spread for OTC equity securities (Notice 08-49; Effective Nov. 11, 2008). For customer limit orders priced greater than or equal to $.01 and less than $1.00 that are at or inside the best inside market, the minimum amount of price improvement required is the lesser of $0.01 or one- half (1/2) of the current inside spread. For customer limit orders priced outside the best inside market, the Firm is required to execute the incoming order at a price at or inside the best inside market for the security. Lastly, for customer limit orders in securities for which there is no published inside market, the minimum amount of price improvement required is $0.01 (NTM 07- 19; Effective July 26, 2007)

For customer limit orders priced less than $.01 but greater than or equal to $0.001, the minimum amount of price improvement required is the lesser of $0.001 or one-half (1/2) of the current inside spread; For customer limit orders priced less than $.001 but greater than or equal to $0.0001, the minimum amount of price improvement required is the lesser of $0.0001 or one-half (1/2) of the current inside spread; For customer limit orders priced less than $.0001 but greater than or equal to $0.00001, the minimum amount of price improvement required is the lesser of $0.00001 or one-half (1/2) of the current inside spread; For customer limit orders priced less than $.00001, the minimum amount of price improvement required is the lesser of $0.000001 or one- half (1/2) of the current inside spread; and for customer limit orders priced outside the best inside market, the minimum amount of price improvement required must either meet the requirements set forth above or the Firm must trade at a price at or inside the best inside market for the security. If the minimum price improvement standards above would trigger the protection of a pending customer limit order, any better-priced customer limit order(s) must also be protected under this IM, even if those better-priced limit orders would not be directly triggered under the minimum price-improvement standards above. (Notice 08-49; Effective Nov. 11, 2008)

Alternative Means for Calculating Minimum Price-Improvement

Note: Prior to the amendments, in cases where there was no current inside spread for a security, the minimum price-improvement standard would default to the fixed amount which, in certain circumstances, was equal to the price of the customer limit order. For example, where a firm received a customer limit order to sell priced at $.01 and there was no current published inside spread, the minimum price-improvement standard would have been equal to $.01, which required the Firm to sell for its own account at 0 ($.01minus $.01) to avoid triggering the customer limit order. Thus, firms were effectively prohibited from selling while the customer limit order was still pending. To address this unintended consequence, FINRA has amended IM-2110-2 to provide an alternative means of calculating the minimum price improvement obligation in cases where a firm receives a customer limit order in an OTC equity security that is priced below $1.00 and there is no current published inside spread. In such cases, firms may calculate the current inside spread by contacting and obtaining priced quotations from at least two unaffiliated dealers. Once the Firm has obtained bid and ask prices from at least two unaffiliated dealers, the Firm must use the highest bid and lowest offer as the basis for calculating the current inside spread for determining its minimum price improvement obligation. Additionally, where there is a one-sided quote, the amendments permit a firm to determine the current inside spread by using the best price obtained from at least two unaffiliated dealers on the other side of the quote. The amendments require that firms document (1) the name of each dealer contacted and (2) the quotations received that were used as the basis for determining the current inside spread. This alternative means of calculating the current inside spread applies solely to minimum price-improvement calculations under IM-2110-2 and would not implicate other rules or requirements (e.g., Three Quote Rule). (Notice 09-14; Effective Feb. 11, 2009)

Intermarket Sweep Order Exemption

The Firm shall be exempt from the obligation to execute a customer limit order in a manner consistent with this interpretation with regard to trading for its own account that is the result of an intermarket sweep order routed in compliance with Rule 600(b)(30)(ii) of Regulation NMS (“ISO”) where the customer limit order is received after the Firm routed the ISO. The Firm also shall be exempt with respect to trading for its own account that is the result of an ISO where the Firm executes the ISO to facilitate a customer limit order and

that customer has consented to not receiving the better prices obtained by the ISO.

The obligations under this rule shall not apply to trading for the Firm's own account that is the result of an intermarket sweep order routed in compliance with Rule 600(b)(30)(ii) of Regulation NMS ("ISO") where the customer market order is received after the Firm routed the ISO. The obligations under this rule also shall not apply with respect to trading for the Firm's own account that is the result of an
ISO where the Firm executes the ISO to facilitate a customer market order and that customer has consented to not receiving the better prices obtained by the ISO. (Notice 08-31; Effective May 6, 2008.

15.16 Electronic Transmission of Order - Control Procedures

Physical Security of System
Correspondent shall monitor that web-based or software-based applications containing order entry access is available only via password protected work stations. In the event access is no longer required, Correspondent shall notify Vision to make arrangements for deactivation of that user's order entry access.

Issuance of Order Entry Access
Vision will issue access to the system order-entry functionality to persons who the Correspondent has determined have a legitimate business need to access the order-entry system. In making such a determination, the Correspondent should consider the nature and supervision of the person's responsibilities. By granting access or requesting that Vision issue order-entry access to a person, Correspondent represents that the Correspondent has determined that this person has a legitimate business need to use the order-entry system.

Protection of User IDs / Passwords
Correspondent shall monitor that any terminal identification, password or other access key issued by Vision is used only by the individual to whom it is issued and such supervisors who you determine may have a need to use the person's identification. Correspondent shall also monitor that authorized individuals are instructed to keep confidential user sign-ons and passwords.

Training Authorized Personnel
Correspondent shall adequately train persons who have been issued order-entry access in the proper and authorized use of the system. Correspondent shall have a process for conducting ongoing training of new and current individuals for whom they have requested order-entry access. Such training should include, but not be limited to, the following: (1) the mechanics of order entry, (2) exchange rules, requirements and prohibitions, (3) validation of orders, (4) error correction, (5) system edits, (6) interpreting system messages and order entry screens.

Notification of Change in Status; Unusual Events
Correspondent shall be responsible for promptly notifying Vision of any events which would require a change in an authorized persons' access (e.g. termination of employment, change in job function, etc.), or any unusual event regarding electronic order entry such as system malfunction or security breach.

Trading
Correspondent is responsible for supervision of compliance with exchange and SEC rules and regulations governing the transmission of orders to the various market centers. This includes, but is not limited to:

- transmission of orders to the NYSE's SuperDOT system, MOC/LOC order entry procedures (updated periodically by the NYSE), NYSE Rule 80A –Index Arbitrage / Program Trading and Odd Lot Trading (NYSE Information Memos 94-14 and 91-29); and
- transmission of orders to the CBOE's Order Routing System ("ORS") and Retail Automatic Execution System ("RAES").

The NYSE's Individual Investor Express Delivery Service ("REDS") is a program within SuperDOT designed to assure that individual customer orders receive executions comparable to large orders in heavy trading.

The CBOE's Retail Automatic Execution System ("RAES") similarly identifies small public customer orders, for 10 contracts or fewer,' which are entered into the CBOE's Order Routing System ("ORS") to assure that they receive best execution.

Both of these systems use order parameters to identify those transactions which can be routed through LLEDS and RAES, including; identification of whether a transaction is a customer or proprietary order, and order size.

In order to assure that only those transactions which should properly be directed for execution through these systems are sent for execution through IIEDS and RAES, Correspondents must assure that their associated persons who enter orders be familiar with the operation and limitations on the use of such systems, including, but not limited to the following;

- **Proper Identification of Orders**
  When entering transactions which may be directed through the NYSE's SuperDOT system or the CBOE's RAES system, accounts must be properly identified as required by the exchange; for example, public customer vs. broker/dealer.

- **Order Splitting**
  Order splitting in order to cause ineligible transactions to be directed to the NYSE's BEDS or the CBOE's RAES is strictly prohibited.

- **"Wash" Transactions**
  Entering a buy and sell order for the same security, for the same beneficial owner which may be directed for execution at the close through the NYSE's Designated Order Turnaround System (DOT) is not permissible. These transactions could result in what is termed riskless "tax switch" or "wash" transactions and are prohibited under the NYSE Rules.2

- **Marking-the-Close**
  "Marking-the-Close" is a manipulative practice whereby a trade is entered for the sole purpose of influencing the closing price of a stock. Engaging in any strategy which has no economic basis and is entered to mark the closing price or to mark the value of a position is strictly prohibited.

- **Supervision - Know Your Customer**
  Correspondent must have procedures to monitor that "Know Your Customer" and other aspects of proper supervision are embodied in its order entry and approval procedures. Depending on your business, this may include: pre-approval of large orders, trading within a customer's credit and order size limits, etc.

- **Books and Records**
  Correspondent shall monitor that it prepares and maintains required books and records (e.g. order tickets, evidence of supervision) for all orders (including cancellations) transmitted via Vision's order-entry systems.

15.17 Proprietary Trading

For proprietary trading, the Firm will use ETNA (our OMS system). Our Head of Trading's activity is supervised by one of the Designated Principals through the daily review of the daily blotter. The daily blotter will be reviewed daily and such review will be evidence by a Designated Principal initialing the Firm's checklist.

Pursuant to Securities Exchange Act of 1934, as amended, Regulation M Rule 104, a stabilizing bid is a purchase of stock by underwriters to stabilize, or support, the secondary market price of a security immediately following an initial public offering ("IPO") when the price of the newly issued shares falters or is shaky in trading. Further, stabilizing is necessary for the purpose of preventing or retarding a decline in the market price of a security.

The Firm recognizes that as a component of its services under this business line, it is necessary for the Firm to be able to initiate, maintain and adjust a stabilizing bid in certain instances. The Firm will use stabilizing bids to enhance the degree of professional support and market stability immediately following an IPO.

Proprietary Account Supervision

The Firm's Designated Principals are responsible for monitoring all inventory positions on a daily basis in order to monitor inventory levels are maintained in accordance with the Firm's established guidelines and trading limits. The Designated Principals will also review the Firm's proprietary accounts for unusual trading patterns or indications of market manipulation.

The Firm's Designated Supervisors are responsible for monitoring daily inventory positions in accordance with the Firm's established guidelines and trading limits, proprietary accounts for unusual trading patterns, or any indications of market manipulation. The Designated Supervisors will also monitor for any overnight position limits as imposed by the Firm.

More specifically, the Firm will utilize ETNA for trading activities regarding setting trading limits/restrictions and provide alerts if a trader is over their trading limit, on an overnight basis.

In an effort to monitor compliance with the net capital rule and financial record-keeping requirements, and in an effort to properly supervise these limits, the Firm's designated Head of Trading will monitor the Firm's intra- day and end-of-day trading and position limits in such a way so as to avoid any net capital violations. As a matter of practice, the Firm will encourage that most of the positions end the trading day "flat," (i.e., without holding long or short securities positions in their accounts overnight), to limit the risk associated with maintaining positions. However, if and when the Firm maintains overnight positions to the extent manageable through acceptable limits (e.g., the Firm will limit total overnight positions to $100,000 max, with no more than $25,000 in any one single position. Exceptions require unanimous approval of a Designated Principal) The Head of Trading and Designated Principals will monitor such positions through the use of an order management system such as ETNA or other authorized and acceptable order management system for its monitoring efforts. Additionally, the Designated Principals and the FINOP will also receive daily mark-to-market data from the designated clearing firm and the FINOP will perform intra-day and end of- day net capital computations to monitor ongoing net capital compliance. The net capital computations performed by the FINOP will monitor that all appropriate haircuts are applied and whether undue concentration deductions are needed. These monitoring methods will avoid sizeable leveraged long and short positions both intra-day and overnight. In the event that an overnight position occurs, the Firm will monitor that it maintains an adequate capital base to support intra-day and end-of- day positions.

Introduction

The objective of the following procedure is to outline and describe the Firm's regulatory guidelines for complying with over-the-counter (OTC) equity trading practices. All registered personnel and/or associated persons involved in the OTC equity trading process must familiarize themselves with the procedures contained in this section.

16.01 General Supervision

Description of TMM Order Processing and Supervisory Approval Process

The Firm is aware of and will comply with any and all regulations relative to FINRA's Consolidated Audit Trail (CAT) including but not limited to registration on or before June 27, 2019, relevant connectivity and other testing, and other requirements as and when applicable. The Firm will update its OATS reporting procedures, found below, on an ongoing basis to accommodate the transition to CAT. In the interim, it will adhere to the procedures below on the understanding that all are subject to revision.

The Firm has designated the OTC Trading Supervisor as the Order Audit Trail System supervisor as noted on the FINRA Contact System (see separate attachment for individual names associated with titles). However the OTC Trading Supervisor may delegate the periodic review to another OATS report reviewer at any time.

The Firm will use ETNA Software Corporation's OMS as its primary method used to buy and sell securities. The daily blotter will be reviewed daily and initialed by the respective supervisor and filed daily.

For proprietary trading, the Firm will use ETNA Software Corporation's OMS as well. The monthly and daily blotter will be reviewed monthly and daily, respectively, and initialed by the Designated Principals and filed daily.

Proprietary Account Supervision

The Firm's Designated Principals are responsible for monitoring all OTC inventory positions on a daily basis in order to monitor inventory levels are maintained in accordance with the Firm's established guidelines and trading limits. The Designated Principals should also review the Firm's proprietary accounts for unusual trading patterns or indications of market manipulation.

16.02 Customer Order Ticket Procedures

It is the responsibility of the Designated Principals to conduct a review of customer order tickets or trade blotters to monitor proper preparation in accordance with current regulatory requirements and any additional requirements as specified by the Firm. The following is list of some of the target areas for reviewing customer order tickets:

- Customer name and/or account number;
- Issuer ID (Symbol or CUSIP #);
- Number of shares;
- Price
- Buy, sell, or short sale indicator;
- Location of securities for a sale (ex. Long in account); (all trades assumed long unless specified);
- Affirmative determination for short sales;
- Special instructions (Limit, All or None, Do-not-Display, etc.);
- Solicited/unsolicited (all trades assumed unsolicited unless specified);
- Time received;

- Execution time;
- Registered rep ID.

The Designated Principals are responsible for reviewing a representative sample of order tickets. The Firm's Designated Principals will review order tickets to monitor that they are properly completed on a daily basis. All reviewed customer order tickets (or the daily trade blotters in place of the order tickets) shall be initialed as evidence of review.

16.03 Customer Trade Confirmations and Disclosures

In accordance with *SEC Rule 10b-10 & 11Ac1-3*, broker-dealers are required to disclose specific information in writing to customers at or before completion of a transaction. The requirements that particular information be disclosed is not determinative of a broker-dealer's obligation under the general antifraud provisions of the federal securities laws to disclose additional information to a customer at the time of the customer's investment decision.

Therefore, it shall be unlawful for any broker-dealer to effect for or with the account of a customer, or to induce the purchase or sales of any transaction in any security unless such broker-dealer, at or before completion of such transaction, gives or sends to such customer written notification disclosing the following:

- Date and Time of Transaction;
- Identity of Security (name, symbol, CUSIP#);
- Share Prices;
- Number of shares/units;
- Capacity (Agency or Principal status);
- Commission/Mark-up/Mark-down;
- Source and amount of other remuneration(s);
- Payment for Order Flow Disclosure;
- Market Maker disclosure;
- Broker/Issuer relationship;
- Non-SIPC Membership;
- Odd-lot;
- Debt Securities Yield and Redemption Disclosures;
- Asset Backed Securities.

Capacity (Agency or Principal Status**)**

The broker-dealer may act in one of four separate capacities when effecting a transaction.

- The Firm may act as an agent by transacting business on behalf of a customer through another broker-dealer;
- The Firm may act as a dual agent in which the broker-dealer effects a transaction between two customers;
- The broker-dealer may choose to act as a principal by effecting a transaction for a customer through the Firm's proprietary account;
- The Firm may act in a "riskless principal" capacity if the broker-dealer receives a buy or sell order and makes a subsequent purchase or sale as principal from or to another broker-dealer that is used to fill the customer's order;
- The broker-dealer can meet the disclosure requirements set forth in *SEC Rule 10b-10* by printing a code on the front of the confirm or by printing the capacity on the front of the confirmation. The code listed on the front of the confirmation may be either alpha or numeric, but must have a corresponding legend that adequately informs the customer of the Firm's capacity.

Agency Transactions

If the broker-dealer is acting as agent for such customer, for some other person or for both such customer

and some other person:

- The name of the person from whom the security was purchased, or to whom it was sold;
- The amount of any remuneration received or to be received by the broker from such customer in connection with the transaction;
- a statement whether *payment for order flow* is received by the broker or dealer for transactions in such securities and the fact that the source and nature of the compensation received in connection with the particular transaction will be furnished upon written request of the customer;
- The source and amount of any other remuneration received or to be received by the broker in connection with the transaction: Provided, however, that if, in the case of a purchase, the broker was not participating in a distribution, or in the case of a sale, was not participating in a tender offer, the written notification may state whether any other remuneration has been or will be received and the fact that the source and amount of such other remuneration will be furnished upon written request of such customer; or

Principal Transactions

If the broker-dealer is acting as principal for its own account:

- In the case where such broker-dealer is not a market maker in an equity security and, if, after having received an order to buy from a customer, the broker-dealer purchased the equity security from another person to offset a contemporaneous sale to such customer or, after having received an order to sell from a customer, the broker-dealer sold the security to another person to offset a contemporaneous purchase from such customer, the difference between the price to the customer and the broker-dealer's contemporaneous purchase (for customer purchases) or sale price (for customer sales); or
- In the case of any other transaction in a reported security, or an equity security that is quoted on NASDAQ or traded on a national securities exchange and that is subject to last sale reporting, the reported trade price, the price to the customer in the transaction, and the difference, if any, between the reported trade price and the price to the customer.

Commissions and Mark-ups

The broker-dealer is responsible for disclosing the amount of fees charged by the Firm to the customer for each transaction. These fees are represented to the customer in the form of a commission for agency trades, a mark-up for a principal purchase and a mark-down for a principal sale.

Source and Amount of Other Remuneration(s)

The broker-dealer must also disclose any other sources and amount of remuneration, whether they are monetary or non-monetary remunerations, and or credits, rebates, clearing services, payment for order flow etc.

Payment for Order Flow

There are two rules that govern what information is required to be disclosed to customers regarding payment for order flow. *SEC Rule 10b-10(a)(2)(i)(c)* outlines the specific information that is required to be disclosed to customers for securities transactions. Also, please see Payment for Order Flow below for a more in-depth discussion of the rules and requirements associated with this practice. *SEC Rule 11Ac1-3* outlines the payment for order flow disclosure requirements to customers annually and at the time, a customer account is opened.

Payment For Order Flow SEC Rule 10b-10(a)(2)(i)(c)

Many firms enter into payment for order flow arrangements for directing customer orders to other broker-dealers for execution. Payment for order flow can include monetary and non-monetary remunerations and or credits, rebates, clearing services, etc.

Broker-dealers have several options for complying with the disclosure requirements of this rule. Many broker-

dealers comply with the rule by including a generic statement that the Firm receives order flow on the back of all trade confirmations. In the event of a customer inquiry, the broker-dealer must have the ability to identify, which transactions are subject to order flow arrangements and the amount and source of remuneration to be received by the Firm.

The generic statement on the back of the trade confirm must include a statement that the Firm may have received remuneration for directing the customer's order for execution and a statement that the source and amount of the remuneration will be made available to the customer upon request.

Bid and Ask Price (Penny Stocks)

Broker-dealers are required to disclose the inside bid and ask price at the time of execution to the customer for penny stock transactions. *See SEC Rule 15g-1* through *15g-9*.

Broker/Issuer Relationship

A broker-dealer is responsible for disclosing any relationship(s) it may have with a securities issuer. This disclosure must be made to the customer before effecting a transaction in the securities of the issuer (*Rule 2262 and SEC Rule 15c1-5*).

Non-SIPC Membership

The broker-dealer is required to disclose whether it is *not* a member of the Securities Investor Protection Corporation (SIPC), or that the broker-dealer clearing or carrying the customer account is *not* a member of SIPC, if such is the case.

Odd-lot

A broker-dealer must disclose to the customer whether any odd-lot differential or equivalent fee has been paid by such customer in connection with the execution of an order for an odd-lot number of shares or units of a security and the fact that the amount of any such differential or fee will be furnished upon oral or written request.

Debt Securities Yield and Redemption Disclosures

All broker-dealers must make certain disclosures concerning debt securities transactions. In the case of any transaction in a debt security subject to redemption before maturity, a statement to the effect that such debt security may be redeemed in whole or in part before maturity, that such a redemption could affect the yield represented and the fact that additional information is available upon request.

Dollar Price and Yield to Maturity

All transactions in debt securities effected exclusively on the basis of a dollar price, the broker-dealer is required to disclose the dollar price at which the transaction was effected and the yield to maturity calculated from the dollar price.
In the case of a transaction in a debt security effected on the basis of yield, the yield at which the transaction was effected, including the percentage amount and its characterization, the dollar price calculated from the yield at which the transaction was effected, and if effected on a basis other than yield to maturity and the yield to maturity is lower than the represented yield, the yield to maturity as well as the represented yield.

It is important to note pursuant to *SEC Rule 10b-10(a)(5)(A) and (B)* the yield to maturity disclosures do not need to be made known if the securities meet certain circumstances. Such circumstances may be securities that have an extendable maturity date, which would result in a variable interest rate paid, or any asset-backed security that is continuously subject to prepayment.

Asset-Backed Securities

In the case of a transaction in a debt security that is an asset-backed security, which represents an interest in or is secured by a pool of receivables or other financial assets that are subject continuously to prepayment, a statement indicating that the actual yield of such asset- backed security may vary according to the rate at which the underlying receivables or other financial assets are prepaid and a statement of the fact that information concerning the factors that affect yield (including at a minimum estimated yield, weighted average life, and the prepayment assumptions underlying yield) will be furnished upon written request of such customer.

Customer Request for Additional Information

The Firm shall give or send to customer information requested pursuant to *SEC Rule 10b-10* within 5 business days of receipt of the request. However, in the event that the information pertaining to a transaction was effected more than 30 days prior to receipt of the request, the information shall be given or sent to the customer within 15 business days.

16.04 Payment for Order Flow Disclosure Requirements

In accordance with *SEC Rule 10b-10 & 11Ac1-3*, broker-dealers are required to disclose specific information in writing to customers at or before completion of a transaction. The requirements that particular information be disclosed is not determinative of a broker-dealer's obligation under the general antifraud provisions of the federal securities laws to disclose additional information to a customer at the time of the customer's investment decision.

The term “payment for order flow” shall refer to any monetary payment, service, property, or other benefit that results in remuneration, compensation, or consideration to a broker or dealer from any broker or dealer, national securities exchange, registered securities association, or exchange member in return for the routing of customer orders by such broker- dealer to any broker-dealer, national securities exchange, registered securities association, or exchange member for execution, including but not limited to:

- research, clearance, custody, products or services;
- reciprocal agreements for the provision of order flow;
- adjustment of a broker or dealer's unfavorable trading errors;
- offers to participate as underwriter in public offerings;
- stock loans or shared interest accrued thereon;
- discounts, rebates, or any other reductions of or credits against any fee to, or expense or other financial obligation of, the broker or dealer routing a customer order that exceeds that fee, expense or financial obligation.

Therefore, it shall be unlawful for any broker-dealer to effect for or with the account of a customer, or to induce the purchase or sales of any transaction in any security unless such broker-dealer, at or before completion of such transaction, gives or sends to such customer written notification disclosing the following:

- For a transaction in any subject security as defined in *SEC Rule 11Ac1-2* or a security authorized for quotation on an automated interdealer quotation system that has the characteristics set forth in *Section 17B of this Act (15 U.S.C. 78q-2),* a statement whether payment for order flow is received by the broker- dealer for transactions in such securities and the fact that the source and nature of the compensation received in connection with the particular transaction will be furnished upon written request of the customer.

Broker-dealers are required to provide the following information involving NNM securities, Nasdaq SmallCap securities, and/or OTC Bulletin Board securities:

- Broker-dealers are to inform customers in writing, when a new account is opened, about its policies regarding the receipt of payment for order flow, including whether payment for order flow is received and a detailed description of the nature of the compensation received;
- Broker-dealers are to provide information in account opening documents about order-routing

decisions, including an explanation of the extent to which unpriced orders can be executed at prices superior to the national best bid or best offer (NBBO) at the time the order is received;
- Broker-dealers are to update and provide this information on an annual basis;
- Broker-dealers are to indicate on confirmations whether the broker-dealer receives payment for order flow, and the availability of further information on request.

Many introducing broker-dealers should be aware that they are required to either send out the annual notice themselves or monitor that the clearing firm is doing so on their behalf.

16.05 Prohibited Trading Practices

In accordance with FINRA Rule 5240 (Anti Intimidation/Coordination) No firm or person associated with a firm shall:

- coordinate the prices (including quotations), trades or trade reports of such firm with any other firm or person associated with a firm, or any other person;
- direct or request another firm to alter a price (including a quotation); or
- engage, directly or indirectly, in any conduct that threatens, harasses, coerces, intimidates or otherwise attempts improperly to influence another firm, a person associated with a firm, or any other person.

This includes, but is not limited to, any attempt to influence another firm or person associated with a firm to adjust or maintain a price or quotation, whether displayed on any facility operated by FINRA or otherwise, or refusals to trade or other conduct that retaliates against or discourages the competitive activities of another market maker or market participant.
Provided that the conduct below is otherwise in compliance with all applicable law, nothing in this Rule respecting coordination of quotes, trades or trade reports shall be deemed to limit, constrain or otherwise inhibit the freedom of a firm or person associated with the Firm to:

- set unilaterally its own bid or ask in any security, the prices at which it is willing to buy or sell any security, and the quantity of shares of any security that it is willing to buy or sell;
- set unilaterally its own dealer spread, quote increment or quantity of shares for its quotations (or set any relationship between or among its dealer spread, inside spread, or the size of any quote increment) in any security;
- communicate its own bid or ask, or the prices at or the quantity of shares in which it is willing to buy or sell any security to any person, for the purpose of exploring the possibility of a purchase or sale of that security, and to negotiate for or agree to such purchase or sale;
- communicate its own bid or ask, or the price at or the quantity of shares in which it is willing to buy or sell any security, to any person for the purpose of retaining such person as an agent or subagent for the firm or for a customer of the firm (or for the purpose of seeking to be retained as an agent or subagent), and to negotiate for or agree to such purchase or sale;
- engage in any underwriting (or any syndicate for the underwriting) of securities to the extent permitted by the federal securities laws;
- take any unilateral action or make any unilateral decision regarding the market makers with which it will trade and the terms on which it will trade unless such action is prohibited by paragraph (a) of this Rule; and
- deliver an order to another firm for handling.

Payments for Market Making

As referenced above, the Firm shall not accept any payment or other consideration, directly or indirectly, from an issuer of a security, or any affiliate or promoter thereof, for publishing a quotation, acting as market maker in a security, or submitting an application in connection therewith. However, such policy shall not preclude the Firm from accepting the following:

- payment for bona fide services, including, but not limited to, investment banking services (including underwriting compensation and fees); and
- reimbursement of any payment for registration imposed by the Securities and Exchange Commission or state regulatory authorities and for listing of an issue of securities imposed by a

self-regulatory organization.

Customer Complaints

In the event the Firm receives a customer complaint from one or more of its customers, the CCO and the Designated Principals shall be responsible for immediately investigating and resolving such issues in compliance of applicable federal, state, and SRO rules and regulations. The CCO shall document such investigation with a memo to file and distribute it to the Designated Principals.

Regulatory Inquiries

In the event of a formal or informal inquiry made by any federal, state, self-regulatory organization or other regulatory authority, the Designated Principals, working in conjunction with the CCO, will be responsible for receiving and responding to such requests in a timely manner.
In an effort to prevent any actual or perceived prohibited practices, trading violations, or other abusive practices, the Designated Principals will conduct the following actions:

- the Designated Principals will continuously monitor trading activity for any potential prohibited trading practices to include inappropriate conduct, evidence of payments for market making and/or customer complaints;
- the Designated Principals will review all trade blotters, available activity and exception-based reports, proprietary account statements, and order ticket information for indications of the prohibited activities described above;

16.06 Alternative Trading Systems

FINRA may provide a means to permit alternative trading systems ("ATS"), as such term is defined in Regulation ATS, and electronic communications networks ("ECN"), as such term is defined in SEC Rule 11Ac1-1(a)(8). In providing any such means, FINRA shall establish a mechanism that permits the ATS or ECN to display the best prices and sizes of orders entered into the ATS or ECN by Nasdaq market makers (and other subscribers of the ATS or ECN, if the ECN or ATS so chooses or is required by SEC Rule 301(b)(3) to display a subscriber's order in Nasdaq), and allows any FINRA firm the electronic ability to effect a transaction with such priced orders that is equivalent to the ability to effect a transaction with a Nasdaq market maker quotation in Nasdaq operated systems.

An ATS or ECN that seeks to utilize the Nasdaq-provided means to comply with SEC Rule 301(b)(3), the ECN display alternatives, or to provide orders to Nasdaq voluntarily shall:

- demonstrate to FINRA that it is in compliance with Regulation ATS or it qualifies as an ECN meeting the definition in the SEC Rule;
- be registered as a FINRA firm;
- enter into and comply with the terms of a Nasdaq Workstation Subscriber Agreement, as amended for ATSs and ECNs;
- agree to provide for Nasdaq dissemination in the quotation data made available to quotation vendors the prices and sizes of Nasdaq market maker orders (and orders from other subscribers of the ATS or ECN, if the ATS or ECN so chooses or is required by SEC Rule 301(b)(3) to display a subscriber's order in Nasdaq), at the highest buy price and the lowest sell price for each Nasdaq security entered in and widely disseminated by the ATS or ECN, and prior to entering such prices and sizes, register with Nasdaq Market Operations as an ATS or ECN;
- provide an automated execution or, if the price is no longer available, an automated rejection of any order routed to the ATS or ECN through the Nasdaq-provided display alternative;
- not charge to broker-dealers that access the ATS or ECN through The Nasdaq National Market Execution System (SuperMontage) any fee that is inconsistent with the requirements of SEC Rule 301(b)(4) or that exceeds $0.003 per share.

No ATS or ECN operating in Nasdaq pursuant to this rule is permitted to provide a reserved-size function

unless the size of the order displayed in Nasdaq is 100 shares or greater.

16.07 Trade Reporting Requirements

In accordance with *applicable FINRA Rules* and *NTM 95-8, 99- 04 and 98-96* , it is the Firm's policy that all transactions must be reported in accordance with all applicable FINRA rules and regulations. The Firm's Designated Principals are responsible for the review of the Firm's trade reporting compliance. The following are some of the trade reporting requirements:

Registered Reporting Market Makers

- All trade tickets for transactions in eligible securities shall be time-stamped at the time of execution;
- within 90 seconds after execution, the firm shall transmit through ACT or ORF all last sale reports of transactions in designated securities executed during normal market hours;
- Transactions not reported within 90 seconds after execution shall be designated as late and such trade reports must include the time of execution;
- All firms shall report transactions occurring at prices based on average-weighting or other special pricing formulae to Nasdaq using a special indicator, as designated by FINRA and set out in the Symbol Directory;
- All firms shall report as soon as practicable to the Market Regulation Department on Form T, last sale reports of transactions in designated securities for which electronic submission into ACT or ORF is not possible (*e.g.*, the ticker symbol for the security is no longer available or a market participant identifier is no longer active);
- Transactions not reported within 90 seconds after execution shall be designated as late;
- All firms shall append a trade report modifier as designated by FINRA to transaction reports that reflect a price different from the current market when the execution is based on a prior reference point in time, which shall be accompanied by the prior reference time

Non-Registered Reporting Firms

- Non-Registered Reporting firms shall, within 90 seconds after execution, transmit through ACT or ORF or if ACT or ORF is unavailable due to system or transmission failure, by telephone to Market Operations Department, last sale reports of transactions in designated securities executed during normal market hours. Transactions not reported within 90 seconds after execution shall be designated as late and such trade reports must include the time of execution;
- Non-Registered Reporting firms shall report weekly to the Market Operations Department, on a form designated by the Board of Governors, last sale reports of transactions in designated securities which are not required to be reported under the two previous sections;

Reporting Obligations

- In transactions between two Registered Reporting Market Makers, only the firm representing the sell side shall report;
- In transactions between a Registered Reporting Market Maker and a Non-Registered Reporting firm, only the Registered Reporting Market Maker shall report;
- In transactions between two Non-Registered Reporting Members, only the firm representing the sell side shall report;
- In transactions between a firm and a customer, the firm shall report;
- In transactions conducted through a Reporting ECN, the Reporting ECN shall monitor that transactions are reported in accordance with applicable rules.

Reportable Information

Each last sale report shall contain the following information

- Nasdaq symbol of the designated security;

- Number of shares (odd lots shall not be reported);
- Unit price of the transaction;
- A symbol indicating whether the transaction is a buy, sell, or cross;
- The time of execution if the trade is reported more than 90 seconds after execution;
- A symbol indicating whether the trade is as principal, riskless principal, or agent;
- Reporting side clearing broker (if other than normal clearing broker);
- Reporting side executing broker as "give-up" (if any);
- Contra side executing broker;
- Contra side introducing broker in case of "give-up" trade;
- Contra side clearing broker (if other than normal clearing broker;
- For any transaction in an order for which a firm has recording and reporting obligations, the trade report must include;
    - An order identifier, meeting such parameters as may be prescribed by the FINRA, assigned to the order that uniquely identifies the order for the date it was received;
    - The time of the execution expressed in hours, minutes, and seconds.
      This information must be reported regardless of the period of time between execution of the trade and the ACT or ORF trade report. All times reported to the ACT or ORF system shall be in Eastern Time.

Prior Reference Price Trade Modifier

In accordance with *NTM 99-66*, Nasdaq has implemented a new modifier to report late executions (as distinguished from late trade reports), which will be used for trade reports in Nasdaq securities (both Nasdaq National Market (NNM) and SmallCap securities) and non-Nasdaq over-the-counter equity securities (e.g., OTCBB and pink sheets). Recently there have been situations in which broker-dealers execute certain transactions that, although reported timely, actually relate to an obligation to trade that arose at an earlier point in the day or that refer to a prior reference price.
Some of these situations may include the following:

- obligations to trade arising from an order that was not executed timely;
- orders that are owed the opening or closing price (“market on open” and “market on close”) but that are not executed within 90 seconds of the open or close of the market, respectively; and
- orders that may have been lost or misplaced and later filled.

In effect, these trades are late executions, not late reports of executions. To enable market participants to more accurately report late executions (which many firms today report as .SLD trades), Nasdaq is implementing a new trade report modifier, called the “.PRP” modifier. This modifier must be appended to trade reports that reflect a price that is different from the current market because the execution is based on a prior reference point in time. Additionally, when using the .PRP modifier, firms are required to input the prior reference time (i.e., the time the obligation to trade arose), which shall be placed in the execution time field on the Automated Confirmation Transaction Service (ACT) or OTC Reporting Facility (ORF) report.

The following principles and requirements apply to firms when using the .PRP modifier:

- Firms must use the .PRP modifier for trade reports in Nasdaq securities (both NNM and SmallCap securities), and non-Nasdaq over-the-counter equity securities (e.g., OTC Bulletin Board and pink sheets). Firms may not use the .PRP modifier for trades in exchange-listed stocks that are effected in the Third Market;
- Firms may not use the .PRP modifier in “stop” stock situations;
- The .PRP modifier will not be required to be used if the report is made within 90 seconds of the prior reference time;
- It will no longer be appropriate for firms to use the .SLD modifier to report late executions; the
  .SLD modifier may only be used to report late reports of execution;
- Use of the .PRP modifier does not absolve the firm of its obligation to provide best execution, in terms of both price and timely execution.

Partial Elimination of the 10,000 Share Limitation on Bunching of Trades

FINRA trade-reporting rules for NNM and SmallCap securities currently permit broker-dealers to aggregate transactions into a "bunched" trade report in a variety of situations. In particular, the rules permit a broker-dealer to aggregate transactions done at the same price when it would be impractical to report the trades individually. The rule provides, however, that when reporting bunched trades no individual order of 10,000 shares or more may be aggregated and reported. The rule further provides that bunched trades must be reported within 90 seconds of the initial transaction and the report must include a ".B" modifier.

In accordance with *NTM 99-66*, under the rule change approved by the SEC, Nasdaq is removing the 10,000-share limitation for bunching but only for trades effected on the first day of secondary market trading following an initial public offering (IPO). The 10,000-share cap will continue to apply for trades effected after the first day of secondary market trading of an IPO (i.e., day two onward of secondary-market trading). The lifting of the cap for first-day secondary market trading will facilitate more efficient and timely reporting of large numbers of trades in the immediate aftermarket. As is the case today, bunching is optional and a firm may continue to report trades individually.

Trade-Reporting for Riskless Principal Trades in the Third Market

In accordance with *NTM 99-66* regarding trade-reporting rules for the Third Market, non-Market Makers generally do not report the offsetting trade with a customer when a "riskless principal" transaction is involved (i.e., a transaction that involves a trade with another firm, usually a Market Maker, which is used to offset a trade with a customer). This "riskless principal exception" results in one trade report even though the non-Market Maker firm is involved in two separate trades against its principal account.

The term "riskless principal" can be defined as a trade in which a broker-dealer, after having received an order to buy (sell), purchases (sells) the security as a principal in order to satisfy the order to buy (sell). Thus, a riskless principal trade generally is one that involves a conditional order rather than one immediately executable by the Firm as principal. Such condition may involve a customer order for which execution is dependent upon finding the other side, or a transaction dependent upon the execution of a part of the order placed with another firm or market.

There may be situations where only a portion of a transaction may be riskless and reported as such. That is, to the extent that the customer's order is greater than the first leg that is executed on an exchange or in the Third Market, only the portion of the second leg (i.e., the offsetting transaction with the customer) that is offset by the first leg will be deemed riskless; any balance would be "at risk" and reported as a separate trade. Thus, if a portion of a larger transaction is being filled from a Market Maker's inventory, that portion of the trade filled from inventory must be reported as principal.

Market Order Exception

There is an exception to the riskless principal trade-reporting rule for marker orders that are 10 percent or less than the full size of the order or group of orders being marked. That is, the execution of a marker order would appear to merit riskless principal treatment and would not be printed in the Third Market to the extent of the size of the marker order. However, given the purpose for which marker orders are used, a firm should not be required to break up the order it is holding into two separate components to distinguish between a risk and riskless portion, if the marker order is no larger than 10 percent of the size of an execution or group of executions that it would trigger. This is because the nominal size of the marker order does not, to any material extent, change the overall risk profile of the order.

10b-10 Obligations

In the order approving the Third Market riskless principal rules, the SEC stated that Rule 10b-10 under the Act requires a broker-dealer acting as Market Maker in a riskless principal transaction in

an exchange-listed security to confirm to its customer:

- the reported trade price;
- the price to the customer in the transaction; and
- the difference, if any, between the reported trade price and the price to the customer (i.e., any markup or markdown, commission equivalent, or other fee on top of the reported price).

Alternative Approach to Riskless Principal Trade Reporting

In accordance with *NTM 00-79*, Nasdaq has adopted an alternative approach for reporting riskless principal transactions in Nasdaq, over-the-counter (OTC), and exchange- listed securities. Nasdaq also has adopted an interpretation with respect to the use of negative consent letters for net trading of Nasdaq and OTC securities.

The SEC amended the FINRA Riskless Principal Trade-Reporting Rules in NNM, Nasdaq SmallCap Market, and Nasdaq convertible debt securities (Nasdaq securities); non-Nasdaq OTC equity securities, including OTCBB and pink sheet securities (OTC securities); and exchange- listed securities traded in the Nasdaq InterMarket (exchange-listed securities). Under the new Riskless Principal Trade-Reporting Rules, riskless principal transactions effected by market makers must now be reported as *one* transaction.

The Nasdaq has adopted a different method for reporting riskless principal trades that can be used as an alternative to the original approach set forth in NTM 99-65 & NTM 99-66. This new approach can be utilized by both market makers, which for the first time must adhere to Riskless Principal Trade-Reporting Rules, and by non-market makers, which have been subject to the Rules for some time.

Under the alternative approach, broker-dealers may report a riskless principal transaction by submitting either one or two reports to ACT or ORF. The *first* report would be required only if the firm is the party with a reporting obligation under the relevant Nasdaq trade-reporting rule. The *second* report, representing the offsetting, "riskless" portion of the transaction with the customer, must be submitted by all firms electing to use the alternative method for riskless principal trade reporting, regardless of whether the Firm has a reporting obligation, when the Firm effects the offsetting trade with its customer. This report will be either a non-tape, non-clearing report (if there is no need to submit clearing information to ACT or ORF) or a clearing-only report. In either case, the report must be marked with a capacity indicator of "riskless principal." Because this is not a last sale report, it does not have to be submitted within 90 seconds after the transaction is executed, but should be submitted as soon as practicable after the trade is executed but no later than by the time ACT or ORF closes for the trading day(currently 6:30 p.m. Eastern Time).

Firm's Discretion on Which Approach to Use

Broker-dealers may use either the original approach described in *NTM 99-65* and *NTM 99- 66* or this new alternative approach for reporting riskless principal trades. Also, broker-dealers may use either approach for all trades or on a trade-by-trade basis. While the new alternative approach is voluntary, broker-dealers that elect *not* to use this approach must comply with the original approach or they will be in violation of the trade-reporting rules.

Elimination of "Reasonably Related to the Market" Provision

Rule 6420(d)(3)(A), which is the general rule requiring FINRA firms to report all principal transactions in exchange-listed securities in the Third Market, contains language requiring firms to report transactions in a manner "reasonably related to the prevailing market taking into consideration all relevant circumstances..." (Reasonably Related to the Market Provision). This Provision was added as part of broader changes in 1980 to the Third Market trade-reporting rules, which at the time required Market Makers in the Third Market to report to the tape transaction prices inclusive of any markup, markdown, commission equivalent, or other fee to the customer (collectively, charges).

In contrast, exchange rules at the time required their members to report to the tape transaction prices exclusive of any charges to the customer. The 1980 changes to the Third Market trade-reporting rules were intended to make comparable the reporting of Third Market trades with exchange transactions by requiring Market Makers in the Third Market to report trades exclusive of any charges. Therefore, Market Makers in the Third Market must report to the tape transaction prices *exclusive* of any charges. Additionally, under Exchange Act *Rule 10b-10,* Market Makers in the Third Market must confirm to the customer the price reported to the tape and any difference between the price reported to the tape and the price to the customer.

16.08 Best Execution and Interpositioning

In accordance with FINRA *Rule 5310*, the Firm maintains a strict adherence to its responsibility to achieve best execution for its clients. In order to achieve this goal, in any transaction for or with a customer, the Firm shall use reasonable diligence to ascertain the best inter-dealer market for the subject security and buy or sell in such market so that the resultant price to the customer is as favorable as possible under prevailing market conditions.

"Reasonable Diligence" Standard

The Firm has established policies and procedures to regularly and rigorously examine the execution quality to be obtained from the different markets or market makers trading in particular securities. This analysis must compare the quality of the executions the Firm is obtaining via current order routing and execution arrangements (including the internalization of order flow) to the quality of the executions that the Firm could obtain from competing markets and market centers. Accordingly, the Firm must evaluate whether opportunities exist for obtaining improved executions of customer orders.

Among the factors that will be considered in determining whether the Firm has used "reasonable diligence" are:

- the character of the market for the security, e.g., price, volatility, relative liquidity, and pressure on available communications;
- the size and type of transaction;
- the number of primary markets checked;
- location and accessibility to the customer's broker-dealer of primary markets and quotations sources.

Execution of Customer Orders

FINRA requires executing broker-dealers to execute customer orders or executable limit orders in less than 60 seconds under normal market conditions. Unusual market conditions can include the market open, the resumption of trading after a market halt, or any other unusual situation that disrupts normal trading activity. However, executing broker-dealers must realize that even 60 seconds may be considered too long to execute a marketable order. Therefore, all executing broker-dealers firms should establish and enforce written supervisory procedures to monitor a regular and rigorous examination of all available markets to monitor that all customers receive best execution.

Interpositioning

In any transaction for or with a customer, the Firm will not interject a third party between the Firm and the best available market except in cases where the Firm can demonstrate that to its knowledge at the time of the transaction the total cost or proceeds of the transaction, as confirmed to the Firm while acting for or with the customer, was better than the prevailing inter-dealer market for the security.

In the event the Firm cannot execute directly with a market maker but must employ a broker's broker or some other means in order to monitor an execution advantageous to the customer, the burden of showing the acceptable circumstances for doing so is on the Firm. Examples of acceptable circumstances are where a customer's order is "crossed" with another firm which has a corresponding order on the other side, or where the identity of the other firm, if known, would likely cause undue price movements adversely affecting the cost or proceeds to the customer. Failure to maintain or adequately staff an over-the-counter order room or other

department assigned to execute customers' orders cannot be considered justification for executing away from the best available market; nor can channeling orders through a third party as described above as reciprocation for service or business operate to relieve a member of his obligations. However, the channeling of customers' orders through a broker's broker or third party pursuant to established correspondent relationships under which executions are confirmed directly to the Firm acting as agent for the customer, such as where the third party gives up the name of the other firm, are not prohibited if the cost of such service is *not* borne by the customer.

The obligations exist not only where the Firm acts as agent for the account of its customer but also where retail transactions are executed as principal and contemporaneously offset.

Best Execution for Non-Nasdaq Securities (Three Quote Rule)

Note: FINRA has approved to remove this rule however an implementation date was not released.

Rule 2320(f) (Three Quote Rule) required broker-dealers that execute transactions in non-Nasdaq securities on behalf of customers to contact a minimum of three dealers (or all dealers if three or fewer) and obtain quotations in determining the best inter-dealer market. The Three Quote Rule is intended to create a standard to help monitor that firms fulfill their best execution responsibilities to customers in non-Nasdaq securities, particularly in transactions involving relatively illiquid securities with non-transparent prices.

Rule Amendments

In accordance with *NTM 00- 78*, the SEC approved the following amendments to *Rules 2320(g)* and *3110(b),* which became effective November 24, 2000:

- *Rule 2320(g)*, as amended, now require broker-dealers to obtain quotations from three dealers (or all dealers if three or fewer) *only when there are fewer than two priced quotations displayed in an inter-dealer quotation system that permits quotation updates on a real-time basis (such as the OTCBB or the electronic pink sheets);*
- *Rule 3110(b)(2), as amended,* currently requires that broker-dealers indicate on the order ticket for each transaction in a non-Nasdaq security the name of each dealer contacted and the quotations received to determine the best inter-dealer market. Under the amendments, firms are *not required* to note such information on the order ticket if two or more priced quotations are displayed in an inter-dealer quotation system and FINRA has access to the quotation data *Note: As a result, broker-dealers are relieved of certain recordkeeping burdens in which FINRA can validate and confirm compliance with applicable requirements directly through its internal historical data. Currently, FINRA has access to such data with respect to the OTCBB securities; however, it does not have access to historical quotation data for the electronic pink sheets.*

- Finally, the amendments require broker-dealers that display priced quotations for the same security in two or more quotation mediums that permit quotation updates on a real-time basis to display the same priced quotations in each system. This obligation exists even where the quotation displayed represents a customer limit order.

Best Execution Report Cards

FINRA issues "Compliance Report Cards" for best execution to the Firms. This report card assists firms by reflecting the percentage of the Firm's transactions where the Firm apparently has executed trades under a certain size at a price inferior to the NBBO. This report card sets forth in percentage terms the extent to which the Firm has (or has not) executed transactions at the NBBO and ranks the Firm against others firms that execute a similar number of transactions.

The Firm will order the Best Execution Report Cards from NASDAQ Subscriber Services (www.nasdaqtrader.com) monthly to evaluate the Firm's Best Execution compliance.

Price Improvement

Pursuant to *SEC Rule 11Ac1-4* and *Rule 11Ac1-1*, when a market maker holds an un-displayed limit order priced better than the quote, and it subsequently receives a market order on the opposite side of the market from the limit order, the market maker must pass along the price improvement of the limit order to the market order. A review of price improvement should be conducted simultaneously with a Best Execution review.

16.09 Regulation SHO

Rule 200 replaces Rule 3b-3. Defines the terms short sales" to allow multi-service broker-dealers to aggregate their positions by separate trading units; and defines ownership of a security to address securities futures products and unconditional contracts to purchase securities. Rule 200 defines ownership for short sale purposes, and clarifies the requirement to determine a seller's net aggregate position. Additionally, Rule 200 addresses the requirements to mark sales in all equity securities ''long,'' ''short,'' or ''short exempt.''

Rule 201. Replaces 10a-1. Applies a uniform price test for exchange-listed and Nasdaq NMS securities based upon the consolidated best bid instead of the current tick test based upon the last reported sales (Note: proposal not yet approved by SEC)

Rule 202T. Establishes a procedure for the SEC to suspend on a temporary basis the operation of Rule 10a–1 and any short sale price test of any exchange or national securities association for specified securities.

Rule 203. Replaces current Rule 10a–2, incorporate provisions of the existing self-regulatory organization (''SRO'') ''locate'' rules into a uniform Commission rule applicable to all equity securities, wherever they are traded, and impose additional delivery requirements on broker-dealers for securities in which a substantial amount of failures to deliver have occurred (''threshold securities'').

Rule 105 of Reg. M (Short selling in connection with a public offering) eliminating the current shelf offering exception and to provide guidance on sham transactions designed to evade the rule.

Short Sale Delivery Requirement

In accordance with FINRA Rule 4320, in the event that a participant of a registered clearing agency has a fail to deliver position at a registered clearing agency in a non-reporting threshold security for 13 consecutive settlement days, the participant and any broker or dealer for which it clears transactions, including any market maker that would otherwise be entitled to rely on the exception provided in paragraph (b)(2)(iii) of SEC Rule 203 of Regulation SHO, may not accept a short sale order in the non-reporting threshold security from another person, or effect a short sale in the non-reporting threshold security for its own account, without borrowing the security or entering into a bona-fide arrangement to borrow the security, until the participant closes out the fail to deliver position by purchasing securities of like kind and quantity.

Rule 10a-1(e)(13)

In accordance with Rule 10a-1(e)(13), A broker-dealer that has acquired a security while acting in the capacity of a block positioner shall be deemed to own such security for the purposes of Rule 3b-3 notwithstanding that such broker-dealer may not have a net long position in such security if and to the extent that such broker-dealer's short position in such security is the subject of one or more offsetting positions created in the course of bona fide arbitrage, risk arbitrage, or bona fide hedge activities.

Short Sale Rules When Receiving Orders through Electronic Order Systems or the Internet

Many broker-dealers receive short sale orders electronically through proprietary electronic order routing

systems and through the Internet from customers with online accounts. In such instances, broker-dealers must comply with all rules and regulation concerning short sales regardless of how a short sale order is received. Therefore, in accordance with *NTM 99-98*, broker-dealers must comply with the bid test, make affirmative determinations, and identify short sales in the Automated Confirmation Transaction Service (ACT) or OTC Reporting Facility (ORF) for all proprietary and customer short sale orders that are received electronically through proprietary electronic order routing systems, the Internet, or otherwise.

Bid Test (Electronic/Internet Orders)

The Bid Test Rule provides that, absent an exemption, no firm shall effect a short sale for the account of a customer or for its own account in a NNM security at or below the current best (inside) bid when the current best (inside) bid as displayed by Nasdaq is below the preceding best (inside) bid in the security. When a customer short sale order is received electronically or through the Internet, the broker-dealer must effect such orders in compliance with the Bid Test Rule. Moreover, broker-dealers must effect short sales in compliance with the Bid Test Rule regardless of whether the short sale is an “inadvertent” short sale from the customer’s perspective.

Netting Positions for Accounts under Common Control

In certain circumstances, some broker-dealers are failing to net security positions of accounts for customers who maintain accounts in their name and exercise control over, or operate in concert with, other accounts with a strategy designed to circumvent the Short-Sale Rule. The failure to net these positions has permitted these customers, who operate the two accounts with a single investment strategy, to avoid application of the Short-Sale Rule. Broker-dealers are expected to establish and maintain supervisory procedures to detect and deter this improper trading activity. Therefore, depending on the facts and circumstances, broker-dealers may be required to net positions for accounts that are related or under common control to determine whether a sale is long or short and subject to the Short-Sale Rule requirements. As a result, in accordance with Rule 3350(e) and *NTM 99-28*, the Short-Sale Rule prohibits broker-dealers from knowingly, or with reason to know, effecting sales for the account of a customer or for its own account for the purpose of circumventing the rule.

16.10 Short Interest Reporting

In accordance with FINRA Rule 4560 the Firm shall maintain a record of total "short" positions in all customer and proprietary Firm accounts in all equity securities (other than Restricted Equity Securities as defined in Rule 6420) and shall regularly report such information to FINRA in such a manner as may be prescribed by FINRA. Reports shall be made as of the close of the settlement date designated by FINRA. Reports shall be received by FINRA no later than the second business day after the reporting settlement date designated by FINRA.

"Short" positions to be reported are those resulting from "short sales" as that term is defined in Rule 200(a) of SEC Regulation SHO, with the exception of positions that meet the following requirements:

- any sale by any person, for an account in which such person has an interest, if such person owns the security sold and intends to deliver such security as soon as is possible without undue inconvenience or expense;
- any sale of a security (except a sale to a stabilizing bid complying with Rule 104 of SEC Regulation M) effected with the approval of an exchange which is necessary to equalize the price of such security thereon with the current price of such security on another national securities exchange which is the principal exchange market for such security;
- any sale of a security for a special arbitrage account by a person who then owns another security by virtue of which such person is, or presently will be entitled to acquire an equivalent number of securities of the same class as the securities sold; provided such sale, or the purchase which such sale offsets, is effected for the bona fide purpose of profiting from a current difference between the price of the security sold and the security owned and that such right of acquisition was originally attached to or represented by another security or was issued to all the holders of any such class of securities of the issuer;

- any sale of a security registered on, or admitted to unlisted trading privileges on, a national securities exchange effected for a special international arbitrage account for the bona fide purpose of profiting from a current difference between the price of such security on a securities market not within or subject to the jurisdiction of the United States and on a securities market subject to the jurisdiction of the United States; provided the seller at the time of such sale knows or, by virtue of information currently received, has reasonable grounds to believe that an offer enabling the seller to cover such sale is then available to such person in such foreign securities market and intends to accept such offer immediately; and
- any sale by an underwriter, or any member of a syndicate or group participating in the distribution of a security, in connection with an over-allotment of securities, or any lay-off sale by such a person in connection with a distribution of securities through rights or a standby underwriting commitment.

If the Firm's short interest reporting is being conducted by a clearing firm or another broker-dealer, the Firm shall establish and enforce procedures to verify that the Firm's short interest is being reported correctly.

16.11 Use and Application of Form T

In accordance with FINRA rules and regulations, "all firms shall report as soon as practicable to the Market Regulation Department on Form T, last sale reports of transactions in designated securities for which electronic submission into ACT or ORF is not possible (e.g. the ticker symbol for the security is no longer available or a market participant identifier is no longer active). Transactions that can be reported into ACT or ORF, whether on trade date or on a subsequent date on an "as of" basis (T+1), shall not be reported on Form T.

In the absence of any unusual or unique circumstances, the Firm's designated trader(s) should use ACT or ORF to report transactions as late as 1:30PM Eastern Time on the next business day (T+1). In the event that Form T is used, the Firm's designated trader(s) are required to maintain necessary documentation involving certain situations that may prevent reporting a trade to ACT or ORF. For all trades that are unable to be reported into ACT or ORF by the 1:30PM time frame (EST/ T+1), Form T shall be filed on a weekly basis. Market Regulation must receive each submitted Form T before the following Monday after execution of the trade. Moreover, all of the necessary information required for the electronic trade report must be included on the Form T.

16.12 Initiating Quotes in Non-Nasdaq Securities

SEC Rule 15c2-11 governs the submission and publication of quotations by brokers-dealers for certain non-Nasdaq over-the-counter equity securities. Specifically, the rule applies to a broker-dealer's initiation or resumption of quotations for such securities in any interdealer quotation medium, including FINRA's OTC Bulletin Board and National Quotation Bureau, Inc.'s "Pink Sheets" ("pink sheets"). Pursuant to the rule, brokers-dealers are required to review and maintain specified information about the issuer of the security before publishing a quotation for that security.

As a result, the Firm must also have a reasonable basis under the circumstances for believing that information is accurate in all material respects, and that the sources of the information are reliable. In accordance with this rule, the Firm will establish a file and maintain all appropriate documentation pursuant to *SEC 15c2-11*. Unless an exception to *SEC Rule 15c2-11* is available, the rule can be satisfied in one of the following ways:

- the broker-dealer must have in its possession a prospectus specified by *Section 10(a) of the Securities Act of 1933 (Securities Act)* that has been filed with the SEC and which has been in effect less than 90 calendar days; or;
- the broker-dealer must have a copy of the offering circular provided for under Regulation A of the Securities Act and the effective date must be within the preceding 40 days; or
- the issuer must be current in its filings with the Commission and the broker-dealer must have in its possession the issuer's latest form 10-K and all subsequent Form 10-Qs and Form 8-Ks; or
- the issuer must be exempt from *Section 12(g) of the Securities Exchange Act of 1934 (Exchange Act)* pursuant to *Rule 12g3-2(b)* and the broker-dealer must have in its possession all the

information furnished to the Commission during the issuer's last fiscal year; or
- the broker-dealer must have in its possession 16 items of information about the issuer, including financial information which shall be reasonably current in relation to the day the quotation is submitted.

The Firm is required to make a determination regarding source reliability. In most circumstances, it is reasonable to consider the following parties as reliable sources of information:

- the issuer of the covered security;
- an authorized agent of the issuer (*e.g.*, the company's officers, directors, attorney, or accountant;
- an independent information service such as the SEC's Public Reference Room, a document retrieval service, or standard research sources (*e.g.*, *Standard & Poor's Standard Corporation Descriptions*); and
- any lending institution that can represent that it prepared the requisite information or received such information directly from the issuer.

However, in the event of inaccurate or unreliable information, the SEC cautions that the presence of a "red flag" (information that reasonably indicates the presence of material inaccuracies) requires that the Firm make further inquiry to determine the reliability and/or ultimate source of information. While conducting such a review, the Firm must be alert to any "red flags". The following are examples of "red flags:"

- a qualified auditor's opinion resulting from management's failure to provide all of the information needed to prepare the financial statements;
- financial statements of a development-stage issuer that list as the principal component of net worth an asset wholly unrelated to the issuer's lines of business;
- material inconsistencies within the paragraph (a) information itself; or
- material inconsistencies between the paragraph (a) information and other information in the Firm's knowledge or possession.

If the review process for initiating or resuming quotations discloses no "red flags," the Firm would have a reasonable basis for believing that the information is accurate. Alternatively, if the review reveals a "red flag," no quotation may be initiated or resumed until the discrepancy or deficiency is resolved.

Trading System Reports (Rule 17a-23)

The Firm's Designated Principals are responsible for filing all required reports (quarterly and/or otherwise) regarding the trading systems sponsored by the Firm.

Open Orders- Adjustments

The Firm's traders are responsible for adjusting (in fraction or decimal form) the price of open orders to reflect dividends, payments or distributions. The traders are responsible for adjusting prices on open orders and recording such adjustments on the order ticket. The following information applies to adjusting open orders:

- In the event that the value of the distribution cannot be confirmed
- If a reverse split occurs for a security, all open orders must be canceled

The requirements to adjust open orders shall not apply to the following information:

- Open sell orders
- Open stop orders to buy
- "do not increase" orders when the dividend is payable in stock
- "do not reduce" orders when the dividend is paid in cash
- orders which are governed by a securities exchange
- In cases where the issuer has not reported distribution under SEC rules

16.13 Use of NASDAQ Workstations

All of the Firm's designated traders will be assigned passwords for accessing Nasdaq Workstations. Such authorized persons are not permitted to disclose their passwords to any unauthorized personnel for use

outside of the OTC trading department. The Firm's Designated Principals are responsible for maintaining a list of all new and existing passwords for proper recording and documentation. In the event that a trader is terminated, a new password will be assigned to the incoming trader for the same Nasdaq Workstation.

CQS Reporting Requirements for Certain Transactions

The Firm is aware of the necessary reporting requirements for OTC transactions under FINRA rules and regulations. These requirements apply to "eligible securities" as stated under Rule 11Ac-1 of the Securities and Exchange Act of 1934, and also include reporting to the Consolidated Quotation Service (CQS) within 90 seconds of execution.

CQS Obligation to Publish Continuous Quotations

If the Firm is a CQS market maker and the Firm's OTC volume in an exchange-listed security accounts for more than 1% of the total volume in the security, the Firm shall publish continuous quotations to the CQS through Nasdaq. The following guidelines apply to publishing continuous quotes.

- The 1% rule (total volume in the security) includes internalized order flow
- 1% rule applies to exchange-listed securities (Nasdaq-listed securities do not apply)
- 1% rule does not apply if the Firm acts solely as a block position in an exchange- listed security
- 1% rule does not apply to exchange-listed preferred stock
- Certain trading strategies may qualify the Firm for the "block positioner" exemption

The Firm's Designated Principals are responsible for the identification of securities that are subject to the continuous quotation requirements and making the proper notifications to the Firm's designated traders responsible for publishing such quotations.

Closing Markets or Withdrawing Quotations

In the event that the Firm experiences some form of equipment, communications, or other form of a breakdown, the Nasdaq will be immediately notified to close the Firm's markets. Until the time period when the Firm's markets are officially closed, the Firm is subject to automatic SOES executions and firm quote obligations.

Under certain circumstances, the Firm, and other market makers, may provide written notification to the Nasdaq requesting an excused withdrawal of its quotations. Some excused withdrawals may be granted for up to five (5) business days unless otherwise granted for a period of sixty (60) days. Additional conditions may allow for a withdrawal because of religious reasons, vacations, etc. The Firm's Designated Principals are responsible for the maintenance of all applicable documentation for all requests for withdrawing quotations.

16.14 Order Audit Trail System (OATS) & Consolidated Audit Trail (CAT)

OATS Reporting

FINRA Rules 7400 through 7460, require broker-dealers to develop and maintain a system for electronically capturing and reporting to the Order Audit Trail System (OATS) certain information about every NASDAQ security and convertible bond transaction. Information to be reported includes detailed information regarding the order itself and the date and time (hour, minute and second) of specified events during the order's life cycle. Reportable events include the orders receipt, modification, cancellation, execution and routing. This information is used by FINRA to more effectively monitor the trading practices of broker-dealers.

Computerized Order System

Many broker-dealers have computerized order handling, routing and execution systems that record all of the appropriate information that is required to be reported to OATS. Broker-dealers using these systems are still required to synchronize the computerized clocks daily and document the previously mentioned information.

The Firm has contracted with its clearing firm to perform OATS reporting.

CAT Procedures

SEC Rule 613 requires the submission of a National Market System ("NMS") plan to create, implement, and maintain the first comprehensive audit trail for the U.S. securities markets, which will allow for the prompt and accurate recording of material information about all orders in NMS Securities, including the identity of customers, as these orders are generated and then routed throughout the U.S. Market until execution, cancellation, or modification.

Bceause the Firm handles orders or quotes in equities or listed options it has registered its CAT reporters including the Super Account Administrator, Reporting Agents and Users for the CAT Reporter Portal including at least one person affiliated with the Firm and then, potentially, individuals at the clearing firm/third-party)

Alternatively based on volume, the connection the Firm will make is via the CAT Reporter Portal. The CAT Reporter Portal is accessible via the web using a secure, authenticated internet connection. This method of connectivity requires the use of a modern browser that supports HTML5 and TLS (Transport Layer Security).

The Firm is required to authorize a Reporting Agent to report on behalf of your CAT Reporter AND to authorize a Third-Party Reporting Agent to view data submitted on behalf of your firm by another submitter (like your clearing agent).

The Firm is registered for CAT reporting and will report all orders to CAT as required. The OTC Trading Supervisor handles such CAT reporting on behalf of the Firm.

16.15 Fair Prices and Commissions

Principal Transactions

In accordance with Rule 2440, in "over-the-counter" securities transactions, whether in "listed" or "unlisted" securities, if the Firm buys for its own account from the customer, or sells for its own account to the customer, it shall buy or sell at a price which is fair, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense involved, and the fact that he is entitled to a profit;

Agency Transaction

In the event that the Firm acts as agent for the customer in any such transaction, the Firm shall not charge the customer more than a fair commission or service charge, taking into consideration all relevant circumstances, including market conditions with respect to such security at the time of the transaction, the expense of executing the order and the value of any service it may have rendered by reason of the experience in and knowledge of such security and the market therefore.

Mark-up Policy (5% "Policy")

It shall be deemed a violation of *FINRA Rule 2010* and *Rule 2440* for a broker-dealer to enter into any transaction with a customer in any security at any price not reasonably related to the current market price of the security or to charge a commission which is not reasonable. With the adoption of the "5% Policy," the following details shall apply:

- The "5% Policy" is a guide, not a rule;
- The Firm may not justify mark-ups on the basis of expenses which are excessive;
- The mark-up over the prevailing market price is the significant spread from the point of view of fairness of

dealings with customers in principal transactions. In the absence of other bona fide evidence of the prevailing market, the Firm's own contemporaneous cost is the best indication of the prevailing market price of a security;
- A mark-up pattern of 5% or even less may be considered unfair or unreasonable under the "5% Policy;"
- Determination of the fairness of mark-ups must be based on a consideration of all the relevant factors, of which the percentage of markup is only one.

Relevant Factors

The Firm should take into consideration the following factors in determining the fairness of a mark-up:

- 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 (1) the amount of commission charged in an agency transaction or (2) 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, particular attention should be given to the *pattern* of mark-ups;
- The Nature of the Firm's Business- there are certain differences in the services and facilities which are needed by, and provided for, customers of the Firm. 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 the Firm's mark-ups.

Transactions to Which the Policy is Applicable

The "5% Policy" applies to all securities handled in the over-the-counter market in the following types of transactions:

- A transaction in which the Firm 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;
- A transaction in which the Firm 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 firm 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;
- A transaction in which a broker-dealer purchases a security from a customer. The price paid to the customer or the mark-down applied by the broker-dealer must be reasonably related to the prevailing market price of the security;
- A transaction in which the broker-dealer acts as agent. In such a case, the commission charged the customer must be fair in light of all relevant circumstances;
- 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.

Transactions to Which the Policy is *Not Applicable*

The Mark-Up guidelines do not apply to the sale of securities where a prospectus/offering circular is required to be delivered and the securities are sold at the specific public offering price.

16.16 Disclosure of Order Execution Practices (SEC Rule 605)

SEC Rule 605 provides that every market center shall make available for each calendar month an electronic report on the covered orders in national market system securities that it received for execution from any person. Thus, the Rule is limited in scope to market centers, covered orders, and national market system securities.

Key Definitions

Market Center. The term "market center" as any exchange market maker, OTC market maker, alternative trading system, national securities exchange, or national securities association. This definition is intended to cover entities that hold themselves out as willing to accept and execute orders in national market system securities.

Covered Person. The definition of "covered order" applies only to market orders or limit orders that are received by a market center during regular trading hours and, if executed, executed during such time. The definition of covered order excludes any orders for which the customer requested special handling for execution to include the following:

- Orders to be executed at a market opening or closing price;
- Stop orders;
- Short sales that must be executed on a particular tick or bid;
- Orders submitted on a "not held" basis;
- Orders for other than regular settlement; and
- Orders to be executed at prices unrelated to the market price at the time of execution.

Basic Measurements of Execution Quality

All market centers, defined as "any exchange market maker, OTC market maker, alternative trading system, national securities exchange, or national securities association" must make available to the public monthly electronic reports that include uniform statistical measures of execution quality on a security-by-security basis.

To facilitate comparisons across market centers, the rule adopts basic measures of execution quality (effective spread, rate of price improvement and disimprovement, fill rates and speed of execution) and sets forth specific instructions on how the measures are to be calculated. The statistical information will be categorized by individual security, type and size of orders. The following information describes the five types of orders and four buckets of order sizes:

5 Types of Orders

- Market orders;
- Marketable limit orders;
- Inside-the-quote limit orders;
- At-the-quote limit orders;
- Near-the-quote limit orders.

- 100-499 Shares;
- 500-1999 Shares;
- 2000-499 9 shares;
- 5000+ Shares.

As a result, users of the market center reports will have great flexibility in determining how to summarize and analyze statistical information relevant to the execution of orders. Users of the data will be able to analyze order executions for a particular security or for any particular group of securities, as well as for any size or type of order across those groups of securities.

16.17 Disclosure of Order Routing Practices (SEC Rule 606; Formerly Rule 11Ac1-6

Under *SEC Rule 606* as adopted, a broker-dealer that routes orders on behalf of customers will be required to prepare quarterly reports that disclose the identity of the venues to which it routed orders for execution. The reports also will disclose the nature of the Firm's relationship with those venues, including the existence of any internalization or payment for order flow arrangements. Additionally, the Firm will be required to disclose, upon request, where they routed a customer's individual orders for execution.

The Firm will not be required to prepare a narrative section for the reports that discusses and analyzes its order routing practices. In addition, the Firm will not be required to identify every venue to which it routed any orders. Instead, only the most significant venues - the top ten (10) and any others that received 5% or more of the broker-dealer's orders - must be disclosed.

Key Definitions

Covered Security. The definition of "covered security" includes not only national market system securities (i.e., exchange-listed equities and Nasdaq National Market equities), but also Nasdaq SmallCap equities and listed options. The Rule also applies to all broker-dealers that route orders on behalf of their customers.
Customer Order. The term "customer order" is defined as any order to buy or sell a covered security that is not for the account of a broker-dealer. It excludes, however, any order for a quantity of a security having a market value of at least $50,000 for a covered security that is an option contract and a market value of at least $200,000 for any other covered security.

Non-Directed Orders. Although *SEC Rule 606* applies to all types of orders, broker-dealers must give an overview of their routing practices only with respect to "non-directed orders." A non-directed order is any customer order other than a directed order. A directed order as a customer order that the customer specifically instructs the broker-dealer to route to a particular venue for execution. Consequently, all customer orders are non-directed orders in the absence of specific customer instructions on where they are to be routed.

Quarterly Reporting Requirements
SEC Rule 606 as adopted requires that a quarterly report be divided into four separate sections for four different types of covered securities: one for equity securities listed on the NYSE; one for equity securities qualified for inclusion in Nasdaq; one for equity securities listed on the Amex or any other national securities exchange; and one for options.

The Firm's quantitative description of order routing must include the percentage of total non- directed orders for the section routed to the venue, and the percentages of total non-directed market orders, non-directed limit orders, and non-directed other orders for the section that were routed to the venue. The quantitative description also will include the identity of the ten venues to which the largest number of non-directed orders for the section were routed for execution, as well as any venue to which five percent or more of non-directed orders were routed.

The Firm will be required to discuss the material aspects of its relationship with each venue identified in each section of the report, including a description of any payment for order flow arrangement or profit-sharing relationship as it relates to the type of securities for that section. However, broker-dealers are not required to provide a quantitative estimate of the aggregate dollar amount of payment for order flow received during a quarter from each order execution venue.

The Firm is only required to identify and prepare disclosures for their most significant execution venues. The SEC noted in the Adopting Release that, "the quarterly reports on order routing are intended to provide a general overview of a broker-dealer's practices that is accessible and useful to individual investors." To this end, the

Rule requires broker-dealers to disclose only those execution venues to which they routed the most orders for a section of a report – the top ten and any others to which they routed five percent or more of orders.

Public Availability of Quarterly Reports

SEC Rule 606 requires broker-dealers to make publicly available for each calendar quarter a report on its routing of non-directed orders in covered securities. The term "make publicly available" requires the Firm to do three steps – post on a free Internet web site, furnish a written copy on request, and notify customers at least annually that a written copy will be furnished on request. Each quarterly report shall be made publicly available within one month after the end of the quarter addressed in the report.

16.18 Stock Volatility and Extreme Market Conditions

Margin

Some firms may raise margin requirements for volatile stocks. Some firms that permit on-line trading have raised the amount of equity that must be maintained in margin accounts (maintenance margin) for long positions in certain volatile stocks to between 40 percent and 100 percent. Increasing maintenance margin requirements protects both the firm and customers by ensuring that investors have more equity in their margin accounts as protection in case of a large change in the value of a stock, which reduces the likelihood that the firm will have to liquidate assets in the customer's account to meet a margin call.

Some on-line firms also have responded to recent volatility by prohibiting the use of margin to purchase certain securities. Some securities have been designated as "not marginable," requiring customers to purchase the securities with 100 percent initial margin, allowing payment to be made within three days of settlement. Firms also have designated certain securities as "cash on hand," requiring customers to have 100 percent of the purchase price of the security in the account before the transaction can be executed.

Investor Education

Many firms provide some kind of investor education on issues related to market volatility on their Web sites. This education may be found in a part of the Web site devoted generally to investor education and in firm newsletters. Many firms also have customer help desks and support agents, both of which provide answers to customer questions.

Pop-up or Splash Screens

Some firms may add a "pop -up" page that a customer must view when entering the customer account pages of their Web sites indicating, for example, that maintenance margin has been raised for certain listed securities; trade reports may be delayed; only limit orders will be accepted for certain securities; and the latest "real-time" quotes viewed on the site may not be reflective of the current trading price of a stock.

Operation of Automated Order Execution Systems during Turbulent Market Conditions

In accordance with *NTM 99-12*, broker-dealer firms should consider the following guidelines when evaluating whether their order execution algorithms or procedures are appropriate during turbulent market conditions.

- The treatment of customer orders under any order execution algorithm or procedure must remain fair, consistent, and reasonable;
- To the extent that a firm's order execution algorithm or procedures are different during turbulent market conditions, the firm should disclose to its order entry firms (and customers if applicable) the differences in the procedures from normal market conditions and the circumstances in which the firm may generally activate these procedures;
- Modifications to order execution algorithms or procedures designed to respond to turbulent market conditions may be implemented only when warranted by market conditions. Accordingly, firms should document the basis for activation of their modified procedures;

- Frequent activation of modified order execution algorithms or procedures because a firm has failed to maintain adequate system capacity to handle exceptional loads may raise best execution concerns;
- Failure to maintain or adequately staff an over-the-counter order room or other department assigned to execute customers' orders cannot be considered justification for executing away from the best available market.

16.19 Low-Priced Securities

The term "penny stock" is defined as a non-Nasdaq and non-exchange-listed equity security, currently priced under $5 per share, which is issued by a company with *less* than a specified amount of net tangible assets, continuous operations, or annual revenues.

The SEC Penny Stock Disclosure Rules were adopted in April 1992 pursuant to the requirements of the *Securities Enforcement Remedies and Penny Stock Reform Act of 1990 (Penny Stock Reform Act).* The *Penny Stock Reform Act* was enacted to require more stringent regulation of broker-dealers that recommend penny stock transactions to customers. The rules require a broker-dealer that recommend "penny stock" transactions as defined by the Rules to provide that customer with certain specified information.

Unless the transaction is exempt under the Rules, broker-dealers effecting customer transactions in penny stocks are required to provide their customers with the following:

- A risk disclosure document;
- Disclosure of the current inside bid and ask quotations, if any;
- Disclosure of compensation to the firm and its salesperson in the transaction; and
- Monthly or quarterly account statements showing the market value of each penny stock held in the customer's account.
-

Several categories of penny stock transactions are exempt under Exchange Act Rule 15g-1, including transactions where the customer is an "institutional accredited investor" or customer transactions not recommended by the Firm. The Rule 15g-2 requirements for the delivery of the risk disclosure document to penny stock customers became effective July 15, 1992. The other disclosure requirements became effective on January 1, 1993. (See *Notices to Members 92-38* July 1992.)

Definition of a "Penny Stock"

In accordance with Rule 15g-1, the term "penny stock" shall mean any equity security other than a security:

- That is a reported security, as defined in Rule 11Aa3-1(a);
- That is issued by an investment company registered under the Investment Company Act of 1940;
- That is a put or call option issued by the Options Clearing Corporation (OCC);
- Except for purposes of section 7(b) of the Securities Act and Rule 419, that has a price of five dollars or more;
- That is registered, or approved for registration upon notice of issuance, on a national securities exchange that makes transaction reports available pursuant to Rule 11Aa3- 1 of this chapter, provided that price and volume information in that security is required to be reported on a current and continuing basis and is made available to vendors of market information; and the security is purchased or sold in a transaction that is effected on or through the facilities of the national securities exchange, or that is part of a distribution of the security;
- That is authorized, or approved for authorization upon notice of issuance, for quotation in the Nasdaq system, provided that price and volume information is required to be reported on a current and continuing basis and is made available to vendors of market information pursuant to the rules of FINRA;
- Whose issuer has net tangible assets in excess of $2,000,000, if the issuer has been in continuous operation for at least three (3) years, or $5,000,000, if the issuer has been in continuous operation for less than three years; or average revenue of at least $6,000,000 for the last three (3) years. Exemption from Penny Stock Disclosures

Proposed *SEC Rule 15g-1* would exempt selected transactions from the proposed disclosure obligations to

customers as follows:

- transactions in penny stocks by a broker-dealer that totals less than 5% of its securities business in penny stocks that has not been a market maker, during the past year, in the penny stock that is the subject of the transactions;
- transactions in securities the issuer of which has net tangible assets exceeding $2 million, if that issuer has been in continuous operation for at least three years, or $5 million, if the issuer has been in continuous operation for less than three years;
- transactions in securities where the customer is an institutional accredited investor;
- transactions that are not recommended by the broker-dealer; and
- transactions in which the purchaser is the issuer of the penny stock that is the subject of the transaction.

Separately, proposed *SEC Rule 15g-1* would exempt two categories of penny-stock transactions from proposed *Rules 15g-2* (requiring provision of a risk disclosure document), *15g-3* (requiring disclosure of bid/ask prices), and *15g-6* (requiring provision of monthly account statements), as follows:

- transactions in securities that are registered and that are executed on a national securities exchange that disseminates transaction reports pursuant to an effective reporting plan; and
- transactions in Nasdaq securities qualifying as penny stocks that involve a Nasdaq market maker registered in that security, a broker crossing two orders on an agency basis, or an underwriter or any syndicate or selling-group member that is participating in a distribution of the affected penny stock.

Risk Disclosure Document Relating to the Penny Stocks

In accordance with *SEC Rule 15g-2*, the Firm is prohibited from conducting any transactions in penny stocks securities unless the Firm furnishes to the customer a disclosure document containing the information set forth in *Schedule 15G*, *Rule 15g-100*, and has obtained from the customer a manually signed and dated written acknowledgement of receipt of the document.

The risk disclosure statement required by *SEC Rule 15g-2* was created under the *Securities Exchange Act of 1934* and is called *Schedule 15G.* There are specific rules that govern the format and presentation of *Schedule 15G* to customers. When preparing and presenting the documents to the customer, the Firm must monitor that:

- No language is omitted, altered, or added in any way;
- Information contained in *Schedule 15G* must be reported in its entirety;
- The information provided under the header "Important Information on Penny Stocks" must be presented on one page only and must be the first page of the Schedule;
- Words appearing in capital letters must be reproduced in capital letters and be printed in bold-faced roman type as at least 10 point modern type and at least two points leaded;
- No material that is intended to in any way detract from, rebut or contradict the Schedule may be given to the customer;
- The format and typeface of the document must be reproduced as presented in the schedule;
- Words appearing in lower case must be reproduced in lower case letters and be printed in roman type as at least 10 point modern type and at least two points leaded; and
- Words that are underlined in the document must be underlined in the reproduction and appear in bold-faced roman type at least as large as 10 point modern type and at least two point leaded.

The Firm shall preserve, as part of its records, a copy of the written acknowledgment required for the period specified in SEC Rule 17a-4(b).

Disclosure of Quotations and Other Information Relating to Penny Stocks

In accordance with Rule 15g-3, the Firm shall not effect transactions in any penny stock securities with or for a customer’s account unless the Firm discloses the following information to each customer:

Principal Basis

- The inside bid quotation and the inside offer quotation for the penny stock;

- In the absence of an inside bid quotation and an inside offer quotation the Firm shall disclose a transaction effected on a principal basis, the dealer shall disclose its offer price for the security (i)If during the previous five (5) days the dealer has effected no fewer than three (3) *bona fide* sales at its offer price for the security current at the time of those sales; and (ii) If the dealer reasonably believes in good faith at the time of the transaction that its offer price accurately reflects the price at which it is willing to sell one or more round lots to another dealer *(the term "consistently" shall constitute, at a minimum, seventy-five percent of the dealer's bona fide interdealer sales during the previous five-day period, and, if the dealer has effected only three bona fide inter-dealer sales during such period, all three of such sales);*

- The dealer shall disclose its bid price for the security (i) if during the previous five days the dealer has effected no fewer than three *bona fide* purchases from other dealers consistently at its bid price for the security current at the time of those purchases, and (ii) If the dealer reasonably believes in good faith at the time of the transaction with the customer that its bid price accurately reflects the price at which it is willing to buy one or more round lots from another dealer *(the term "consistently" shall constitute, at a minimum, seventy-five percent of the dealer's bona fide interdealer purchases during the previous five-day period, and, if the dealer has effected only three bona fide inter-dealer purchases during such period, all three of such purchases)*;

- If the dealer's bid or offer prices to the customer do not satisfy the criteria, the dealer shall disclose to the customer (i) that it has not affected inter-dealer purchases or sales of the penny stock consistently at its bid or offer price, and (ii) the price at which it last purchased the penny stock from, or sold the penny stock to, respectively, another dealer in a *bona fide* transaction;
- Concerning bid or offer prices and disclosed transaction prices, the Firm shall disclose the number of shares to which the bid and offer prices apply.

Riskless Principal/Agency Basis

In accordance with Rule 15g-3(a)(2)(ii), for such transactions that are effected in a riskless principal or agency capacity, the Firm shall be required disclose the best independent interdealer bid and offer prices for the penny stock that the Firm obtains through reasonable diligence. The Firm shall be deemed to have exercised reasonable diligence if it obtains quotations from three market makers in the security (or all known market makers if there are fewer than three).

Disclosure of Compensation to Broker-dealers

Preliminary Note: Brokers and dealers may wish to refer to Securities Exchange Act Release No. 30608 (April 20, 1992) for a discussion of the procedures for computing compensation in active and competitive markets, inactive and competitive markets, and dominated and controlled markets.

The Firm shall not effect any penny stock transaction for a customer unless the Firm discloses the aggregate amount of any compensation received by the Firm in connection with such a transaction.

Compensation shall mean the following under agency and principal status:

Agency Transaction

If the Firm is acting as agent for a customer, the amount of any remuneration received or to be received by it from such customer in connection with an agency transaction.

Principal Transaction

If, after having received a buy order from a customer, a dealer other than a market maker purchased the penny stock as principal from another person to offset a contemporaneous sale to such customer or, after having received a sell order from a customer, sold the penny stock as principal to another person to offset a contemporaneous purchase from such customer, the difference between the price to the customer and such contemporaneous purchase or sale price; or if the dealer otherwise is acting as principal for its own account, the difference between the price to the customer and the prevailing market price.For purposes of this section only, a market may be deemed to be "active and competitive" in determining the prevailing market price with respect to a transaction by a market maker in a penny stock if the aggregate number of transactions effected by such market maker in the penny stock in the five business days preceding such transaction is less than twenty percent (20%) of the aggregate number of all transactions in the penny stock reported on a QEQS system during such five (5) day period. The Firm is required to disclose to the customer the total amount of commissions, markup, markdown, or any other type of remuneration received for a transaction. The Firm must disclose this information to its customers at the time an order is accepted, and it must appear on the customer confirmation.

Complete disclosure of all compensation received by the broker-dealer in relation to a customer transaction must be made in accordance with *SEC Rule 15g-4*. Firms should also cross reference *SEC Rule 17a-4(b)* as this rule may directly apply to documents and disclosures made.

Disclosure of Compensation in Connection With Penny Stock Transactions

In accordance with *SEC Rule 15g-5*, the Firm shall not conduct any transactions in penny stock securities unless the Firm discloses the aggregate amount of cash compensation communicated with the customer concerning the customer's transaction order, including separate disclosure, if applicable, of the source and amount of such compensation that is *not* paid by the Firm.

Compensation disclosure must be made to the customer, in writing, either prior to or at the time of confirming the transactions. The disclosure must list out the information concerning all compensation received by the registered representative. If a registered representative of the Firm is receiving compensation not determined at or before confirming the order, it must be disclosed as well. If the compensation is not determined immediately it must be disclosed in writing that such remunerations will be assign to the registered representative and the basis upon which it is determined.

Monthly Account Statements for Penny Stock Customers

In accordance with SEC Rule 15g-6, the Firm is required to send monthly statements to all customers engaged in penny securities transactions with the Firm. These statements must be sent out to the customer no later than ten (10) business days following the end of each month.

Introducing firms often delegate certain responsibilities, including providing customer statements and confirmations, to other broker-dealers. Firms may do the same with monthly statements for penny stocks if the introducing firm understands that it retains regulatory responsibility for performance, accuracy, and completeness of the reporting obligation. Therefore, monthly statements for penny stocks must disclose the following information:

- Number of shares or units of each penny stock holding;
- Name, symbol, or CUSIP number of each penny stock holding.

The Firm may be exempt from the monthly statement requirement based upon a pricing provision pursuant to *SEC Rule 3a51 -1(d)(1).* At the end of each month, the Firm shall make a determination as to whether a specific stock is still considered a penny stock. The Firm is exempt from *SEC Rule 15g-6* under two provisions.

- If the Firm does not affect any transactions in penny stocks for or with the account of the customer during a period of six (6) consecutive calendar months, then the Firm shall not be required to provide monthly statements for each quarterly period, *provided* that the Firm gives or sends written statements to the customer on a quarterly basis, within ten (10) days following the end of each such quarterly period;

- If, on all but five (5) or fewer trading days of any quarterly period, a security has a price of $5.00 or more, the Firm shall not be required to provide a monthly statement covering the security for subsequent quarterly periods, until the end of any such subsequent quarterly period on the last trading day of which the price of the security is less than $5.00.
  In order to determine if a given security qualifies for one of these exemptions, a broker-dealer must calculate the estimated market value. This calculation is computed pursuant to *SEC Rule 15g-6(d)(2)(ii)* based on one of two methods that rely on availability of market information. The methods are stipulated below:

In terms of market and price information, the required monthly statement shall contain at least the following information with respect to each penny stock as of the last trading day of the period to which the statement relates:

- The identity and number of shares or units of each such security held for the customer's account; and
- The estimated market value of the security, to the extent that such estimated market value can be determined in accordance with the following provisions the highest inside bid quotation for the security on the last trading day of the period to which the statement relates, multiplied by the number of shares or units of the security held for the customer's account; or the weighted average price per share paid by the firm in all qualifying purchases effected during such five-day period, multiplied by the number of shares or units of the security held for the customer's account; or a statement that there is "no estimated market value" with respect to the security.

In order to be a qualified purchase as defined by *SEC Rule 15g-6(d)(2)(ii)* and used by
The Firm to determine a weighted average the transaction must:

- Be a bona-fide purchase by a broker-dealer for its own account;
- Involve a transaction of at least 100 shares; and
- Not a blocked transaction involving more than one percent of the outstanding shares of the security;

In accordance with *SEC Rule 15g-6(e),* the written statement shall include a conspicuous legend that is identified with the penny stocks described in the statement and that contains the following language:

> *"If this statement contains an estimated value, you should be aware that this value may be based on a limited number of trades or quotes. Therefore, you may not be able to sell these securities at a price equal or near to the value shown. However, the broker-dealer furnishing this statement may not refuse to accept your order to sell these securities. Also, the amount you receive from a sale generally will be reduced by the amount of any commissions or similar charges. If an estimated value is not shown for a security, a value could not be determined because of a lack of information."*

Sales Practice Requirements for Certain Low-Priced Securities

In accordance with *SEC Rule 15g-9* , prior to the approval of penny stock transactions in a customer's account, the Firm must conduct the following procedures:

- Obtain certain information concerning the customer's financial situation, investment experience, and investment objectives;
- Reasonably determine that transactions in penny stocks are suitable for the customer, and that the customer has sufficient knowledge and experience in financial matters that the person reasonably may be expected to be capable of evaluating the risks of transactions in penny stocks;
- Deliver to the person a written disclosure statement;
- Obtain a signed and dated copy of the written disclosure statement by the customer.

This information is collected from the customer to allow the associated person(s) who introduce and approve the account to make certain determinations about the customer's investment objectives, financial profile, and investing experience. The associated person(s) must monitor that the customer has sufficient knowledge and experience in financial and investing matters and is able to properly gage the risk involved in penny stock transactions.

The Firm must obtain a written agreement from the customer for the first three purchases made of different penny stocks on separate days. The written agreement must contain the following:

- Name of the issue
- Number of shares/units
- Signature and date (must be prior to the date of transaction)

Exemptions from SEC Rule 15g-9

Under *SEC Rule 15g-9* there are certain circumstances in which the Firm is exempt from this rule. This exemption, commonly referred as the "Established Customer Exemption", applies to:

- Purchaser (of a penny stock) is an established customer at the brokerage firm, in that they effected a securities transaction or deposited funds or securities with the broker-dealer more than a year prior to a penny stock transaction; and
- Transactions that are exempt under *Rule 15g-1(a),(b),(d), (e), and (f);*
- Transactions that meet the requirements of *Rule 505 or Rule 506* (including, where applicable, the requirements of *Rule 501 through Rule 503, and Rule 507* through Rule 508), or transactions with an issuer not involving any public offering pursuant to *section 4(2) of the Securities Act of 1933*;
- Customer effected three prior purchases of penny stocks with the Firm that were compliant with *SEC Rule 15g-9*.

16.20 Regulation M

Regulation M consists of six rules.

- Rule 100 contains definitions of terms under Regulation M.
- Rule 101 governs the activities of underwriters and other persons participating in a distribution of securities and their affiliated purchasers.
- Rule 102 governs the activities of the issuer, selling security holders and their affiliated purchasers.
- Rule 103 describes the conditions for permissible "passive" market making during the restricted period for a distribution of a Nasdaq security.
- Rule 104 governs stabilization, syndicate short covering activity, and penalty bids.
- Rule 105 prohibits covering short sales with offered securities purchased from an underwriter, broker, or dealer participating in an offering.

NASDAQ Passive Market Making

Rule 103 permits passive market making activities to be conducted throughout the entire applicable restricted period, including the period in which offers and sales are made (unless stabilization activities are being conducted), unlike Rule 10b-6A which restricted such activities to the two business day cooling-off period and which prohibited such activities upon the commencement of offers and sales.

Therefore, the Firm may engage in market making transactions in covered securities that are Nasdaq securities, without violating the provisions of Rule 101, under the following conditions:

- General limitations. A passive market maker must effect all transactions in the capacity of a registered market maker on Nasdaq. A passive market maker shall not bid for or purchase a covered security at a price that exceeds the highest independent bid for the covered security at the time of the transaction, except as permitted by paragraph (b)(3) of this section or required by a rule promulgated by the

Commission or FINRA governing the handling of customer orders.

- Purchase limitation. On each day of the restricted period, a passive market maker's net purchases shall not exceed the greater of its 30% ADTV limitation or 200 shares (together, "purchase limitation"); Provided, however, That a passive market maker may purchase all of the securities that are part of a single order that, when executed, results in its purchase limitation being equaled or exceeded. If a passive market maker's net purchases equal or exceed its purchase limitation, it shall withdraw promptly its quotations from Nasdaq. If a passive market maker withdraws its
quotations pursuant to this paragraph, it may not effect any bid or purchase in the covered security for the remainder of that day, irrespective of any later sales during that day, unless otherwise permitted by Rule 101.
- Requirement to lower the bid. If all independent bids for a covered security are reduced to a price below the passive market maker's bid, the passive market maker must lower its bid promptly to a level not higher than the then highest independent bid; Provided, however, That a passive market maker may continue to bid and effect purchases at its bid at a price exceeding the then highest independent bid until the passive market maker purchases an aggregate amount of the covered security that equals or, through the purchase of all securities that are part of a single order, exceeds the lesser of two times the minimum quotation size for the security, as determined by FINRA rules, or the passive market maker's remaining purchasing capacity under paragraph (b)(2) of this section.
- Limitation on displayed size. At all times, the passive market maker's displayed bid size may not exceed the lesser of the minimum quotation size for the covered security, or the passive market maker's remaining purchasing capacity under paragraph (b)(2) of this section; Provided, however, That a passive market maker whose purchasing capacity at any time is between one and 99 shares may display a bid size of 100 shares.
- Identification of a passive market making bid. The bid displayed by a passive market maker shall be designated as such.
- Notification and reporting to FINRA. A passive market maker shall notify FINRA in advance of its intention to engage in passive market making, and shall submit to the NASD information regarding passive market making purchases, in such form as FINRA shall prescribe.
- Prospectus disclosure. The prospectus for any registered offering in which any passive market maker intends to effect transactions in any covered security shall contain the information required in Items 502 and 508 of Regulation S-B, and Items 502, and 508 of Regulation S-K.
- Transactions at Prices Resulting from Unlawful Activity. No transaction shall be made at a price that the passive market maker knows or has reason to know is the result of activity that is fraudulent, manipulative, or deceptive under the securities laws, or any rule or regulation thereunder.

Except That this section shall not apply to any security for which a stabilizing bid subject to Rule 104 is in effect, or during any at-the-market offering or best efforts offering.

Pursuant to Securities Exchange Act of 1934, as amended, Regulation M Rule 104, a stabilizing bid is a purchase of stock by underwriters to stabilize, or support, the secondary market price of a security immediately following an initial public offering when the price of the newly issued shares falters or is shaky in trading. Further, stabilizing is necessary for the purpose of preventing or retarding a decline in the market price of a security.

The Designated Principals shall monitor whether a distribution may occur and the Regulation M filing coordinator shall make the filing.

16.21 Private Placements of Securities Issued by Members

Neither the Firm nor associated person may offer or sell any security in a Firm Private Offering unless the following conditions have been met:

Disclosure Requirements

If an offering has a private placement memorandum or term sheet, then such memorandum or term sheet must be provided to each prospective investor and must contain disclosures addressing:

(1) intended use of the offering proceeds; and
(2) offering expenses and the amount of selling compensation that will be paid to the firm and its associated persons.
If an offering does not have a private placement memorandum or term sheet, then the Firm must prepare an offering document that contains the disclosures required in paragraph (b)(1)(A)(i) and (ii) and provide such document to each prospective investor.

Filing Requirements

In the event that the Firm engages in a private placement of unregistered securities issued by the Firm or a control entity ("member private offering"), the Firm must file the private placement memorandum, term sheet or such other offering document, as applicable, with the Corporate Financing Department at or prior to the first time the document is provided to any prospective investor. Any amendment(s) or exhibit(s) to the private placement memorandum, term sheet or other offering document also must be filed with the Department within ten (10) days of being provided to any investor or prospective investor.

Exemptions

The following Firm Private Offerings are exempt from the requirements of this Rule:

(1) offerings sold solely to:
- (A) institutional accounts, as defined in FINRA Rule 2111(b)
- (B) qualified purchasers, as defined in Section 2(a)(51)(A) of the Investment Company Act;
- (C) qualified institutional buyers, as defined in Securities Act Rule 144A;
- (D) investment companies, as defined in Section 3 of the Investment Company Act;
- (E) an entity composed exclusively of qualified institutional buyers, as defined in Securities Act Rule 144A; and
- (F) banks, as defined in Section 3(a)(2) of the Securities Act.

(2) offerings of exempted securities, as defined in Section 3(a)12 of the Exchange Act;
(3) offerings made pursuant to Securities Act Rule 144A or SEC Regulation S;
(4) offerings in which a firm acts primarily in a wholesaling capacity (i.e., it intends, as evidenced by a selling agreement, to sell through its affiliate broker-dealers, less than 20% of the securities in the offering);
(5) offerings of exempt securities with short term maturities under Section 3(a)(3) of the Securities Act;
(6) offerings of subordinated loans under SEA Rule 15c3-1, Appendix D (see NASD Notice to Members 02-32 (June 2002));
(7) offerings of "variable contracts", as defined in Rule 2320(b);
(8) offerings of modified guaranteed annuity contracts and modified guaranteed life insurance policies, as referenced in Rule 5110(b)(8)(E);
(9) offerings of unregistered investment grade rated debt and preferred securities;
(10) offerings to employees and affiliates of the issuer or its control entities;
(11) offerings of securities issued in conversions, stock splits and restructuring transactions that are executed by an already existing investor without the need for additional consideration or investments on the part of the investor;
(12) offerings of securities of a commodity pool operated by a commodity pool operator, as defined under Section 1a(5) of the Commodity Exchange Act;
offerings of equity and credit derivatives, including OTC options; provided that the derivative is not based principally on the firm or any if its control entities; and offerings filed with the Department under Rules 2310, 5110 or FINRA Rule 5121.

16.22 Electronic Transmission of Order - Control Procedures

Please refer to Section 15.16.

In the event the Firm decides to engage underwriting activities in accordance with FINRA Rule 5110 and any/all additional rules and regulations that apply to corporate securities underwriting. The firm will conduct its underwriting activities pursuant to the written supervisory procedures documented and detailed herein.

17.01 Best Efforts Distribution and Private Placement Offerings

Prohibited Representations in Connection with Certain Offerings

In accordance with SEC Rule 10b-9, the Firm and any registered representatives, in connection with the offer or sale of any security, are prohibited from making any representation:

- To the effect that the security is being offered or sold on an "all-or-none" basis, unless the security is part of an offering or distribution being made on the condition that all or a specified amount of the consideration paid for such security will be promptly refunded unless (i) all of the securities being offered are sold at a specified price within a specified time, and (ii) the total amount due to the seller is received by such seller by a specified date; or
- to the effect that the security is being offered or sold on any other basis whereby all or part of the consideration paid for any such security will be refunded to the purchaser if all or some of the securities are not sold unless the security is part of an offering or distribution being made on the condition that all or a specified part of the consideration paid for such security will be promptly refunded to the purchaser unless (i) a specified number of units of the security are sold at a specified price within a specified time, and (ii) the total amount due to the seller is received by such seller by a specified date.
- This rule shall not apply to any offer or sale of securities as to which the seller has a firm commitment from underwriters or others (subject only to customary conditions precedent, including "market outs") for the purchase of all the securities being offered.

Best Efforts Distribution of Securities (SEC Rule 15c2-4)

SEC Rule 15c2-4 applies to best efforts distributions of securities. The Rule details rules and regulations for distributions that are conducted on an “all-or-none” basis, and/or any other basis where payment is not made to the issuer until a predetermined event or contingency occurs. Under this rule, broker-dealers are required to take one of the following actions concerning customer funds:

(1) Promptly deposit funds received by the investor into a separate bank account, as agent or trustee for the investors; or
(2) Promptly transmit such funds to a bank escrow agent, pending the occurrence of the contingency.

The Rule is intended to protect investor funds in an offering from unlawful activities by, or to financially benefit the broker-dealer participating in the offering. The division of investor and broker-dealer funds is to monitor that the issuer will receive the full proceeds promptly upon occurrence of a predetermined contingency. Should the contingency of the offering fail to occur, the Rule protects the investor by compelling the broker-dealer to promptly reimburse all funds to investors.

As stated above, the Firm may be obligated to pursue a specific course of action when customer funds are invested. The firm’s minimum net capital requirement shall determine if the Firm is to act as an agent/trustee or simply transmit such funds to an escrow account. A broker-dealer with a $25,000 net capital requirement has two options in dealing with investor funds (not applicable at this time), including:

(1) Act as agent or trustee for a separate bank account until the contingency occurs; or

(2) Transmit the monies to an unaffiliated bank to hold the funds in escrow for the investors until the contingency occurs.

A broker-dealer with a $ 5,000 net capital requirement (not applicable at this time) may only receive and promptly transmit investors' checks which are made payable to an unaffiliated bank escrow agent. Under the Rule, such a broker-dealer is prohibited from holding customer funds or accepting funds made payable to the broker-dealer.

SEC Rule 15c2-4 does not apply to the following securities:

- Money market funds;
- Corporate equity or debt securities;
- Repurchase agreements;
- Bankers acceptances;
- Commercial paper; and
- Municipal securities.

17.02 Due Diligence Review

Prior to engaging in any offering, the Firm shall conduct a due diligence review of the issuer and the offering that is considered "reasonable" under the circumstances. The Designated Principals will review due diligence information including but is not limited to the following:

- Preparation and Review of Final and Preliminary Prospectuses;
- Copies of Regulatory Filings;
- Registration Statements;
- Blue Sky Memorandum;
- Correspondence;
- Evaluation of Corporate Structure and Management;
- Market and Product Research and Analysis;
- Review Competition and Market Trends;
- Review All Legal Concerns of the Issuer;
- Financial Statements of the Issuer;
- SEC/FINRA Filings of the Issuer; and
- Copy of Escrow Agreements.

The primary banker for such issuer shall be responsible for collecting the due diligence documents, as applicable, pursuant to the Due Diligence Checklist ("DD Checklist"). Note that items on the DD Checklist are not applicable to all issuers and offering types. The DD Checklist shall be signed by the designated banker and supervisor. All due diligence documents and the DD Checklist shall be maintained on Sharefile in a folder for such issuer.

17.03 Underwriting Terms and Arrangements (Corporate Financing Rule)

General Filing Requirements

In accordance with FINRA Rule 5100, the Firm or any person associated with the Firm shall not participate in any manner in any public offering of securities subject to this Rule or FINRA Rule 2310 unless documents and information as specified herein relating to the offering have been filed with and reviewed by FINRA.

Requirement for Filing

Unless filed by the issuer, the managing underwriter, or another firm, any firm that anticipates participating in a public offering of securities subject to this Rule shall file with FINRA the documents and information with respect to the offering no later than one business day after any such documents are filed with or submitted to the SEC or any state securities commission or other regulatory authority; or if not filed with or submitted to

any regulatory authority, at least fifteen business days prior to the anticipated date on which offers will commence.

Documents to be Filed

The following documents relating to all proposed public offerings of securities that are required to be filed under subparagraph (b)(4) above shall be filed with FINRA for review:

- The registration statement, offering circular, offering memorandum, notification of filing, notice of intention, application for conversion and/or any other document used to offer securities to the public;
- Any proposed underwriting agreement, agreement among underwriters, selected dealers agreement, agency agreement, purchase agreement, letter of intent, consulting agreement, partnership agreement, underwriter's warrant agreement, escrow agreement, and any other document that describes the underwriting or other arrangements in connection with or related to the distribution, and the terms and conditions relating thereto; and any other information or documents that may be material to or part of the said arrangements, terms and conditions and that may have a bearing on FINRA's review;
- Each pre- and post-effective amendment to the registration statement or other offering document, one copy marked to show changes; and three (3) copies of any other amended document previously filed pursuant to subparagraphs (i) and (ii) above, one copy marked to show changes; and
- The final registration statement declared effective by the SEC or equivalent final offering document and a list of the members of the underwriting syndicate, if not indicated therein, and one copy of the executed form of the final underwriting documents and any other document submitted to FINRA for review.

Information Required to be Filed

Any person filing documents with FINRA shall provide the following information with respect to the offering:

- an estimate of the maximum public offering price;
- an estimate of the maximum underwriting discount or commission; maximum reimbursement of underwriter's expenses, and underwriter's counsel's fees (except for reimbursement of "blue sky" fees); maximum financial consulting and/or advisory fees to the underwriter and related persons; maximum finder's fees; and a statement of any other type and amount of compensation which may accrue to the underwriter and related persons;
- a statement of the association or affiliation with any member of any officer or director of the issuer, of any beneficial owner of 5% or more of any class of the issuer's securities, and of any beneficial owner of the issuer's unregistered equity securities that were acquired during the 180-day period immediately preceding the required filing date of the public offering, except for purchases described in subparagraph (c)(3)(B)(iv) below;
- a detailed explanation of any other arrangement entered into during the 180-day period immediately preceding the required filing date of the public offering, which arrangement provides for the receipt of any item of value or the transfer of any warrants, options, or other securities from the issuer to the underwriter and related persons;
- a statement demonstrating compliance with all of the criteria of an exception from underwriting compensation in subparagraph (d)(5) below, when applicable; and
- a detailed explanation and any documents related to the modification of any information or representation previously provided to FINRA, any item of underwriting compensation, or any new arrangement that provides for the receipt of any additional item of value by any participating member subsequent to the issuance of an opinion of no objections to the underwriting terms and arrangements by FINRA; and
- any other information required by FINRA's electronic filing system.

Offerings Required to be Filed

Documents and information relating to all other public offerings including, but not limited to, the following must be filed with FINRA for review:

- direct participation programs as defined in FINRA Rule 2111; mortgage and real estate investment trusts;
- rights offerings;
- securities exempt from registration with the SEC pursuant to Section 3(a)(11) of the Securities Act;
- securities exempt from registration with the SEC pursuant to Rule 504 unless the securities are "restricted securities" under SEC Rule 144(a)(3);
- securities offered by a bank, savings and loan association, or common carrier even though such offering may be exempt from registration with the SEC;
- securities offered pursuant to Regulation A or Regulation B adopted under the Securities Act;
- exchange offers that are exempt from registration with the SEC under Sections 3(a)(4), 3(a)(9), or 3(a)(11) of the Securities Act (if the Firm's participation involves active solicitation activities) or registered with the SEC (if the Firm is acting as dealer-manager) (collectively "exchange offers"), except for exchange offers exempt from filing pursuant to subparagraph (7)(F) above that are not subject to filing by subparagraph (9)(I) below;
- any exchange offer, merger and acquisition transaction, or other similar corporate reorganization involving an issuance of securities that results in the direct or indirect public ownership of the Firm; and
- any offerings of a similar nature that are not exempt.

Request for Underwriting Activity Report

The Firm, when acting as a manager (or in a similar capacity) of a distribution of a publicly traded subject or reference security that is subject to SEC Rule 101 or an "actively-traded" security under SEC Rule 101 (except for a security listed on a national securities exchange) shall submit a request to the Market Regulation Department for an Underwriting Activity Report with respect to the subject and/or reference security in order to facilitate compliance with SEC Rules 101, 103, or 104, and other distribution-related FINRA Rules. The request shall be submitted at the time a registration statement or similar offering document is filed with the Corporate Financing Department, the SEC, or other regulatory agency or, if not filed with any regulatory agency, at least two (2) business days prior to the commencement of the restricted period under SEC Rule 101. The request shall include a copy of the registration statement or similar offering document (if not previously submitted pursuant to subparagraph (b)(5) of this Rule). If no member is acting as managing underwriter of such distribution, each member that is a distribution participant or an affiliated purchaser shall submit a request for an Underwriting Activity Report, unless another member has assumed responsibility for compliance with this subparagraph.

Submission of Pricing Information

The Firm acting as a manager (or in a similar capacity) of a distribution of securities that are listed on a national securities exchange and considered a subject security or reference security that is subject to SEC Rule 101 or an "actively-traded" security under SEC Rule 101 or a distribution of any other securities that are considered "actively-traded" under SEC Rule 101 shall provide written notice to the Market Regulation Department of FINRA, no later than the close of business the day the offering terminates, that includes the date and time of the pricing of the offering, the offering price, and the time the offering terminated, which notice may be submitted on the Underwriting Activity Report.

Unreasonable Terms and Arrangements

The Firm or any person associated with the Firm shall not participate in any manner in a public offering of securities after any arrangement proposed in connection with the public offering, or the terms and conditions

relating thereto, has been determined to be unfair or unreasonable pursuant to this Rule or inconsistent with FINRA rules and regulations.

Prohibited Arrangements

The following terms and arrangements, when proposed in connection with a public offering of securities, shall be considered unfair and unreasonable:

- Any accountable expense allowance granted by an issuer to the underwriter and related persons that includes payment for general overhead, salaries, supplies, or similar expenses of the underwriter incurred in the normal conduct of business;
- Any non-accountable expense allowance in excess of 3% of offering proceeds;
- Any payment of commissions or reimbursement of expenses directly or indirectly to the underwriter and related persons prior to commencement of the public sale of the securities being offered, except a reasonable advance against out-of-pocket accountable expenses actually anticipated to be incurred by the underwriter and related persons, which advance is reimbursed to the issuer to the extent not actually incurred;
- The payment of any compensation by an issuer to the Firm or person associated with a
- member in connection with an offering of securities that is not completed according to the terms of agreement between the issuer and underwriter;
- Any "tail fee" arrangement granted to the underwriter and related persons that has a duration of more than two years from the date the Firm's services are terminated;
- Any right of first refusal provided to the underwriter or related persons to underwrite or participate in future public offerings, private placements or other financings;
- Any payment or fee to waive or terminate a right of first refusal regarding future public offerings, private placements or other financings provided to the underwriter and related person;
- The terms or the exercise of the terms of an agreement for the receipt by the underwriter and related persons of underwriting compensation consisting of any option, warrant or convertible security;
- The receipt by the underwriter and related persons of any item of compensation for which a value cannot be determined at the time of the offering;
- When proposed in connection with the distribution of a public offering of securities on a "firm commitment" basis, any overallotment option providing for the overallotment of more than 15% of the amount of securities being offered, computed excluding any securities offered pursuant to the overallotment option;
- The receipt by the Firm or person associated with the Firm, pursuant to an agreement entered into at any time before or after the effective date of a public offering of warrants, options, convertible securities or units containing such securities, of any compensation or expense reimbursement in connection with the exercise or conversion of any such warrant, option, or convertible security;
- For the Firm to participate with an issuer in the public distribution of a non-underwritten issue of securities if the issuer hires persons primarily for the purpose of distributing or assisting in the distribution of the issue, or for the purpose of assisting in any way in connection with the underwriting, except to the extent in compliance with SEC Rule 3a4-1 and applicable state law; and
- For the Firm or person associated with the Firm to participate in a public offering of real estate investment trust securities, as defined in Rule 2340(c)(4), unless the trustee will disclose in each annual report distributed to investors pursuant to Section 13(a) of the Securities Act a per share estimated value of the trust securities, the method by which it was developed, and the date of the data used to develop the estimated value.

Lock-Up Restriction on Securities

In any public equity offering, other than a public equity offering by an issuer that can meet the requirements in subparagraphs (b)(7)(C)(i) or (ii), any common or preferred stock, options, warrants, and other equity securities of the issuer, including debt securities convertible to or exchangeable for equity securities of the

issuer, that are unregistered and acquired by an underwriter and related person during 180 days prior to the required filing date, or acquired after the required filing date and deemed to be underwriting compensation by FINRA, and securities excluded from underwriting compensation pursuant to subparagraph (d)(5) above, shall not be sold during the offering, or sold, transferred, assigned, pledged, or hypothecated, or be the subject of any hedging, short sale, derivative, put, or call transaction that would result in the effective economic disposition of the securities by any person for a period of 180 days immediately following the date of effectiveness or commencement of sales of the public offering, except under the following:

Exceptions to Lock-Up Restriction

- the transfer of any security; or
- the exercise or conversion of any security, if all securities received remain subject to the lock-up restriction for the remainder of the time period.

Proceeds Directed to the Firm

In accordance with FINRA Rule 5121, the Firm or any person associated with the Firm shall not participate in a public offering of an issuer's securities where more than 10% of the net offering proceeds, not including underwriting compensation, are intended to be paid to participating members, unless the price at which an equity issue or the yield at which a debt issue is to be distributed to the public is established pursuant to Rule 5121(c)(3).

Non-Cash Compensation

The term "Non-cash compensation" shall mean any form of compensation received in connection with the sale and distribution of securities that is not cash compensation, including but not limited to merchandise, gifts and prizes, travel expenses, meals and lodging.

Restrictions on Non-Cash Compensation

In connection with the sale and distribution of a public offering of securities, the Firm is prohibited from directly or indirectly accepting or making payments or offers of payments of any non-cash compensation, except as provided in this provision. Non-cash compensation arrangements are limited to the following:

- Gifts that do not exceed an annual amount per person fixed periodically by FINRA Board of Governors and are not preconditioned on achievement of a sales target;
- An occasional meal, a ticket to a sporting event or the theater, or comparable entertainment which is neither so frequent nor so extensive as to raise any question of propriety and is not preconditioned on achievement of a sales target;
- Payment or reimbursement by offerors in connection with meetings held by an offeror or by the Firm for the purpose of training or education of registered representatives of the Firm, provided that:
    - registered representatives obtain the Firm's prior approval to attend the meeting and attendance by the Firm's registered representatives is not conditioned by the Firm on the achievement of a sales target or any other incentives pursuant to a non-cash compensation arrangement;
    - the location is appropriate to the purpose of the meeting, which shall mean an office of the issuer or affiliate thereof, the office of the Firm, or a facility located in the vicinity of such office, or a regional location with respect to regional meetings;
    - the payment or reimbursement is not applied to the expenses of guests of the registered representative; and
    - the payment or reimbursement by the issuer or affiliate of the issuer is not conditioned by the issuer or an affiliate of the issuer on the achievement of a sales target or any other non-cash compensation arrangement.
- Non-cash compensation arrangements between the Firm and its registered representatives or a

company that controls the Firm company and the Firm's registered representatives, provided that no unaffiliated non-member company or other unaffiliated firm directly or indirectly participates in the Firm's or non-member's organization of a permissible non-cash compensation arrangement; and

- Contributions by a non-member company or other member to a non-cash compensation arrangement between the Firm and its registered representatives.

The Firm shall maintain records of all non-cash compensation received by the Firm or its registered representatives. The records shall include: the names of the offerors, non-members or other firms making the non-cash compensation contributions; the names of the registered representatives participating in the arrangements; the nature and value of non-cash compensation received; the location of training and education meetings; and any other information that proves compliance by the Firm and its registered representatives.

17.04 Prospectus Delivery

Effective as of September 5, 2017 the SEC adopted an amendment to the Settlement cycle Rule (Rule 15c6-1(a)) under the SEA to shorten the standard settlement cycle for most broker-dealer transactions from three business days after the trade date (T+3") to two business days after the trade date ("T+2").

Covered by the rule are transactions for stocks, bonds, exchange-traded funds, certain mutual funds and limited partnerships that occur on a securities exchange.

Firm commitment underwritten offerings registered under the Securities Act and priced after 4:30 p.m. Eastern time will not be subject to the new T+2 settlement cycle and may settle no later than T+4 unless otherwise expressly agreed to by the parties pursuant to Rule 15c6-1(c). In any event, the settlement date for a public offering conducted on a firm commitment basis is typically expressly agreed upon by the parties in the underwriting agreement. Therefore, the amendment to Rule 15c6-1(a) does not necessarily affect the timing for closing such public offerings. The issuer and the managing underwriters can agree in the underwriting agreement that the closing date for all of the securities sold in offering will be based on a T+3 (or other) settlement cycle.

The T+2 settlement cycle does not apply to exempted securities, government securities, municipal securities, commercial paper, bankers' acceptances or commercial bills.

In addition, Rule 15c6-1 exempts the following transactions from the T+2 settlement cycle:

- Contracts for the purchase and sale of limited partnership interests that are not listed on an exchange or for which quotations are not disseminated through an automated quotation system of a registered securities association;
- Contracts for the purchase and sale of securities that the SEC may exempt by order from time to time; and
- Contracts for the sale for cash of securities that price after 4:30 p.m. Eastern time and that are sold by an issuer to an underwriter pursuant to a firm commitment offering registered under the Securities Act of 1933 (the Securities Act) or sold to an initial purchaser by a broker-dealer participating in such offering

Prospectus Delivery Requirements in Firm Commitment Underwritten Offerings of Securities for Cash

Where securities are offered for cash in a firm commitment underwritten offering or investment grade debt securities are offered for cash on an agency basis under a medium term note program, and such securities are neither asset-backed securities nor structured securities, and the conditions described in paragraph (b) or paragraph (c) of this section are satisfied, then:

- The prospectus subject to completion and the term sheet described in paragraph (b) of this section, taken together, and the prospectus subject to completion and the abbreviated term sheet described in paragraph (c) of this section, taken together, shall constitute prospectuses

that meet the requirements of section 10(a) of the Act for purposes of section 5(b)(2) of the Act and section 2(a)(10)(a) of the Securities Act; and

- The section 10(a) prospectus described in paragraph (a)(1) of this section shall have:
  I. Been sent or given prior to or at the same time that a confirmation is sent or given for purposes of section 2(a)(10)(a) of the Securities Act; and
  II. Accompanied or preceded the transmission of the securities for purpose of sale or for delivery after sale for purposes of Section 5(b)(2) of the Securities Act.

With respect to offerings of securities that are registered on a form other than Form S-3 or Form F-3, and with respect to offerings of securities by only those investment companies registered under the Investment Company Act of 1940, as amended, that register their securities on Form N-2 or Form S- 6, the following conditions are satisfied:

- A prospectus subject to completion and any term sheet described in paragraph (b)(3) of this section, together or separately, are sent or given prior to or at the same time with the confirmation;
- Such prospectus subject to completion and term sheet, together, are not materially different from the prospectus in the registration statement at the time of its effectiveness or an effective post-effective amendment thereto (including, in both, instances, information deemed to be a part of the registration statement at the time of effectiveness pursuant to Rule 430A(b); and
- A term sheet under this paragraph (b) shall set forth all information material to investors with respect to the offering that is not disclosed in the prospectus subject to completion or the confirmation.

With respect to offerings of securities registered on Form S-3 or Form F-3, the following conditions are satisfied.

- A prospectus subject to completion and the abbreviated term sheet described in paragraph (c)(3) of this section, together or separately, are sent or given prior to or at the same time with the confirmation;
- A form of prospectus that: (i) discloses information previously omitted from the prospectus filed as part of an effective registration statement in reliance upon Rule 430A, to the extend not set forth in the abbreviated term sheet shall be filed pursuant to Rule 424(b) on or prior to the date on which a confirmation is sent or given; or (ii) discloses the public offering price, description of securities, to the extent not set forth in the abbreviated term sheet and specific method of distribution or similar matters shall be filed pursuant to Rule 424(b) on or prior to the date on which a conformation is sent or given; and
- The abbreviated term sheet under this paragraph (c) shall set forth, if not previously disclosed in the prospectus subject to completion or the registrant's Exchange Act filings incorporated by reference into the prospectus: (i) the description of securities required by Item 202 of Regulations S-K or by Items 9, 10 and 12 of Form 20-F as applicable, or a fair and accurate summary thereof; and (ii) all material changes to the registrant's affairs required to be disclosed pursuant to Item 11 of Form S-3 or Item 5 of Form F-3, as applicable.

Except in the case of offerings pursuant to Rule 415(a)(1)(x), the information contained in any term sheet or abbreviated term sheet described under this section shall be deemed to be a part of the registration statement as of the time such registration statement was declared effective. In the case of offerings pursuant to Rule 415(a)(1)(x), the information contained in any term sheet or abbreviated term sheet described under this section shall be deemed to be a part of the registration statement as of the time such information is filed with the SEC.

17.05 Public Offerings

The Firm may participate in the underwriting of corporate securities as a the sole underwriter or as selling group member, or the Firm will distribute shares/units in some offerings through allocations of shares from selling group members.

In cases where the Firm will participate in a public offering of securities, prior to effectiveness of the registration statement describing in detail the securities to be offered by the issuer, the Firm should perform reasonable due diligence following, at a minimum, these guidelines:

Perform reasonable due diligence;

- Obtain and review the registration statement, offering material, background documents, form of selling agreement, etc;
- Review such items as the issuer's industry and its financial and management history, among others;
- Use, where appropriate, the advice and guidance of an attorney, accountant, and/or other "due diligence" experts in the issuer's specific industry;
- Attend any "due diligence meetings" or other sessions providing an opportunity to meet the management and ask questions about the issuer and the offering;
- Create a reasonably comprehensive "due diligence" file for the offering, containing copies of documents, records of meetings, telephone conversations, visits, etc.; and
- Obtain and disseminate to prospective investors copies of the "red herring" preliminary prospectus and hold necessary information meetings related thereto.

After the effectiveness of the registration statement, the Firm should take the following actions:

- Ascertain that the final (pricing) amendment to the registration statement has been filed and the registration statement has become effective in each applicable jurisdiction (federal and state) before any sales are made;
- Obtain any final "cold comfort" or other documentation provided by the issuer or lead underwriter;
- Sign the selling group agreement, as applicable. When concessions or discounts are granted in a public offering, the Firm should make proper disclosure of this fact. Concessions and discounts shall be extended only to member broker-dealers for services provided in a distribution;
- Provide a copy of the final prospectus to each offeree and purchaser; and
- If the offering has a contingency, establish a proper escrow account as required by SEC Rule 15c2-4.

Restrictions on the Purchase/Sale of Initial Equity Public Offerings (FINRA Rule 5130)

The Firm or its associated persons may not sell, or cause to be sold, a new issue to any account in which a restricted person has a beneficial interest, except as otherwise permitted herein.

The Firm or its associated persons may not purchase a new issue in any account in which the Firm or its associated persons has a beneficial interest, except as otherwise permitted herein.

The Firm may not continue to hold new issues acquired by the Firm as an underwriter, selling group member or otherwise, except as otherwise permitted herein.

Nothing in this paragraph (a) shall prohibit: (i) sales or purchases from one member of the selling group to another member of the selling group that are incidental to the distribution of a new issue to a non-restricted person at the public offering price; (ii) sales or purchases by a broker-dealer of a new issue at the public offering price as part of an accommodation to a non- restricted person customer of the broker-dealer; or (iii) purchases by a broker-dealer (or owner of a broker-dealer), organized as an investment partnership, of a new issue at the public offering price, provided such purchases are credited to the capital accounts of its partners in accordance with Rule 5130(c)(4).

General Prohibitions

The Firm or a person associated with the Firm may not sell, or cause to be sold, a new issue to any account in which a restricted person has a beneficial interest, except as otherwise permitted by the Rule. The Firm or a person associated with the Firm may not purchase a new issue in any account in which such firm or person associated with the Firm has a beneficial interest, nor may the Firm continue to hold new issues acquired by the Firm as an underwriter, selling group member, or otherwise, except under the following conditions:

- sales or purchases from one member of the selling group to another member that are incidental to the distribution of a new issue to a non-restricted person at the public offering price;
- "accommodation sales"—sales to or purchases by a broker-dealer at the public offering price to enable that broker-dealer's customer to purchase a new issue at the public offering price.
- joint back office broker-dealers ("JBOs") that can fall within the de minimis exemption.

FINRA believes that the ability of hedge funds registered as JBOs (or with JBO subsidiaries) to purchase new issues should be determined by the status of the beneficial owners of the fund, not simply the fund's status as a broker-dealer (or owner of a broker-dealer). Accordingly, subparagraph (a)(4)(C) exempts purchases of a new issue at the public offering price by a broker-dealer (or owner of a broker-dealer) organized as an investment partnership, provided that such purchases are credited to the capital accounts of its partners in accordance with the provisions of paragraph (c)(4). This provision allows an investment partnership that registers as a broker-dealer, or that has a broker-dealer subsidiary, to purchase new issues on the same terms as other investment partnerships.

Preconditions for Sale

Before selling a new issue to any account, the Firm must in good faith have obtained within the 12 months prior to such sale, a representation from:

Beneficial Owners

The account holder(s), or a person authorized to represent the beneficial owners of the account, that the account is eligible to purchase new issues in compliance with this Rule; or

Conduits

A bank, foreign bank, broker-dealer, or investment adviser or other conduit that all purchases of new issues are in compliance with this Rule.
The Firm may not rely upon any representation that it believes, or has reason to believe, is inaccurate. The Firm shall maintain a copy of all records and information relating to whether an account is eligible to purchase new issues in its files for at least three years following the Firm's last sale of a new issue to that account.

The Firm may not sell new issues to any account unless within the previous 12 months it has in good faith obtained a representation from either: (1) the beneficial owners of the account, or a person authorized to represent the beneficial owners of an account, that the account is eligible to purchase new issues in accordance with the Rule; or (2) certain conduits (such as a bank, foreign bank, broker-dealer, or investment adviser) that all purchases of new issues are in compliance with the Rule. Furthermore, the Firm may not rely upon any representation that it believes, or has reason to believe, is inaccurate.

FINRA requires the initial verification of an account's status under the Rule to be a positive affirmation from the beneficial owners, person authorized to act on their behalf, or a conduit. However, the Firm is permitted to conduct the annual verification of an account's status through the use of negative consent letters. Thus, the Firm may furnish a customer with account information on record used to determine that the account is eligible to purchase new issues and
ask the customer to indicate whether anything has changed to make the account restricted. In the absence of any response from the customer, the Firm may continue to deem the account as non-restricted. In addition, FINRA intends to permit the use of electronic communications in accordance with the standards adopted by the SEC and FINRA for the use of such communications (e.g., where appropriate notice has been provided and where necessary customer consent has been obtained). However, the Firm is not permitted to verify customer account information orally.

Representations involving fund-of-funds

For representations involving funds-of-funds, the Firm only must obtain a representation from a person authorized to represent the beneficial owners of the fund/account that purchases new issues directly from the Firm ("master fund"). However, that any person making such a representation would need to ascertain the status of investors of any feeder funds that invest in the master fund. If a representative of a master fund is unable to ascertain the status of an investor in a feeder fund, the master fund must deem such feeder fund to be restricted and monitor that any profits from new issues are not allocated to that fund (or consider whether

any exemption, such as the de minimis exemption, might apply to that feeder fund).

Although the Firm must verify the status of the master fund annually, the Rule does not specify a time period during which a master fund may rely on information from a feeder fund. Therefore, FINRA will allow the representative of a master fund to rely on information from any feeder fund that is no more than 12 months old. Similarly, the representative of a feeder fund that in turn receives investments from other feeder funds may rely on information that is no more than 12 months old. In addition, if a feeder fund is beneficially owned in part by restricted persons and seeks to avail itself of the de minimis exemption, the person authorized to represent that fund should specify the percentage ownership by restricted persons. An authorized representative of a master fund that invests directly in new issues will be responsible for aggregating interests of restricted persons from the feeder funds to monitor that the aggregate ownership by restricted persons does not exceed the 10%threshold.

General Exemptions

The general prohibitions in paragraph (a) of this Rule shall not apply to sales to and purchases by the following accounts or persons, whether directly or through accounts in which such persons have a beneficial interest:
An investment company registered under the Investment Company Act;

A common trust fund or similar fund as described in Section 3(a)(12)(A)(iii) of the Exchange Act, provided that:

- the fund has investments from 1,000 or more accounts; and
- the fund does not limit beneficial interests in the fund principally to trust accounts of restricted persons;

An insurance company general, separate or investment account, provided that:

- the account is funded by premiums from 1,000 or more policyholders, or, if a general account, the insurance company has 1,000 or more policyholders; and
- the insurance company does not limit the policyholders whose premiums are used to fund the account principally to restricted persons, or, if a general account, the insurance company does not limit its policyholders principally to restricted persons;

An account if the beneficial interests of restricted persons do not exceed in the aggregate 10% of such account;

A publicly traded entity (other than a broker-dealer or an affiliate of a broker-dealer where such broker-dealer is authorized to engage in the public offering of new issues either as a selling group member or underwriter) that:

- is listed on a national securities exchange; or
- is a foreign issuer whose securities meet the quantitative designation criteria for listing on a national securities exchange;

An investment company organized under the laws of a foreign jurisdiction, provided that:

- the investment company is listed on a foreign exchange for sale to the public or authorized for sale to the public by a foreign regulatory authority; and
- no person owning more than 5% of the shares of the investment company is a restricted person;

An Employee Retirement Income Security Act benefits plan that is qualified under Section 401(a) of the Internal Revenue Code, provided that such plan is not sponsored solely by a broker-dealer;

A state or municipal government benefits plan that is subject to state and/or municipal regulation;
A tax exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code; or A church plan under Section 414(e) of the Internal Revenue Code.

Issuer-Directed Securities

The Rule exempts, for most purchasers, securities that are specifically directed by the issuer. The issuer-directed exemption for sales to and purchases by persons who are broker-dealer personnel, and finders and fiduciaries, applies only if such persons, or the Firm of their immediate family, is a registered representative or director of the issuer, the issuer's parent, or a subsidiary of the issuer or the issuer's parent.

Unlike the Interpretation, the Rule 5130 issuer-directed exemption does not require that issuer-directed securities be subject to a three-month lock-up. FINRA also believes that the issuer-directed exemption should apply only when shares are in fact directed by an issuer. Thus, firms should not seek to circumvent prohibitions of the Rule by seeking to have issuer's direct securities to restricted persons on their behalf. FINRA also will continue its practice of holding a managing underwriter responsible for ensuring that all issuer-directed securities are distributed in accordance with the Rule.

An exemption applies for securities distributed as part of a program sponsored by the issuer, or an affiliate of the issuer, that meets four conditions:

1. the opportunity to purchase a new issue under the program is offered to at least 10,000 participants;
2. every participant is offered an opportunity to purchase an equivalent number of shares or will receive a specified number of shares under a predetermined formula applied uniformly across all participants;
3. if not all participants receive shares under the program, the selection of the eligible participants is based on a random or other non-discretionary allocation method; and
4. and the class of participants does not contain a disproportionate number of restricted persons.

New issues directed to eligible purchasers are exempt as part of a conversion offering conducted in accordance with the standards of the governmental agency or instrumentality having authority to regulate such conversion offering.

Anti-Dilution Provisions

This provision permits a restricted person that is an existing equity owner of an issuer to purchase shares of the issuer in a public offering in order to maintain its equity ownership position. A restricted person seeking an exemption under this provision must meet the following criteria: (1) the account has held an equity ownership interest in the issuer for a period of one year prior to the effective date of the offering; (2) the sale of the new issue to the account does not increase the account's percentage equity ownership in the issuer above the ownership level as of three months prior to the filing of the registration statement in connection with the offering; (3) the sale of the new issue to the account does not include any special terms; and (4) the new issue purchased pursuant to this exemption is not sold or transferred for three months following the effective date of the offering.

Stand-By Purchasers

Prohibitions on the purchase and sale of new issues do not apply to purchases and sales made pursuant to a stand-by agreement that meets the following four conditions: (1) the stand-by agreement is disclosed in the prospectus; (2) the stand-by agreement is the subject of a formal written agreement; (3) the managing underwriter represents in writing that it is unable to find any other purchasers for the securities; and (4) securities sold pursuant to the stand-by agreement are subject to a three-month lock-up period.

Under-Subscribed Offerings

An underwriter is permitted, pursuant to an underwriting agreement, to retain a portion of an offering of a new issue in its investment account if it is unable to sell that portion to the public. Because the Rule applies to all new issues, even those for which they may not be sufficient demand to create a "hot issue," the Rule permits an underwriter to place unsold shares into its investment account. Firms should be aware that this provision does not permit the Firm to place unsold shares into an account of another restricted person. Firms are not permitted to place unsold shares into an account beneficially owned by restricted persons (other than an investment account of the Firm) because the net effect of such a provision would be akin to a hot issue standard (equating lack of demand with a flat or lower opening price in the secondary market), which the Rule seeks to abandon.

17.06 IPO Distribution Manager

Through IPO Distribution Manager, the lead managing underwriters of offerings involving a "new issue" as defined in Rule 5130 will be required to make two filings with the Corporate Financing Department. In the initial filing, which must be filed on or before the offering date, the managing underwriter must submit the initial list of distribution participants and their commitment and retention amounts. In the final filing, which must be filed no later than three days after the offering date (T+3), the managing underwriter must submit the final list of distribution participants and their commitment and retention amounts. IPO Distribution Manager will permit firms to transmit distribution information to FINRA, the Web-based filing system that firms are required to use when filing information under the Corporate Financing Rule. FINRA's examination program will use the data filed through IPO Distribution Manager to assist with examinations for compliance with the federal securities laws and FINRA rules, including Rule 5130.

17.07 Restricted Period (Regulation M)

Regulation M of the Securities Act of 1934 provides for a “cooling-off” period for the sale of outstanding securities of an issuer. The cooling-off period is affected immediately before the pricing of the securities.

Regulation M is designed to prevent manipulation by persons with an interest in the outcome of an offering and prohibits activities and conduct that could artificially influence the market for an offered security. In this regard, Regulation M generally prohibits underwriters, broker-dealers, issuers and other persons participating in a distribution from directly or indirectly bidding for or purchasing the offered security (or inducing another person to do so) during the applicable "restricted period." The restricted period commences on the later of either one or five business days prior to the determination of the offering price or such time that a person becomes a distribution participant, and ends upon such person's completion of participation in the distribution. For purposes of determining when the applicable restricted period under Regulation M commences, or whether no restricted period applies because the "actively traded" exception can be relied upon, the SEC has adopted a dual standard of the value of the worldwide average daily trading volume (ADTV) of the offered security and public float value of the issuer.

Regulation M also governs certain market activities (i.e., stabilizing bids, syndicate covering transactions and penalty bids) in connection with an offering and requires that notification of such activity be provided to the relevant self-regulatory organization or, in the case of stabilizing bids, the market where the stabilizing bid is to be posted. Finally, Regulation M prohibits any person from selling short a security that is the subject of a public offering and purchasing the security in the offering, if such short sale was effected during the restricted period (which, for purposes of the short sale restrictions, generally is the five-day period prior to pricing).

Certain rules under Regulation M apply to some, but not all, offerings, e.g., SEC Rule 101 applies only to "distributions." A distribution under Regulation M is distinguished from ordinary trading transactions by the "magnitude of the offering" and the presence of "special selling efforts and selling methods." The types of offerings that can satisfy the definition of "distribution" under Regulation M include public offerings, private placements, shelf offerings, mergers and other acquisitions, exchange offers and at-the-market offerings. In addition, certain activities are excepted from the rules under Regulation M. For example, transactions in Rule 144A securities during a distribution of such securities are not prohibited under SEC Rule 101, subject to certain conditions set forth in the rule.

Specifically, firms must determine, in accordance with Regulation M, whether the applicable restricted period commences one day or five days prior to pricing (a "one-day" or "five-day" restricted period), and notify FINRA in writing of the firm's determination and the basis for such determination. Additionally, firms are required to include in the written notification the contemplated date and time of commencement of the restricted period, and identify the distribution participants and affiliated purchasers.

FINRA will accept notification that the five-day restricted period applies to a prospective distribution without providing the basis for that determination. If, on the other hand, if it is asserted that a one-day or no restricted period applies to a particular distribution, FINRA requires that the Firm demonstrate the basis for that

determination. Notification must be provided to FINRA no later than the business day prior to the first complete trading session of the applicable restricted period, unless later notification is necessary under specific circumstances. Where the principal market closes early (e.g., for a holiday), the shortened session would constitute a complete trading session for purposes of the rule.

In addition, the Firm must notify FINRA upon pricing a distribution that is subject to a restricted period under Regulation M. The notification must include the following pricing-related information:

- Security name and symbol;
- Type of security (e.g., common stock, preferred security, etc.);
- Number of shares offered;
- Offering price;
- Last sale before the distribution (i.e., the last sale before pricing);
- Pricing basis (e.g., a discount to the last sale price, a negotiated price, best efforts at the market, etc.);
- SEC effective date and time (i.e., the date and time the SEC declares the offering effective),
- Trade date (i.e., the first trade date that the shares from the distribution are available for trading in the aftermarket); and
- Restricted period (i.e., the first and last trade dates of the actual restricted period).

The Firm is also are required to identify the distribution participants and affiliated purchasers.

The Firm must use the following forms to provide notification under Rule 5190:

Notification Requirement	Rule	Form
Determination of applicable restricted period, including contemplated commencement of restricted period	5190(c)(1)(A)	Regulation M Restricted Period Notification
Determination that no restricted period applies under the "actively traded" securities exception	5190(d)(1)	Regulation M Restricted Period Notification
Pricing of distribution (applicable to distributions subject to a restricted period and distributions of "actively traded" securities)	5190(c)(1)(B) 5190(d)(2)	Regulation M Trading Notification
Cancellation or postponement of distribution (applicable where prior notice of commencement of restricted period has been provided)	5190(c)(1)(C)	Regulation M Restricted Period Notification
Intent to effect syndicate covering transaction	5190(e)(1)	Regulation M Notice of Intent to Impose a Penalty Bid and/or Effect a Syndicate Covering Transaction
Confirmation of syndicate covering transaction	5190(e)(2)	Regulation M Trading Notification
Intent to impose penalty bid	5190(e)(1)	Regulation M Notice of Intent to Impose a Penalty Bid and/or Effect a Syndicate Covering Transaction
Confirmation of penalty bid	5190(e)(2)	Regulation M Trading Notification

All notices under Rule 5190 must be submitted to FINRA's Market Regulation Department via email

The Firm must submit the notification no later than the close of business the next business day following the pricing of the distribution, unless later notification is necessary under specific circumstances. This requirement monitors that FINRA receives timely pricing information in instances where a distribution does not terminate for weeks or even months after pricing, as might be the case, for example, in a shelf offering.

The Firm must notify FINRA in writing if it cancels or postpones any distribution for which prior notice of commencement of the restricted period has been provided to FINRA. The Firm must also provide such

notification immediately upon the cancellation or postponement of the distribution.

Notification Requirement	Rule	Form
Request for excused withdrawal status	6275(f)(1)	Regulation M Restricted Period Notification
Request to rescind excused withdrawal status	6275(f)(2)	Regulation M Trading Notification

The Designated Principals are responsible for ensuring that the Firm complies with requirements under Regulation M when participating in a public offering in which indications of interest are accepted for the purchase of securities. Regulation M prohibits the solicitation of certain outstanding securities. Regulation M solicitation restrictions apply as follows:

- No restriction for securities with an average daily trading volume of $1 million or more and a public float of at least $150 million;
- One Business Day Restriction for securities with an average daily trading volume of at least $100,000 but less than $1 million and a public float of at least $25 million; and
- Five Business Day Restriction for all other securities.

The Designated Principals are responsible for immediately notifying the Firm's Chief Compliance Officer to update the Firm's Restricted List, and the Designated Principals shall monitor daily transactions. The Designated Principals, in concert with the Firm's Chief Compliance Officer will monitor that all such restrictions remain effective until they expire according to the applicable Rule as cited in the bulleted list immediately above.

The cooling offer period applies to the following types of securities:

- Transactions in the security – The subject of the underwriting may not be solicited, only the securities to be sold in the offering;
- Transactions in reference securities – Securities that are or will be used to determine the price of another security; and
- Transactions in registered representative or proprietary accounts – Such transaction are always deemed as solicited and are subject to restriction during the cooling off period.

If the Firm is a market maker in an issue in which it is participating in the underwriting the Designated Principals shall monitor that the Firm either withdraws as a market maker during the cooling –off period or engages in passive market making as prescribed in Rule 103 of Regulation M.
Additionally, the Designated Principals will be responsible for monitoring the market making compliance with Rule 103 Passive Market Making and Rule 104 Stabilizing Bids for underwriting activities.

Rule 101- Activities by Distribution Participants

In connection with a distribution of securities, it shall be unlawful for a distribution participant or an affiliated purchaser of such person, directly or indirectly, to bid for, purchase, or attempt to induce any person to bid for or purchase, a covered security during the applicable restricted period; Provided, however, that if a distribution participant or affiliated purchaser is the issuer or selling security holder of the securities subject to the distribution, such person shall be subject to the provisions of Rule 102, rather than this section.

The following activities shall not be prohibited by paragraph (a) of this section:

- Research. The publication or dissemination of any information, opinion, or recommendation, if the conditions of Rule 138 or Rule 139 under the Securities Act of 1933 are met; or
- Transactions complying with certain other sections. Transactions complying with Rule 103 or Rule 104; or
- Odd-lot transactions. Transactions in odd-lots; or transactions to offset odd-lots in connection with an

odd-lot tender offer conducted pursuant to Rule 13e-4(h)(5) under the Securities Exchange Act of 1934; or

- Exercises of securities. The exercise of any option, warrant, right, or any conversion privilege set forth in the instrument governing a security; or
- Unsolicited transactions. Unsolicited brokerage transactions; or unsolicited purchases that are not effected from or through a broker or dealer, on a securities exchange, or through an inter-dealer quotation system or electronic communications network; or
- Basket transactions. (i) Bids or purchases, in the ordinary course of business, in connection with a basket of 20 or more securities in which a covered security does not comprise more than 5% of the value of the basket purchased; or (ii) Adjustments to such a basket in the ordinary course of business as a result of a change in the composition of a standardized index; or
- De minimis transactions. Purchases during the restricted period, other than by a passive market maker, that total less than 2% of the ADTV of the security being purchased, or unaccepted bids; or
- Transactions in connection with a distribution. Transactions among distribution participants in connection with a distribution, and purchases of securities from an issuer or selling security holder in connection with a distribution, that are not effected on a securities exchange, or through an inter-dealer quotation system or electronic communications network; or
- Offers to sell or the solicitation of offers to buy. Offers to sell or the solicitation of offers to buy the securities being distributed (including securities acquired in stabilizing), or securities offered as principal by the person making such offer or solicitation; or
- Transactions in Rule 144A securities. Transactions in securities eligible for resale under Rule 144A(d)(3) under the Securities Act of 1933, or any reference security, if the Rule 144A securities are offered or sold in the United States.

The provisions of this section shall not apply to any of the following securities:

- Actively-traded securities. Securities that have an ADTV value of at least $1 million and are issued by an issuer whose common equity securities have a public float value of at least $150 million; Provided, however, That such securities are not issued by the distribution participant or an affiliate of the distribution participant; or

- Investment grade nonconvertible and asset-backed securities. Nonconvertible debt securities, nonconvertible preferred securities, and asset- backed securities, that are rated by at least one nationally recognized statistical rating organization, as that term is used in Rule 15c3-1 under the Securities Exchange Act of 1934, in one of its generic rating categories that signifies investment grade; or

- Exempted securities. "Exempted securities" as defined in section 3(a)(12) of the Exchange Act; or
- Face-amount certificates or securities issued by an open-end management investment company or unit investment trust.

Rule 102 -- Activities by Issuers and Selling Security Holders during a Distribution

In connection with a distribution of securities effected by or on behalf of an issuer or selling security holder, it shall be unlawful for such person, or any affiliated purchaser of such person, directly or indirectly, to bid for, purchase, or attempt to induce any person to bid for or purchase, a covered security during the applicable restricted period; except that if an affiliated purchaser is a distribution participant, such affiliated purchaser may comply with Rule 101, rather than this section.

The following activities shall not be prohibited by paragraph (a) of this section:

- Odd-lot transactions. Transactions in odd-lots, or transactions to offset odd-lots in connection with an odd-lot tender offer conducted pursuant to Rule 13e-4(h)(5) under the Securities Exchange Act of 1934; or

- Transactions by closed-end investment companies; or
- Redemptions by commodity pools or limited partnerships. Redemptions by commodity pools or limited partnerships, at a price based on net asset value, which are effected in accordance with the terms and conditions of the instruments governing the securities; Provided, however, That such securities are not traded on a securities exchange, or through an inter-dealer quotation system or electronic communications network; or
- Exercises of securities. The exercise of any option, warrant, right, or any conversion privilege set forth in the instrument governing a security; or
- Offers to sell or the solicitation of offers to buy. Offers to sell or the solicitation of offers to buy the securities being distributed; or
- Unsolicited purchases. Unsolicited purchases that are not effected from or through a broker or dealer, on a securities exchange, or through an inter- dealer quotation system or electronic communications network; or
- Transactions in Rule 144A securities. Transactions in securities eligible for resale under Rule 144A(d)(3) under the Securities Act of 1933, or any reference security, if the Rule 144A securities are offered or sold in the United States.

Plans

Paragraph (a) of this section shall not apply to distributions of securities pursuant to a plan, which are made: (i) solely to registered representatives or security holders of an issuer or its subsidiaries, or to a trustee or other person acquiring such securities for the accounts of such persons; or (ii) to persons other than registered representatives or security holders, if bids for or purchases of securities pursuant to the plan are effected solely by an agent independent of the issuer and the securities are from a source other than the issuer or an affiliated purchaser of the issuer.
Bids for or purchases of any security made or effected by or for a plan shall be deemed to be a purchase by the issuer unless the bid is made, or the purchase is effected, by an agent independent of the issuer.
Excepted Securities. The provisions of this section shall not apply to any of the following securities:

- Actively-traded reference securities. Reference securities with an ADTV value of at least $1 million that are issued by an issuer whose common equity securities have a public float value of at least $150 million; Provided, however, That such securities are not issued by the issuer, or any affiliate of the issuer, of the security in distribution;
- Investment grade nonconvertible and asset-backed securities. Nonconvertible debt securities, nonconvertible preferred securities, and asset- backed securities, that are rated by at least one nationally recognized statistical rating organization, as that term is used in Rule 15c3-1 under the Securities Exchange Act of 1934, in one of its generic rating categories that signifies investment grade; or
- Exempted securities. "Exempted securities" as defined in section 3(a)(12) of the Exchange Act; or
- Face-amount certificates or securities issued by an open-end management investment company or unit investment trust. Face-amount certificates issued by a face-amount certificate company, or redeemable securities issued by an open-end management investment company or a unit investment trust.

Rule 103 -- NASDAQ Passive Market Making

This section permits broker-dealers to engage in market making transactions in covered securities that are NASDAQ securities without violating the provisions of Rule 101; except that this section shall not apply to any security for which a stabilizing bid subject to Rule 104 is in effect, or during any at-the-market offering or best efforts offering.

Conditions to be met:

- General limitations. A passive market maker must effect all transactions in the capacity of a registered

market maker on NASDAQ. A passive market maker shall not bid for or purchase a covered security at a price that exceeds the highest independent bid for the covered security at the time of the transaction, except as permitted by paragraph (b)(3) of this section or required by a rule promulgated by the SEC or FINRA governing the handling of customer orders.

- Purchase limitation. On each day of the restricted period, a passive market maker's net purchases shall not exceed the greater of its 30% ADTV limitation or 200 shares (together, "purchase limitation");
- Requirement to lower the bid. If all independent bids for a covered security are reduced to a price below the passive market maker's bid, the passive market maker must lower its bid promptly to a level not higher than the then highest independent bid;
- Limitation on displayed size. At all times, the passive market maker's displayed bid size may not exceed the lesser of the minimum quotation size for the covered security, or the passive market maker's remaining purchasing capacity under paragraph (b)(2) of this section;
- Identification of a passive market making bid. The bid displayed by a passive market maker shall be designated as such;
- Notification and reporting to FINRA. A passive market maker shall notify FINRA in advance of its intention to engage in passive market making, and shall submit to FINRA information regarding passive market making purchases, in such form as FINRA shall prescribe; and
- Prospectus disclosure. The prospectus for any registered offering in which any passive market maker intends to effect transactions in any covered security shall contain the information required in Items 502 and 508 of Regulation S-B, and Items 502, and 508 of Regulation S-K.

Rule 104 -- Stabilizing and Other Activities in Connection with an Offering

It shall be unlawful for any person, directly or indirectly, to stabilize, to effect any syndicate covering transaction, or to impose a penalty bid, in connection with an offering of any security, in contravention of the provisions of this section. No stabilizing shall be effected at a price that the person stabilizing knows or has reason to know is in contravention of this section, or is the result of activity that is fraudulent, manipulative, or deceptive under the securities laws, or any rule or regulation thereunder.

Purpose. Stabilizing is prohibited except for the purpose of preventing or retarding a decline in the market price of a security.

Priority. Any person stabilizing shall grant priority to any independent bid at the same price irrespective of the size of such independent bid at the time that it is entered.
Control of Stabilizing. No sole distributor or syndicate or group stabilizing the price of a security or any member or members of such syndicate or group shall maintain more than one stabilizing bid in any one market at the same price at the same time.
At-the-Market Offerings. Stabilizing is prohibited in an at-the-market offering. Offerings with no U.S. Stabilizing Activities

Stabilizing to facilitate an offering of a security in the United States shall not be deemed to be in violation of this section if all of the following conditions are satisfied: (i) No stabilizing is made in the United States; (ii) Stabilizing outside the United States is made in a jurisdiction with statutory or regulatory provisions governing stabilizing that are comparable to the provisions of this section; and (iii) No stabilizing is made at a price above the offering price in the United States.
The SEC may determine whether a foreign statute or regulation is comparable to this section considering, among other things, whether such foreign statute or regulation: specifies appropriate purposes for which stabilizing is permitted; provides for disclosure and control of stabilizing activities; places limitations on stabilizing levels; requires appropriate recordkeeping; provides other protections comparable to the provisions of this section; and whether procedures exist to enable the SEC to obtain information concerning any foreign stabilizing transactions.

Disclosure and Notification

Any person displaying or transmitting a bid that such person knows is for the purpose of stabilizing shall

provide prior notice to the market on which such stabilizing will be effected, and shall disclose its purpose to the person with whom the bid is entered.
Any person effecting a syndicate covering transaction or imposing a penalty bid shall provide prior notice to the self-regulatory organization with direct authority over the principal market in the United States for the security for which the syndicate covering transaction is effected or the penalty bid is imposed.
Any person subject to this section who sells to, or purchases for the account of, any person any security where the price of such security may be or has been stabilized, shall send to the purchaser at or before the completion of the transaction, a prospectus, offering circular, confirmation, or other document containing a statement similar to that comprising the statement provided for in Item 502(d).

Rule 105 -- Short Selling in Connection with a Public Offering

In connection with an offering of securities for cash pursuant to a registration statement or a notification on Form 1-A filed under the Securities Act, it shall be unlawful for any person to cover a short sale with offered securities purchased from an underwriter or broker or dealer participating in the offering, if such short sale occurred during the shorter of: (i) the period beginning five business days before the pricing of the offered securities and ending with such pricing; or (ii) the period beginning with the initial filing of such registration statement or notification on Form 1-A and ending with the pricing. Note: This section shall not apply to offerings filed under Rule 415 or to offerings that are not conducted on a firm commitment basis.

17.08 Notification Requirements for Offering Participants (FINRA Rule 5190)

Rule 5190 sets forth the notice requirements applicable to all firms participating in offerings of securities for purposes of monitoring compliance with the provisions of SEC Regulation M. In addition to the requirements under this Rule 5190, firms also must comply with all applicable rules governing the withdrawal of quotations in accordance with SEC Regulation M.

Notice Relating to Distributions of Securities Subject to a Restricted Period Under SEC Regulation M

The Firm, if acting as a manager (or in a similar capacity) of a distribution of any security that is a covered security subject to a restricted period under Rule 101 of SEC Regulation M, shall provide written notice to FINRA, in such form as specified by FINRA, of the following:

- the Firm's determination as to whether a one-day or five-day restricted period applies under Rule 101 of SEC Regulation M and the basis for such determination, including the contemplated date and time of the commencement of the restricted period, the security name and symbol, and identification of the distribution participants and affiliated purchasers, no later than the business day prior to the first complete trading session of the applicable restricted period, unless later notification is necessary under specific circumstances;
- the pricing of the distribution, including the security name and symbol, the type of security, the number of shares offered, the offering price, the last sale before the distribution, the pricing basis, the SEC effective date and time, the trade date, the restricted period, and identification of the distribution participants and affiliated purchasers, no later than the close of business the next business day following the pricing of the distribution, unless later notification is necessary under specific circumstances; and
- the cancellation or postponement of any distribution for which prior notification of commencement of the restricted period has been submitted under paragraph (c)(1)(A) above, immediately upon the cancellation or postponement of such distribution.

If the Firm is not acting as a manager (or in a similar capacity) of such distribution, then a firm that is a distribution participant or affiliated purchaser shall provide the notice required under this paragraph (c)(1), unless another firm has assumed responsibility in writing for compliance therewith.

The Firm, if it becomes an issuer or selling security holder in a distribution of any security that is a covered security subject to a restricted period under Rule 102 of SEC Regulation M, shall comply with the notice requirements of paragraph (c)(1), unless another firm has assumed responsibility in writing for compliance

therewith.

Notice Relating to Distributions of "Actively Traded" Securities Under SEC Regulation M

The Firm, if acting as a manager (or in a similar capacity) of a distribution of any security that is considered an "actively traded" security under Rule 101 of SEC Regulation M shall provide written notice to FINRA, in such form as specified by FINRA, of the following:

- The Firm's determination that no restricted period applies under Rule 101 of SEC Regulation M and the basis for such determination, including the security name and symbol, at least one business day prior to the pricing of the distribution, unless later notification is necessary under specific circumstances; and
- the pricing of the distribution, including the security name and symbol, the type of security, the number of shares offered, the offering price, the last sale before the distribution, the pricing basis, the SEC effective date and time, the trade date, and identification of the distribution participants and affiliated purchasers, no later than the close of business the next business day following the pricing of the distribution, unless later notification is necessary under specific circumstances.

If the Firm is not acting as a manager (or in a similar capacity) of such distribution, then a firm that is a distribution participant or an affiliated purchaser shall provide the notice required under this paragraph (d), unless another firm has assumed responsibility in writing for compliance therewith.

Notice of Penalty Bids and Syndicate Covering Transactions in OTC Equity Securities

The Firm imposing a penalty bid or engaging in a syndicate covering transaction in connection with an offering of an OTC Equity Security, as defined in Rule 6420, pursuant to Rule 104 of SEC Regulation M shall, unless another firm has assumed responsibility in writing for compliance with this paragraph (e), provide written notice to FINRA, in such form as specified by FINRA, of the following:

- the Firm's intention to conduct such activity, prior to imposing the penalty bid or engaging in the first syndicate covering transaction, including identification of the security and its symbol and the date such activity will occur; and
- confirmation that the Firm has imposed a penalty bid or engaged in a syndicate covering transaction, within one business day of completion of such activity, including identification of the security and its symbol, the total number of shares and the date(s) of such activity.

17.09 Misrepresentation by Brokers/Dealers

In accordance with SEC Rule 15c1-3, the term "manipulative, deceptive, or other fraudulent device or contrivance" is hereby defined to include any representation by a broker-dealer that its registration pursuant to Section 15(b) of the Securities Act, or the failure of the SEC to deny or revoke such registration, indicates in any way that the SEC has passed upon or approved the financial standing, business, or conduct of such registered broker-dealer or the merits of any security or any transaction or transactions therein.

17.10 Disclosure of Control

In accordance with SEC Rule 15c1-5, the term "manipulative, deceptive, or other fraudulent device or contrivance" is hereby defined to include any act of any broker-dealer controlled by, controlling, or under common control with, the issuer of any security, designed to effect with or for the account of a customer any transaction in, or to induce the purchase or sale by such customer of, such security unless such broker-dealer, before entering into any contract with or for such customer for the purchase or sale of such security, discloses to such customer the existence of such control, and unless such disclosure, if not made in writing, is supplemented by the giving or sending of written disclosure at or before the completion of the transaction.

17.11 Disclosure of Interest in Distribution

In accordance with SEC Rule 15c1-6, the term "manipulative, deceptive, or other fraudulent device or contrivance" is hereby defined to include any act of any broker who is acting for a customer or for both such

customer and some other person, or of any dealer or municipal securities dealer who receives or has promise of receiving a fee from a customer for advising such customer with respect to securities, designed to effect with or for the account of such customer any transaction in, or to induce the purchase or sale by such customer of, any security in the primary or secondary distribution of which such broker, dealer or municipal securities dealer is participating or is otherwise financially interested unless such broker, dealer or municipal securities dealer, at or before the completion of each such transaction gives or sends to such customer written notification of the existence of such participation or interest.

17.12 Self Underwriting

Distribution of Securities of Members and Affiliates (Conflicts of Interest)

The Firm and its registered representatives is prohibited from participating in the distribution of a public offering of debt or equity securities issued or to be issued by the Firm, the parent of the Firm, or an affiliate of the Firm and shall issue securities unless operating in accordance with the requirements as stipulated in FINRA Rule 5121. Additionally, the Firm and its registered representatives are prohibited participating in the distribution of a public offering of debt or equity securities issued or to be issued by a company if the Firm and/or its registered representatives, parent or affiliates have a conflict of interest with the company, as defined herein, except otherwise noted in accordance with this Rule.

Participation in Distribution of Securities of Member or Affiliate

The Firm shall not be permitted to underwrite, participate as a member of the underwriting syndicate or selling group, or otherwise assist in the distribution of a public offering of an issue of debt or equity securities issued or to be issued by the Firm or an affiliate of the Firm, or of a company with which the Firm or its registered representatives, parent or affiliates have a conflict of interest, unless the Firm is in compliance with the following two paragraphs below.

In the case of the Firm which is a corporation, the majority of the board of directors, or in the case of the Firm which is a partnership, a majority of the general partners or, in the case of the Firm which is a sole proprietorship, the proprietor as of the date of the filing of the registration statement and as of the effective date of the offering shall have been actively engaged in the investment banking or securities business for the five year period immediately preceding the filing of the registration statement.

If the Firm proposes to underwrite, participate as a member of the underwriting syndicate or selling group, or otherwise assist in the distribution of a public offering of its own or an affiliate's securities, or of securities of a company with which it or its registered representatives, parent or affiliates have a conflict of interest, one or more of the following three criteria shall be met:

- The price at which an equity issue or the yield at which a debt issue is to be distributed to the public is established at a price no higher or yield no lower than that recommended by a qualified independent underwriter which shall also participate in the preparation of the registration statement and the prospectus, offering circular, or similar document and which shall exercise the usual standards of "due diligence" provided that certain conditions are met in accordance with 2720(c)(1)(A)(i) through 2720(c)(1)(A)(iii), or
- the offering is of a class of equity securities for which a bona fide independent market exists as of the date of the filing of the registration statement and as of the effective date thereof; or
- the offering is of a class of securities rated Baa or better by Moody's rating service or Bbb or better by Standard & Poor's rating service or rated in a comparable category by another rating service acceptable to such rating service.

Disclosure

Any offering of securities pursuant to FINRA Rule 5121 shall disclose in the registration statement, offering circular, or similar document a date by which the offering is reasonably expected to be completed and the

terms upon which the proceeds will be released from the escrow account described in paragraph (e)(1).

All offerings included within the scope of FINRA Rule 5121 shall disclose in the underwriting section of the registration statement, offering circular or similar document that the offering is being made pursuant to the provisions of FINRA Rule 5121, that the offering is either being made by the Firm of its own securities or those of an affiliate, or those of a company in which the Firm or its registered representatives, parent or affiliates own the common stock, preferred stock or subordinated debt of the company, the name of the Firm acting as qualified independent underwriter, if any, and that such Firm is assuming the responsibilities of acting as a qualified independent underwriter in pricing the offering and conducting due diligence.

Escrow of Proceeds; Net Capital Computation

All proceeds from an offering by the Firm of its securities shall be placed in a duly established escrow account and shall not be released or used by the Firm in any manner until the Firm has complied with the following:

- Any firm offering its securities pursuant to this Rule shall immediately notify FINRA when the offering has been terminated and settlement effected and it shall file with FINRA a computation of its net capital computed pursuant to the provisions of SEC Rule 15c3-1 under the Securities Act (the net capital rule) as of the settlement date; and

- If at such time its net capital ratio as so computed is more than 10:1 or, net capital fails to equal 120 percent of the minimum dollar amount required by Rule 15c3-1 or, in the event the provisions of Rule 15c3-1(f) are utilized in making such computation, the net capital is less than seven percent of aggregate debit items as computed in accordance with Rule 15c3-3a, all monies received from sales of securities of the offering must be returned in full to the purchasers thereof and the offering withdrawn, unless the Firm has obtained from the SEC a specific exemption from the net capital rule. Proceeds from the sales of securities in the offering may be taken into consideration in computing net capital ratio for purposes of this paragraph.

Audit Committee

Any firm or parent of the firm which makes a public offering of an issue of its securities shall be required to establish within twelve months of the effective date of said offering an audit committee composed of members of the board of directors (except that it shall not include the chief accounting or chief financial officer of the Firm or its parent) and the functions of the audit committee shall include the following:

- to review the scope of the audit;
- to review with the independent auditors the corporate accounting practices and policies and recommend to whom reports should be submitted within the company;
- to review with the independent auditors their final report;
- to review with internal and independent auditors overall accounting and financial controls; and
- to be available to the independent auditors during the year for consultation purposes.

Public Director

Any firm or parent of the Firm that makes a public offering of an issue of its securities shall cause to be elected to its board of directors within 12 months of the effective date of said offering a public director who shall serve as the Firm of the audit committee.

Periodic Reports (Debt Offerings)

Any firm which makes a distribution to the public of an issue of its securities pursuant to FINRA Rule 5121, shall send to each of its shareholders or, in the case of debt offerings, to each of its investors:

- quarterly, a summary statement of its operations; and
- annually, independently audited and certified financial statements.

Offerings Resulting in Affiliation or Public Ownership of Member

If an issuer proposes to direct all or part of the proceeds from a public offering to the Firm or exchange securities by means of a public offering for an interest in the Firm, and the Firm is, or as a result of the proposed transaction would be, an affiliate of the issuer, or if an issuer proposes to engage in any offering which results in the public ownership of the Firm, or if an issuer proposes to utilize the proceeds from a public offering to become the Firm or form a broker-dealer subsidiary to become the Firm, or if the Firm proposes simultaneously or subsequent to a public offering to enter into a transaction with the issuer or an affiliate of the issuer and as a result of the transaction would be an affiliate of the issuer, the offering shall be subject to the provisions of this Rule to the same extent as if the transaction had occurred prior to the filing of the offering.

Registration Statements for Intrastate Offerings

Any Firm offering its securities pursuant to an exemption under Section 3(a)(11) of the Securities Act shall disclose in the registration statement at a minimum that information suggested by the SEC in Securities Act Release No. 5222 (January 3, 1972).

Determination of Suitability

Every underwriting an issue of its securities, or securities of an affiliate, or the securities of a company with which it has a conflict of interest and who recommends to a customer the purchase of a security of such an issue shall have reasonable grounds to believe that the recommendation is suitable on the basis of information furnished by such customer concerning the customer's investment objectives, financial situation, and needs, and any other information known by such firm. In connection with all such determinations, the Firm must maintain in its files the basis for its determination.

Discretionary Accounts

Notwithstanding the provisions of Rule 3260, or any other provisions of law, a transaction in securities issued by the Firm or an affiliate of the Firm, or by a company with which the Firm has a conflict of interest shall not be executed by any member in a discretionary account without the prior specific written approval of the customer.

Filing Requirements; Coordination with FINRA Rule 5110

No firm or person associated with the Firm shall participate in any manner in any public offering of securities subject to this Rule, FINRA Rule 2111 or FINRA Rule 5121 unless documents and information as specified herein relating to the offering have been filed with and reviewed by FINRA.
Unless filed by the issuer, the managing underwriter, or another member, the Firm that anticipates participating in a public offering of securities subject to this Rule shall file with FINRA the documents and information with respect to the offering specified in subparagraphs (5) and (6) below: (i) no later than one business day after any of such documents are filed with or submitted to: (i) the SEC; or (ii) any state securities commission or other regulatory authority; or if not filed with or submitted to any regulatory authority, at least fifteen business days prior to the anticipated date on which offers will commence.

No sales of securities subject to this Rule shall commence unless: (i) the documents and information specified in subparagraphs (5) and (6) below have been filed with and reviewed by FINRA; and (ii) FINRA has provided an opinion that it has no objections to the proposed underwriting and other terms and arrangements or an opinion that the proposed underwriting and other terms and arrangements are unfair and unreasonable. If FINRA's opinion states that the proposed underwriting and other terms and arrangements are unfair and unreasonable, the Firm may file modifications to the proposed underwriting and other terms and arrangements for further review.

Any firm acting as a managing underwriter or in a similar capacity that has been informed of an opinion by FINRA, or a determination by the appropriate standing committee of the Board of Governors, that the proposed underwriting terms and arrangements of a proposed offering are unfair or unreasonable, and the proposed terms and arrangements have not been modified to conform to the standards of fairness and reasonableness, shall notify all other members proposing to participate in the offering of that opinion or determination at a time sufficiently prior to the effective date of the offering or the commencement of sales so the other members will have an opportunity as a result of specific notice to comply with their obligation not to participate in any way in the distribution of a public offering containing arrangements, terms and conditions that are unfair or unreasonable.

Procedures for 5110 Filings

The Firm has subscribed to the RSS Edgar notification system to be alerted about filings issuers make. After a public offering has been completed, the Firm's 5110 filing coordinator will monitor that each 5110 filing is made on time, either by the outside counsel that has been delegated the responsibility to make the filing or he/she will make the 5110 filing through FINRA Gateway within three business days. The 5110 filing coordinator shall confirm such filing has been completed via email with such outside counsel, as applicable, after the filing has been submitted and request a copy of the 5110 filing from outside counsel. If the filing has been completed by the 5110 filing coordinator, he/she shall send a confirmation email to the Designated Principals and the CCO and include a copy of the filed 5110. The 5110 filing coordinator will also upload a copy of the 5110 filing to the Firm's archiving system. The Designated Principals shall supervise that the 5110 filing coordinator.

Upon the completion of the offering and the Firm's engagement, the 5110 filing coordinator shall either instruct outside counsel to withdraw or will withdraw the Firm as the underwriter. The Designated Principal shall monitor the filings and subsequent withdrawals, as applicable.

In addition to aforementioned procedures, the filing coordinator or the Designated Principal or the CCO shall contact the FINRA Corporate Finance Department periodically to request a report on missing 5110 filings. Additionally, the CCO shall monitor the Public Offerings Late Filings Report on a periodic basis.

17.13 Blue Sky Requirements

In accordance with the Blue Sky Laws of the various states, a representative may do business in a state (e.g., take a customer's order, solicit business, etc.) only if the Firm and the representative are duly registered in such state or there is an available exemption there from.
Please check with Compliance for a list of states in which the Firm is currently registered in. If you intend to do business in a new state, please arrange to be registered in that state.
Moreover, the CCO will be responsible for ascertaining, prior to the sale of a security in any jurisdiction, that the security is registered for sale to the public in that jurisdiction, or that the sale may be made without registration (in which case they will ascertain that any necessary filings have been made with the Blue-Sky authority in that jurisdiction).
One must be aware that the regulatory authorities place a duty on the representatives and the Firm to act as the first line of defense against potentially illegal distributions or unregistered securities. They do so by requiring the representatives and the Firm to take whatever steps are necessary to be sure that a transaction does not involve an improper distribution. They point out that it is not sufficient to merely accept self-serving statements of sellers without reasonably exploring the possibility of contrary facts.

If a person is an officer, director, or a large shareholder of a publicly held corporation, there is a significant likelihood that the person may have acquired restricted securities from that company. In addition, if a person worked for a company that was acquired in a merger or otherwise by a publicly held company, the shares they have acquired may likewise be restricted. However, be aware that some unscrupulous operators will be deliberately vague with unregistered securities, but such people often call themselves "consultants" or "public relations" experts.

In addition, when a customer brings in a physical stock certificate for sale or deposit into the account, a

representative must be aware that ANY PHYSICAL STOCK CERTIFICATE SHOULD BE TREATED AS A POTENTIAL RESTRICTED SECURITY. While the presence of a "restrictive legend" is the single best clue as to a stock's restricted status, often times the legend may not be present. A customer should always be questioned as to how the stock certificate was acquired.

Whether the customer's explanation can be relied upon depends on the particular facts and circumstances of each situation and especially upon accurate know-your-customer information obtained at the outset of the relationship. If a representative has any doubt whatsoever with respect to a particular stock, the situation should be called to the attention of the supervisory principal. If the customer refuses to disclose the information requested, or the explanation is suspicious or vague, the certificate should probably be refused. The loss of the account or the commission is insignificant compared to the potential legal liability of the Firm and the representative.

Customers who have physical stock certificates will be directed to the clearing firm for further instructions as the Firm will not handle physical certificates.
The Designated Principals are responsible reviewing state blue-sky requirements and ensuring that such issues have been blue skied or are eligible for sale under the appropriate exemption. The principal shall also review client files of individuals who participate in such offerings to monitor that the purchasers were residence in states where the issue was blue skied or eligible for exemption.

17.14 Selling Group Participation

For the purposes of these procedures, the term “selling group” is defined as any group formed in connection with a public offering, to distribute all or part of an issue of securities by sales made directly to the public by or through members of such selling group, under an agreement which imposes no financial commitment on the firms of such group to purchase any such securities except as they may elect to do so.

Selling Group Agreements

The Designated Principals will be responsible for approving all selling group agreements and ensuring that the Firm’s legal counsel or other authorized personnel reviews such agreements before their use. Furthermore, the Designated Principals will monitor that all selling group agreements clearly state the terms and conditions of the offering and the selling group’s obligations and responsibilities. This includes, but not limited to, the terms and conditions associated with the escrow account, share allocation, payment of commissions, and release of proceeds to the issuer. The Designated Principals will sign and maintain a copy of each selling group agreement with which the Firm is involved.

In the event that the Firm participates in a best efforts underwriting as a selling group member, the Designated Principals will review and approve all selling group agreements. The Designated Principals will also review all prospectuses and all other available due diligence information regarding the securities to be sold prior to entering into a selling group arrangement.

When acting as a selling group or syndicate manager, the Designated Principals will maintain the responsibility for ensuring that the Firm does not enter into a joint account, underwriting or selling group, or join a syndicate or group, with any non-FINRA broker-dealer or with a member of a national securities exchange, who is not also a member of FINRA, for the purpose of acquiring and distributing an issue of securities.

Disclosure of Price in Selling Agreements

Pursuant to FINRA Rule 5160, the Designated Principals will monitor that all syndicate agreements or selling group agreements set forth the price at which the securities are to be sold to the public or the formula by which such price can be ascertained, and that it is clearly stated to whom and under what circumstances concessions, if any, may be allowed.

Soliciting and Approval of Selling Group Members

Selling group participants will be contacted primarily through personal contacts and references. The Designated Principals will evaluate and approve all selling group participants. The Designated Principals will conduct adequate due diligence before accepting any firm into a selling group. The Designated Principals will, at a minimum, order and review FINRA CRD Disclosure Reports for the Firm and its management, as well as, interview the key participants of the Firm. Additionally, the Designated Principals will review all potential selling group participant's capital structure, experience, and disciplinary history prior to giving approval. The Designated Principals will also verify that the selling group participant is adequately capitalized to participate in the offering prior to giving approval.

The Designated Principals will be responsible for ensuring that all selling group members receive copies of prospectuses and all other required due diligence information. The Designated Principals will review and approve all signed selling group agreements.

Sale to Bank or Trust Company

In accordance with FINRA Rule 5141, when acting as a selling group or syndicate manager, the Designated Principals will review all escrow account statements and escrow agreements to monitor compliance with IM 2420-1(d) (2). Pursuant to this rule, an FINRA broker-dealer, participating in the distribution of an issue of securities as an underwriter or in a selling group, may not allow any selling concession, discount or other allowance in connection with the sale of such securities to any bank or trust company. A bank or trust company is excluded from the definition of a broker or dealer and therefore may not receive selling concessions, discounts or other allowances from a broker dealer under FINRA Rule 5141.

Suspended or Expelled Dealer-Group Contemplating Distribution

The Designated Principals are responsible for ensuring that the Firm does not join any underwriting or selling group or allow any broker-dealer to participate in an underwriting that the Firm is managing who has been suspended from membership of FINRA. A broker-dealer who has been suspended by FINRA or SEC is to be treated as a non-member during the suspension period.

Dealer Suspended or Expelled After Underwriting Group Formed

When acting as a syndicate or selling group manager, the Designated Principals will maintain the responsibility of ensuring that if any selling group member is suspended or expelled from membership with FINRA after such dealer has joined an underwriting group and after underwriter had severally purchased securities from the issuer, that such dealer during the period of suspension or expulsion only accept delivery from the issuer of the securities which it had underwritten prior to the effective date of such order and only pay to the issuer its commitment. Additionally, the Designated Principals will verify that after the effective date of such order and during the period of suspension or expulsion, broker-dealers only buy the securities from or sell the securities to the broker-dealer, who was suspended or expelled, at the public offering price, regardless of whether the broker-dealers were also members of the underwriting or selling group for the particular issue.

Rule 2420 prohibits an FINRA broker-dealer from dealing with any non-member broker-dealer except at the same prices, for the same commissions or fees, and on the same terms and conditions as the Firm would deal with a member of the general public at the same time. Delivery of the securities by the issuer to the particular dealer suspended or expelled and payment therefore by such dealer would not involve a violation of Rule 2420 in this situation.

Dealer Suspended or Expelled After Selling Group Formed

The Designated Principals will be responsible for compliance with Rule 2420 when acting as a syndicate or selling group manager. Pursuant to the rule, the Designated Principals will maintain that if a broker-dealer is subject to a suspension or expulsion from the FINRA which became effective after such broker-dealer had joined a selling group, that no other broker-dealer engage selling the securities to, or buying the securities from, such broker-dealer at any price different from the public offering price. A broker-dealer would not violate

Rule 2420, by accepting from such broker-dealer, during the period such order of suspension or expulsion was in effect, payment of the full public offering price for the securities allotted to such broker-dealer. After the effective date of such order, Rule 2420 prohibits broker-dealers from granting or allowing to the broker-dealer suspended or expelled any selling concession, discount or other allowance for the securities distributed by such broker-dealer. While such order is in effect, broker-dealers could only deal with such broker-dealer at the same prices, for the same commissions, fees, concessions, discounts or other allowances as the broker-dealer would deal at the time of the transaction with a member of the general public.

Conflicts of Interest

In accordance with FINRA Rule 5121, the Firm will not underwrite, participate as a member of the underwriting syndicate or selling group, or otherwise assist in the distribution of a public offering of an issue of debt or equity securities issued or to be issued by the Firm or an affiliate of the Firm, or of a company with which the Firm or its registered representatives, parent or affiliates have a conflict of interest.

17.15 Electronic Transmission of Order - Control Procedures

Please refer to Section 15.16

18.01 Definitions

Customer

Any person from whom or on whose behalf a broker or dealer has received or acquired or holds funds or securities for the account of that person. The term shall not include:

- a broker-dealer;
- a general partner or director or principal officer of the broker-dealer;
- any other person who has a claim for any part of the capital of the broker-dealer or is subordinated to the claims of creditors of the broker-dealer.

Securities Carried for the Account of a Customer (hereinafter also "customer securities")

Securities which are:

- received by or on behalf of a broker-dealer for the account of any customer and securities carried long by a broker-dealer for the account of any customer; or
- sold to, or bought for, a customer by a broker-dealer.

Qualified Security

A security issued by the United States or a security in respect of which the principal and interest are guaranteed by the United States.

Fully Paid Securities

All securities carried for the account of a customer in:

- a cash account;
- a margin account;
- any special account under Regulation T that have no loan value for margin purposes; or
- all margin equity securities in such accounts if they are fully paid.

However, the term fully paid securities does not apply to any securities purchased in transactions for which the customer has not made full payment.

Margin Securities

Securities carried for the account of a customer in:

- a margin account as defined in section 4 of Regulation; or
- securities other than those referred to in paragraph (a)(3) of Rule 15c3-3.

The Firm is not offering margin accounts at this time.

Excess Margin Securities

Securities defined as margin securities (above) which are carried for the account of a customer and:

- having a market value in excess of 140% of the total of the debit balances in the customer's account; or
- accounts which the broker- dealer identifies as not constituting margin securities.

The Firm is not offering excess margin accounts at this time.

Bank

A bank as defined in section 3(a)(6) of the Act and will also mean:

- any building and loan, savings and loan or similar banking institution subject to supervision by a Federal banking authority; or
- a Canadian bank subject to supervision by a Canadian authority.

Free Credit Balances

Liabilities of a broker-dealer to customers which are subject to immediate cash payment to customers on demand, whether resulting from sales of securities, dividends, interest, deposits or otherwise, but excluding:

- funds in commodity accounts which are segregated in accordance with the Commodity Exchange Act, as amended; or
- funds carried in a proprietary account as that term is defined in regulations under the Commodity Exchange Act, as amended.

Free credit balances also include funds subject to immediate cash payment resulting from variation margin or initial margin, marks to market, proceeds resulting from margin paid or released in connection with closing out, settling or exercising options.

Other Credit Balances

Cash liabilities of a broker-dealer to customers other than free credit balances and are:

- carried in a proprietary commodity account as defined under the Commodity Exchange Act, as amended;
- cash liabilities of a broker- dealer to customers other than free credit balances and are carried in a securities account; and
- including variation margin or initial margin, marks to market, and proceeds resulting from margin paid or released in connection with closing out, settling or exercising option contracts.

Funds Carried for the Account of Any Customer (hereinafter also "customer funds")

All free credit and other credit balances carried for the account of the customer.

Possession of Securities

Under the oversight and authority of its FINOP, the Firm must promptly obtain and maintain the physical possession or control of all fully-paid securities and excess margin securities it carries for its accounts.

If temporary lags occur between the time when a security is required to be in the possession or control of the broker-dealer and the time that it is placed in its physical possession or under its control, the Firm must take timely steps in good faith to establish prompt physical possession or control. The burden of proof of compliance shall be on the Firm's FINOP to establish that the failure to obtain physical possession or control of securities carried for the account as required was merely temporary and solely the result of normal

business operations including same day receipt and redelivery (turnaround), and to establish that the Firm has taken timely steps in good faith to place them in its physical possession or control.

Compliance with FINRA's rules regarding physical possession or control of fully-paid or excess margin securities that it borrow, require that the Firm and the lender, at or before the time of the loan, enter into a written agreement that includes at minimum:

- A separate schedule or schedules establishing the basis of compensation for any loan and generally the rights and liabilities of the parties as to the borrowed securities;
- Provides that the lender will be given a schedule of the securities actually borrowed at the time of the borrowing of the securities.

Securities under the control of the Firm shall be deemed to be securities which:

- It holds in certificate form;
- Are represented by one or more certificates in its custody or control, the delivery of which does not require the payment of money or value, provided the Firm's books or records identify the accounts entitled to receive specified quantities or units of the securities so held for such accounts collectively;
- Are carried for the account;
- Are carried in a special omnibus account in compliance with the requirements of section 4(b) of Regulation T under the Act provided the Firm is to maintain physical possession or control of them free of any charge, lien, or claim of any kind in favor of the Firm;
- Are the subject of bona fide items of transfer; provided that securities shall be deemed not to be the subject of bona fide items of transfer if, within 40 calendar days after they have been transmitted for transfer by the Firm to the issuer or its transfer agent, new certificates conforming to the Firm's instructions have not been received, the Firm has not received a written statement by the issuer or its transfer agent acknowledging the transfer instructions and the possession of the securities or the Firm has not obtained a revalidation of a window ticket from a transfer agent with respect to the certificate delivered for transfer;
- Are in the custody of a foreign depository, foreign clearing agency or foreign custodian bank regarding which the Firm has applied for an attained SEC designation as a satisfactory control location for securities;
- Are in the custody or control of a bank, the delivery of which securities to ECT does not require the payment of money or value and the bank having acknowledged in writing that the securities in its custody or control are not subject to any right, charge, security interest, lien or claim of any kind in favor of a bank or any person claiming through the bank;
- Are held in or are in transit between any of the Firm's offices;
- Are held by a corporate subsidiary;
- Are held in any other locations that the SEC may deem to be adequate for the protection of securities.

Requirement to Reduce Securities to Possession or Control

Under the authority and oversight of its FINOP, not later than the next business day, as of the close of the preceding business day, the Firm shall determine the quantity of fully paid securities and excess margin securities in its possession or control and the quantity of fully paid securities and excess margin securities not in its possession or control. In making this daily determination, inactive margin accounts (accounts having no activity by reason of purchase or sale of securities, receipt or delivery of cash or securities or similar type events) may be computed not less than once weekly.

If, as of such close of the business day, the FINOP ascertains that the Firm has not obtained physical possession or control of all fully paid and excess margin securities and there are securities of the same issue and class subject to a lien securing moneys borrowed by the Firm or securities loaned to another broker-dealer or a clearing corporation, then the Firm shall:

- Issue instructions for the release of such securities from the lien or return of such loaned securities,

not later than the business day following the day on which such determination is made; and

- Obtain physical possession or control of such securities within two (2) business days following the date of issuance of the instructions in the case of securities subject to lien securing borrowed moneys and within five (5) business days following the date of issuance of instructions in the case of securities loaned.

Securities included on the Firm's books or records which remain as failed to receive more than 30 calendar days, then the Firm shall, take prompt steps to obtain physical possession or control of securities so failed to receive through a buy-in procedure or otherwise not later than the business day following the day on which such determination is made.

Under the authority and oversight of the FINOP, the Firm shall take prompt steps such as through a buy-in or other procedure, to obtain physical possession or control not later than the business day following the day on which securities are receivable by the Firm as a security dividend receivable, stock split or similar distribution for more than 45 calendar days.

The FINOP is responsible to prepare and maintain a current and detailed description of the procedures she utilizes to comply with the possession or control requirements set forth above, making the records available upon request to the SEC, FINRA and/or to its designated examining authority.

Withdrawals from the Reserve Account

Under the authority and oversight of the FINOP, the Firm may make withdrawals from its reserve bank account only if and to the extent that at the time of the withdrawal the amount remaining in the reserve bank account is equal to or greater than the Firm' computation requirement. A bank may presume that any request for withdrawal from a reserve bank account is in conformity and compliance with the Firm's own computation. On any business day on which a withdrawal is made, the FINOP shall make a record of the computation on the basis of which she makes such withdrawal, and she shall preserve such computation in accordance with Rule 17a-4.

Buy-In of Short Securities Differences

Within 45 calendar days after the date of the examination, count, verification and comparison of securities pursuant to regulations, including but not limited to the annual report of financial condition, the FINOP shall buy-in all short security differences which are not resolved during the 45-day period.

Notification in the Event of Failure to Make a Required Deposit

If the Firm's FINOP fails to make a deposit in the reserve bank account or special account, as required by this section the FINOP shall immediately notify the SEC and FINRA, with a follow-up in writing.

Delivery of Securities

In all instances, the FINOP shall uphold the absolute right of an account of the Firm to receive upon instructions in the course of normal business operations physical delivery of certificates for:

- Fully-paid securities to which the account is entitled;
-
- Margin securities upon full payment by such account to the Firm of indebtedness; and, subject to the right of the Firm under section 7(b) of Regulation T to retain collateral for his own protection beyond the requirements of Regulation T, excess margin securities not reasonably required to collateralize such account's indebtedness. This is not applicable to the Firm at this time.

Completion of All Sell Orders

If the Firm executes a sell order for an account (other than an order to execute a short sale) and if for any reason whatever the Firm has not obtained possession of the securities from the account within ten (10) business days after the settlement date, the broker or dealer shall immediately thereafter close the transaction by purchasing securities of like kind and quantity provided the term *account or customer* for the purpose of this paragraph shall not include the Firm when it maintains a special omnibus account with another broker or dealer in compliance with section 4(b) of Regulation T .

Custody Rules for Segregating Accounts (The Onnig Amendments)

The Firm has established the guidelines for net capital requirements, account protection, record-keeping and notification rules as follows:

Rule 15c3-1 - Net Capital Rule - the Firm shall maintain more than a dollar of highly liquid assets for each dollar of account liabilities.
Rule 15c3-3 - Customer Protection Rule - the Firm shall not use account funds for the Firm's own proprietary business.
Rule 17a-13 - Quarterly Security Count Rule (not applicable at this time)

18.02 Supervision

Establish & Maintain the Special Reserve Bank Accounts for the Exclusive Benefit of Customers

Prior to the Firm accepting or holding customer funds or securities, it must establish and maintain with an unaffiliated bank (or banks) a "Special Reserve Bank Account for the Exclusive Benefit of Customers" (referred to as the "Customer Reserve Bank Account"). Each such account shall be established separate and apart from any other bank account of the broker-dealer.

Every broker-dealer required to establish a Customer Reserve Bank Account must at all time maintain in the account cash and/or qualified securities in amounts as computed in accordance with the formula attached as Exhibit A and as described within this Section.

Notify the Reserve Banks of Limited and Separate Purpose

At the time of establishing the Customer Reserve Bank Account (or a Special Account referred to in paragraph (k)(2)(i)) in accordance with SEC Rule 15c3-3, the Firm must obtain and preserve in accordance with Rule 17a- 4, a notification from each bank with which it maintains a Customer Reserve Bank Account or a Special Account, that the bank was informed of and agrees to the following:

- All cash and/or qualified securities deposited in the Customer Reserve Bank Account or Special Account, are being held by the bank for the exclusive benefit of the customers; and
- The account of the broker-dealer are being kept separate from any other accounts maintained by the broker-dealer with the bank.

In addition the broker-dealer must have a written contract with the bank which clearly states:

- The cash and/or qualified securities held in the account will at no time be used directly or indirectly as security for a loan to the broker-dealer by the bank, and
- The cash and/or qualified securities held in the account will not be subject to any right, charge, security interest, lien, or claim of any kind in favor of the bank or any person claiming through the bank.

Due Diligence of Contingent Private Placements of Securities

All broker-dealers that participate in an offering containing a contingency must make a reasonable investigation into the security and the issuer's representations about it. This review must include among other things, a

review of the terms of the contingency, the appropriate and full disclosure of the contingency to investors, and disclosure of the prompt return of funds in the event the contingency is not met within the offering period.

Due diligence conducted on any offering will be documented within each offering file and will include any third-party documentation obtained by the Firm regarding the issuing company, person associated with the issuer, and the offering.

Contingent Private Placement Offerings of Securities

The Firm will conduct private placement offerings using the "all or none" contingency standard as described by SEC Rule 10b-9(a)(1). Thereby, the contingency to accept subscriptions, issue security interests and settle the offering proceeds will occur only when all of the securities being offered are sold at the specified price and within a specified time.

However, should a contingent offering fail to become fully subscribed by the termination date of the offering, as set forth in the Offering Memorandum, the offering will be terminated and all funds will be promptly returned to the subscribers.

Should the issuer wish to, in effect, reduce the contingency by accepting amount a lower amount of capital raised than that originally set as the maximum to be offered (i.e. the original contingency) then the Firm is required by SEC Rule 10b-9 to return all investment funds to their respective customers. The offering may not be re-opened by the issuer. A new and correct Offering Memorandum – with the new contingency – must be prepared and any prior investor may re-subscribe only after being provided a new Offering Memorandum and subscription documents.

Should an issuer wish to extend the offering period of any contingency offering, a supplemental disclosure statement must be sent to customers whose funds are currently on deposit awaiting the completion of the offering's contingency. This supplement disclosure becomes an addendum altering the original offering memorandum. The issuer must obtain evidence that the supplement was delivered to the investor AND a written acknowledgement that the investor approves of the extended contingency period and wishes to continue as a subscriber to the offering. The Firm will promptly return the customer funds of any investor who fails to respond to the extension notice – or any investor who is unwilling to provide a written acknowledgment of the extension.

See Addendum 1 for additional procedures related to custody.

Future Changes to the Business Operations of the Firm

The Firm will, in accordance with the FINRA rules, apply for approval to change its business operations and/or activities, should, at any time, the Firm contemplate the addition or change to any business operation or activity which may include any of the following:

- Receipt, handling or holding of customer securities;
- Issuance of credit or lending of any kind to customers (margin);
- Establishing, for any reason, any account for another broker-dealer; or
- Establishing in any form, a 'sweep account' or similar conveyance for the transfer of customer funds.

RECEIPT OF CASH

The receipt of cash is strictly prohibited. This policy shall be reinforced at the direction of the CCO through training and other means, including the distribution or access to this WSP periodic review of bank deposit slips, and other means as deemed appropriate by the FINOP and/or CCO.

18.03 FINRA Financial & Operational Rules

FINRA Rule 4120 – Regulatory Notification and Business Curtailment

Notification

The Firm will, within 24 hours, notify FINRA in writing if its net capital falls below the following percentages:

- Less than 150 percent of its minimum dollar net capital requirement or such greater percentage thereof as may from time to time be designated by FINRA;
- Its aggregate indebtedness is more than 1,000 percent of its net capital; or
- If the withdrawal of capital which the Firm anticipates making in the next six months, whether voluntarily or as a result of a commitment, including maturities of subordinated liabilities, would result in any one of the conditions described above.

Restrictions on Business Expansion

The Firm will not expand its business during any period in which any of the conditions described in the Notification section above:

- Continue to exist for more than 15 consecutive business days, provided that such condition(s) has been known to FINRA or the Firm for at least five consecutive business days; or
- If FINRA restricts the Firm from expanding its business the Firm will receive a written notice from pursuant to FINRA Rule 9557.

For purposes of this procedure the term "expansion of business" includes:

- A net increase in the number of registered representatives or other producing personnel;
- Exceeding the average capital commitments for the previous three months for market making or block positioning;
- The initiation of market making in new securities or any new trading or other commitment in securities or commodities in which a market is not made;
- Exceeding average commitments over the previous three months for underwritings;
- The opening of new branch offices;
- Entering any new line of business or deliberately promoting or expanding any present lines of business;
- Making unsecured or partially secured loans, advances, drawings, guarantees or other similar receivables; or
- The expansion of any such other activity as FINRA deems appropriate under the circumstances, in the public interest or for the protection of investors.

Reduction of Business

The Firm is obligated to reduce its business to a point that enables its available capital to exceed the notification standards set forth above, when any of the following conditions continue to exist for more than 15 consecutive business days, provided that such condition(s) has been known to FINRA or the Firm for at least five (5) consecutive business days:

- The Firm’s net capital is less than 125 percent of its minimum dollar net capital requirement;
- The Firm’s aggregate indebtedness is more than 1,200 percent of its net capital; or
- If the withdrawal of capital which the Firm anticipates making in the next six months, whether voluntarily or as a result of a commitment, including maturities of subordinated liabilities, would result in any one of the conditions described above.

If FINRA requires the Firm to reduce its business the Firm will receive a written notice from pursuant to FINRA Rule 9557.

For purposes of this procedure, the term "business reduction" shall mean reducing or eliminating parts of the

Firm's business in order to reduce the amount of capital required, which include:

- Promptly paying all or a portion of free credit balances to customers;
- Promptly effecting delivery to customers of all or a portion of fully paid securities in the Firm's possession or control;
- Introducing all or a portion of its business to another member on a fully disclosed basis;
- Reducing the size or modifying the composition of its inventory and reducing or ceasing market making;
- Closing of one or more existing branch offices;
- Collecting unsecured or partially secured loans, advances, drawings, guarantees or other similar receivables;
- Accepting no new customer accounts;
- Restricting the payment of salaries or other sums to partners, officers, directors, shareholders, or associated persons of the Firm;
- Effecting liquidating or closing customer and/or proprietary transactions;
- Accepting only unsolicited customer orders; or
- Any such other activities as FINRA deems appropriate under the circumstances in the public interest or for the protection of investors.

FINRA Rule 4120 – Regulatory Notification and Business Curtailment
The Firm will not, after being notified by FINRA, continue to custody or retain record ownership of proprietary or customer assets, at any financial institution that is not a member of FINRA, and fails promptly to provide FINRA with written verification of assets maintained by the Firm at that financial institution.

This Rule shall not apply to:

- Proprietary assets of members that are treated as non-allowable assets; or
- In instances where FINRA determines that there is no independent custody or record ownership of the asset

The Firm's approved business activities limit the Firm to maintaining only Customer Funds in the Reserve Account and do permit the Firm to handle or maintain customer securities.

The Firm WILL NOT maintain any Proprietary Account for Other Broker-dealers unless it receives prior approval in accordance with FINRA Rule 4311

19.01 Mark-ups and Mark-downs

FINRA has established a Mark-Up Policy for transactions between broker-dealers and customers in debt securities (excluding municipal securities). This section describes the requirements for determining whether a mark-up or mark-down is fair. Following is a summary of the interpretation's requirements.

- Mark-ups or mark-downs must be calculated from the prevailing market price of the security. The prevailing market price is commonly obtained from one of the following sources: (1) TRACE; (2) the Firm's contemporaneous cost; or (3) inter-dealer transactions.
- There are three events which, if any one occurs, may pre-empt the use of the Firm's contemporaneous cost:
    - Interest rate change
    - Significant change in the credit quality of the debt security
    - News that has an effect on the value of the debt security
- Where there is no contemporaneous transaction and the three outside factors do not apply, pricing alternatives (in order of priority) include:
    - Hierarchy pricing factors including contemporaneous inter-dealer transactions; qualifying contemporaneous institutional account-dealer transactions; or qualifying contemporaneous quotations.
    - Pricing information from "similar" securities.
    - Pricing information derived from economic models.
- Transactions with qualified institutional buyers (QIBs) are exempt from the requirements of the rule and interpretation.

Prevailing Market Price

(1) When acting in a principal capacity in a transaction with a customer and charging a mark-up or mark-down the Firm 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 Firm's contemporaneous cost as incurred, or contemporaneous proceeds as obtained, consistent with FINRA pricing rules. (See, ***e.g.,*** Rule 5310).

(2) When *selling* the security to a customer, countervailing evidence of the prevailing market price may be considered only where the Firm made no contemporaneous purchases in the security or can show that in the particular circumstances the Firm's *contemporaneous cost* is not indicative of the prevailing market price. When the Firm is buying the security from a customer, countervailing evidence of the prevailing market price may be considered only where the Firm made no contemporaneous sales in the security or can show that in the particular circumstances the Firm's *contemporaneous proceeds* are not indicative of the prevailing market price.

(3) The Firm'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, the Firm'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) The Firm that effects a transaction in debt securities with a customer and identifies the prevailing market price using a measure other than the Firm's own contemporaneous cost (or, in a mark-down, the Firm's own proceeds) must be prepared to provide evidence that is sufficient to overcome the presumption that the Firm's contemporaneous cost (or, the Firm's proceeds) provides the best measure of the prevailing market price. The Firm 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 Firm'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 Firm'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 Firm's contemporaneous transaction.

(5) In instances where the Firm has established that the Firm's cost is (or, in a mark-down, proceeds are) no longer contemporaneous, or where the Firm has presented evidence that is sufficient to overcome the presumption that the Firm'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), the Firm must consider, in the order listed, the following types of pricing information to determine prevailing market price:

- Prices of any contemporaneous inter-dealer transactions in the security in question;
- 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
- 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.

The firm may consider a succeeding category of pricing information only when the prior category does not generate relevant pricing information (*e.g.,* the Firm may consider pricing information under (b) only after the Firm 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 Firm in the comparison transaction was on the same side of the market as the Firm 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 Firm in the comparison transaction was on the same side of the market as the Firm 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 the Firm 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, the Firm 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 Firm 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 Firm and the Firm 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.

Pricing Disclosure

[FINRA Rule 2232; FINRA Regulatory Notice 17-08; FINRA FAQs: http://www.finra.org/industry/faq-fixed-income-confirmation-disclosure-frequently-asked-questions-faq]

The amount of mark-ups and mark-downs will be disclosed on retail customer confirmations. Two additional disclosures include: (1) a reference (or hyperlink if the confirmation is electronic) to a FINRA web page containing publicly-available trading data for the security traded; and (2) the execution time expressed to the second. Disclosure is required if Caldwell executes one or more offsetting principal trades in the same security on the same trading day which, in aggregate, meet or exceed the size of the customer trade. Disclosure may also be required because of an offsetting principal trade executed by a Firm affiliate that did not occur at arm's length [defined in FINRA Rule 2232(f)(3)].

Disclosure is not required for principal trades executed on a trading desk functionally separate from a trading desk that executes customer trades. It is also not required for bonds acquired in a fixed-priced offering and sold to non-institutional customers at the same offering price the same day Caldwell acquires the bonds.

Contemporaneous Cost (Or Sale Proceeds) And Overriding Events

The Mark-Up Policy states that the "prevailing price" is the price to be used when determining a fair mark-up or mark-down. For debt securities, the Firm's contemporaneous cost is considered the prevailing price. Contemporaneous cost is the price at which the BD buys or sells the security in close proximity to the transaction subject to the Mark-Up Policy.
FINRA recognizes that contemporaneous cost (proceeds) may not be indicative of the prevailing market price if one of the following three events occurs:

- interest rates changed after the BD'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 BD'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 BD's contemporaneous transaction.

When the Firm has no contemporaneous transaction and none of the three above events apply, there are other pricing alternatives which are described in the following sections. The alternatives must be applied in the order described in this section (i.e., the Firm has the obligation to attempt to use the first alternative [hierarchy pricing] before it uses the second alternative ["similar" securities]).

Hierarchy Pricing Factors

Three factors must be considered, in the order listed, to price the security on a hierarchy basis:

- contemporaneous inter-dealer transactions in the same security;
- qualifying contemporaneous institutional account-dealer trades in the same security; or
- qualifying contemporaneous quotations.

Each hierarchy pricing factor must be considered, in order, before proceeding to any consideration of the next factor ("similar" securities).

Pricing Information From Similar Securities

Pricing may be based on similar securities; the Interpretation includes the following possible considerations (which are in no particular order): credit quality of both securities, ratings, collateralization, spreads (over U.S. Treasury securities of similar duration) at which the securities usually traded, general structural similarities (calls, maturity, embedded options), size of the issue, float, recent turnover, estimate of market yield, and transferability or restrictions on the securities. A "similar" security should be sufficiently equivalent to the subject security that it would serve as a reasonably fungible alternative investment.

Pricing Information From Economic Models

Where none of the prior alternatives are available for determining the security's price, an economic model may be used. The model must take into account measures such as credit quality, interest rates, industry sector, time to maturity, call provisions and any other embedded option, coupon rate and face value, and all applicable pricing terms and conventions (e.g., coupon frequency and accrual methods).

Qualified Institutional Buyer (QIB) Exemption
Transactions with institutional customers that qualify as QIBs are not subject to the Mark-Up Policy. All three of the following elements must be satisfied to apply the exemption:

- The customer is a QIB as defined in Rule 144A under the Securities Act;

- the security the QIB wishes to buy or sell if a non-investment grade debt security as defined for purposes of IM-2440-2; and
- a determination that after considering factors in IM-2310-3 (institutional suitability factors), the QIB has the capacity to independently evaluate the investment risk and is exercising independent judgment in deciding whether to enter into the transaction.

19.02 FINRA REG NOTICE 17-08

Background and Discussion

Pursuant to SEA Rule 10b-10, firms currently are required to provide transaction cost information when acting as principal with customers for equity trades; however, no comparable requirement had existed for bond trades. As part of an initiative to provide retail fixed income investors with additional information about the costs of their transactions, FINRA filed proposed amendments to Rule 2232 to require enhanced transaction cost and related information on customer confirmations.

Mark-Up Disclosure Requirements

When Disclosure is Required

New Rule 2232(c) requires firms to disclose to a non-institutional customer the amount of mark-up or mark-down the customer paid for a trade in a corporate or agency debt security, if the Firm also executes one or more offsetting principal trades in the same security on the same trading day which in the aggregate meet or exceed the size of the customer trade.

The following example explains how the “offsetting” language that describes when disclosure is triggered under the rule is intended to operate: If the Firm purchases 100 bonds at 9:30 a.m., and then sells to three customers, who each buy 50 bonds in the same security on the same day, without purchasing any more of the bonds, the rule requires mark-up disclosure on two of the three trades, since one of the trades would need to be satisfied out of the Firm’s prior inventory, or its short position, rather than offset by the Firm’s same-day principal transaction.

FINRA notes that a disclosure obligation under Rule 2232(c) could be triggered by an offsetting principal trade executed by the Firm’s affiliate. Specifically, if the Firm’s offsetting principal trade is executed with a broker-dealer affiliate and did not occur at arm’s length, the Firm is required to “look through” to the time and terms of the affiliate’s trade to comply with the rule.

New Rule 2232(d) contains two exceptions to the mark-up disclosure requirements of Rule 2232(c). First, mark-up disclosure is not triggered by principal trades that the Firm executes on a trading desk that is functionally separate from a trading desk that executes customer trades, provided the Firm maintains policies and procedures reasonably designed to monitor that the functionally separate trading desk has no knowledge of the customer trades.9 Second, mark-up disclosure does not need to be provided for bonds that are acquired by the Firm in a fixed-price offering and sold to non-institutional customers at the same offering price on the same day the Firm acquired the bonds.

The Firm may develop reasonable policies and procedures to identify and account for offsetting trades that trigger the disclosure obligations of Rule 2232(c). Firms may also choose to provide mark-up disclosure more broadly, for example to all trades with retail customers.

Methods to Calculate and Disclose Mark-Ups

Firms need to calculate the mark-up that is disclosed on a customer confirmation from the prevailing market price (PMP) for the security, consistent with existing FINRA Rule 2121 (Fair Prices and Commissions) and the supplementary material thereunder, particularly Supplementary Material .02 (Additional Mark-Up Policy for Transactions in Debt Securities, Except Municipal Securities). Firms may base their mark-up calculations for confirmation disclosure purposes on the information they have available to them as a result of reasonable diligence at the time they input relevant transaction information into systems to generate confirmations. In other

words, amended Rule 2232 does not prevent firms from maintaining real-time, intra-day confirmation generation processes.

Firms can engage third-party service providers to facilitate mark-up disclosure consistent with Rule 2232; however, firms retain compliance responsibility and are expected to exercise due diligence and oversight over third party relationships. Firms may also choose to automate their mark-up disclosure calculation process according to reasonable, consistently applied policies and procedures, if consistent with Rule 2121.

Where mark-up disclosure is provided on customer confirmations, Rule 2232(c) requires firms to express the disclosed mark-up as both a dollar amount and a percentage of PMP.10 Firms may include accompanying language to provide explanation of mark-up-related concepts, or the Firm's particular methodology for calculating mark-ups, provided such statements are accurate. However, the Firm may not label mark-ups as "estimated" or "approximate" figures.

Requirement to Disclose a Reference or Link to Security-Specific Trade Data

For all trades with non-institutional customers in corporate and agency debt securities, whether mark-up disclosure is triggered or not, new Rule 2232(e) requires firms to provide a reference, and a hyperlink if the confirmation is electronic, to a web page hosted by FINRA that contains TRACE publicly available trading data for the specific security that was traded, along with a brief description of the type of information available on that page.

Time of Execution Disclosure Requirement

Rule 2232(e) further requires firms to disclose the time of execution, expressed to the second, for all non-institutional customer trades in corporate and agency debt securities. As with the URL requirement, trade time disclosure is required even in cases where mark-up disclosure is not triggered. Providing customers the time of execution will assist them in identifying their individual trade when accessing the TRACE publicly available information.

Market Access 20.00

[Exchange Act Rule 15c3-5; SEC FAQs concerning market access risk management: http://www.sec.gov/divisions/marketreg/faq-15c-5-risk-management-controls-bd.htm; SEC Small Entity Compliance Guide: http://www.sec.gov/rules/final/2010/34-63241-secg.htm; NASDAQ Rule 4615]

SEC Rule 15c3-5 requires broker-dealers with market access, including those that provide a customer or any other person with market access through use of the Firm's market participant identifier or otherwise, to establish appropriate risk management controls and supervisory systems. These requirements are designed to limit the financial exposure that could arise as a result of market access, and to monitor compliance with all regulatory requirements that apply to providing market access.

The Rule applies to a broker-dealer with market access to trading securities by virtue of being an exchange member, an ATS subscriber, or an ATS operator with non-broker-dealer subscribers. It applies to security-based swaps if they become traded on an exchange and to BDs engaged in proprietary trading.

The Rule prohibits "naked" or "unfiltered" sponsored market access for third parties accessing markets through the Firm.

20.01 Market Access Definitions

Market access: (i) access to trading in securities on an exchange or alternative trading system as a result of being the Firm or subscriber of the exchange or alternative trading system, respectively; or (ii) access to trading in securities on an alternative trading system provided by a broker-dealer operator of an alternative trading system to a non-broker-dealer.

Regulatory requirements: all federal securities laws, rules and regulations, and rules of self-regulatory organizations, that are applicable in connection with market access.

Sponsored Access System: The practice by a firm ("Sponsoring Member") of providing access to a market to another person, firm or customer ("Sponsored Participant").

20.02 Risk Management Controls

The risk management controls must be under the direct and exclusive control of the Firm with market access, with limited exceptions specified in the Rule that permit reasonable allocation of certain controls and procedures to another registered broker-dealer that, based on its position in the transaction and relationship to the ultimate customer, can more effectively implement them. There is a limited exception for broker-dealers that provide outbound routing services to an exchange or ATS for the sole purpose of accessing other trading centers with protected quotations on behalf of the exchange or ATS to comply with Reg NMS Rule 611 or the Options Linkage Plan for listed options. Routing brokers still must comply with preventing entry of erroneous orders.

The Firm is responsible for establishing and maintaining risk controls for market access, whether for its own access or for access provided to a third party.

Financial Controls

The CFO is responsible for establishing financial controls to monitor the financial safety of the Firm from undue exposure and errors when orders are entered. These limits are established in conjunction with senior management and committees (if they exist) with responsibility for oversight of specified areas of the Firm.

Financial risk controls may include the following:

- trading limits for the Firm or its customers
- inventory limits
- commitments to and trading in financial instruments that pose a potential risk to the Firm
- limits to credit extended to certain customers or on behalf of a trading desk

Order Entry/Quotation Controls

The Firm (or its clearing firm) has established controls to prevent the entry of orders that:

- exceed appropriate pre-set credit or capital thresholds
- exceed a customer's trading limit
- appear to be erroneous including duplication of orders
- do not include all required conditions of the order (price, quantity, security, *etc.*)
- on an order-by-order or quote-by-quote basis the entry of erroneous and/or duplicate orders/quotes by rejecting those that exceed short period time checks
- entry of orders/quotes to market centers before satisfying all pre-trade regulatory requirements, on a pre-trade/quote basis
- the customer is restricted from trading
- is a short sale without the required verification the security may be borrowed
- other controls if determined necessary

Erroneous order/quote validations will take place immediately prior to submission.

Post Order-Entry Controls

The Firm (or its clearing firm) has established post-entry order controls that:

- identify trades or patterns of trading that may violate firm or regulatory rules or policy
- identify post-trade execution reports including those provided by other members to monitor post-trade execution reports via market access are provided to the proper parties for review in a timely fashion
- other controls if determined necessary

Authorized Access

Access to trading systems and technology is only available to employees and customers pre-approved and authorized by the Firm. This includes:

- Obtaining written contracts with broker-dealer customers meeting regulatory requirements over which control is being allocated
- Vetting and approving employees (including non-trading personnel) and customers
- Physically securing access to trading systems or technology including limited access to terminals and assigning of passwords that are periodically changed and validation of identity
- Establishing procedures for code deployment and testing prior to initiation of trading

Post-Trade Execution Reports

Reports are provided to Designated Principals through printed or electronic reports that include all transactions or filtered reports to identify potential violations. These are available on a daily, weekly, monthly, or other appropriate interval for the review to be conducted.

Annual Review

On an annual basis, the Firm’s systems and controls and its written procedures are reviewed.

Annual Certification

The CEO's annual certification regarding the Firm's supervisory system and controls includes a certification that the risk management controls and supervisory procedures comply with Rule 15c3-5 and that the regular review has been conducted.

20.03 Limits and Controls

The Firm may establish pre-set credit thresholds for participants and may set price, size, or value parameters that would reject orders that exceed the established parameters. A User Agreement must be signed by the Firm and the participant and filed with the exchange.