Standards of Conduct 2.00

Introduction

In accordance with FINRA Rule 2010 (formerly NASD Rule 2110), the Firm will make all reasonable efforts to ensure that all employees and associated persons of the Firm as conducting all business activities with "high standards of commercial honor and just and equitable principles of trade."

2.01 Outside Business Activities

In accordance with Regulatory Notice 10-49 issued October 2010, FINRA Rule 3270 (formerly NASD Rule 3030) (Outside Business Activities of an Associated Person) is replaced by FINRA Rule 3270 (Outside Business Activities of Registered Persons) in the Consolidated FINRA Rulebook, and deletes Incorporated NYSE Rule 346 (Limitations – Employment and Association with Members and Member Organizations) and its Interpretation. (Ref. Regulatory Notice 10-49; effective December 15, 2010)

Some of the general outside business activities conducted by registered representatives may include insurance sales, tax preparation, mortgage brokerage, acting as a finder, which may include the acceptance and receipt of a "finder's fee," or serving as an active or passive partner, officer or board member of another organization.

Notification Requirements

FINRA Rule 3270 prohibits any registered person from being an employee, independent contractor, sole proprietor, officer, director or partner of another person, or being compensated, or having the reasonable expectation of compensation, from another person as a result of any business activity outside the scope of the relationship with his or her member firm, unless he or she has provided prior written notice to the firm in the form specified by the firm. Passive investments and activities subject to the requirements of FINRA Rule 3280 (formerly NASD Rule 3040) are exempted from this requirement. (Ref. Regulatory Notice 10-49; effective December 15, 2010)

Representatives are required to complete a *Request for Approval to Engage in Outside Business Activities Form* or other similar form prior to engaging in any outside activity. At a minimum, all written notifications provided to the Firm by a registered representative or associated person that involve outside business activities shall include the following information:

- Name of potential outside employer;
- Type of business to be performed;
- Method of compensation;
- Amount of time involved in such outside activity.

Notification of Response

FINRA Rule 3270 requires that, upon receipt of a written notice, a firm must consider whether the proposed activity will: (1) interfere with or otherwise compromise the registered person's responsibilities to the firm and/or the firm's customers or (2) be viewed by customers or the public as part of the firm's business based upon, among other factors, the nature of the proposed activity and the manner in which it will be offered. Additionally, based on the firm's review of such factors, the firm must evaluate the advisability of imposing specific conditions or limitations on a registered person's outside business activity, including where circumstances warrant, prohibiting the activity. A firm also must evaluate the proposed activity to determine whether the activity properly is characterized as an outside business activity or whether it should be treated as an

outside securities activity subject to the requirements of FINRA Rule 3280 (formerly NASD Rule 3040). A firm must keep a record of its compliance with these obligations with respect to each written notice received and must preserve this record for the period of time and accessibility specified in Exchange Act Rule 17a-4(e)(1). (Ref. Regulatory Notice 10-49; effective December 15, 2010)

Methods of Compensation

There are various ways for providing compensation for conducting outside business activities. Examples of compensation may include, but are not limited to, a paid salary, commissions, issuance of a finder's fee, referral fee, stock options and/or warrants.

Note: Please see the Firm's Annual Compliance Questionnaire/Outside Business Activity ("OBA") Report and Request for Approval to Engage in Outside Business Activity Form for further details. ►►

Implementation Strategy

The designated principal will distribute, collect and review Annual Compliance Questionnaires (relating to outside business activities disclosures) and/or Outside Business Activity Reports from each registered person upon employment and on an annual basis, as well as review additional requests of outside business activities. All reviewed reports and questionnaires and additional requests will be initialed as evidence of review. All copies of such statements shall be maintained at the main office for accessibility and filing purposes. Upon receipt of a written notice, the Firm will consider whether the proposed activity will: (1) interfere with or otherwise compromise the registered person's responsibilities to the Firm and/or the Firm's customers or (2) be viewed by customers or the public as part of the Firm's business based upon, among other factors, the nature of the proposed activity and the manner in which it will be offered. Additionally, based on the Firm's review of such factors, the Firm will evaluate the advisability of imposing specific conditions or limitations on a registered person's outside business activity, including where circumstances warrant, prohibiting the activity. The Firm will also evaluate the proposed activity to determine whether the activity properly is characterized as an outside business activity or whether it should be treated as an outside securities activity subject to the requirements of FINRA Rule 3280 (formerly NASD Rule 3040). The Firm will keep a record of its compliance with these obligations with respect to each written notice received in accordance with books and records requirements. In the event that the designated Supervisor does not approve a disclosed outside business activity, the designated supervisor will notify the associated person not to engage in such activities or immediately discontinue such non-approved outside activities or face disciplinary action up to termination.

2.02 Private Securities Transactions

All registered representatives and associated persons of the Firm are strictly prohibited from conducting private securities transactions except in accordance with FINRA Rule 3280 (formerly Rule 3040) *Private Securities Transaction of an Associate Person*.

Key Definitions

The definition of a "private securities transaction" shall mean any securities transaction outside the regular course or scope of an associated person's employment with the Firm, including, though not limited to, new offerings of securities which are not registered with SEC, provided however that transactions subject to the notification requirements of FINRA Rule 3210 (formerly NASD *Rule 3050)*, transactions among immediate family members for which no associated

person receives any selling compensation, and personal transactions in investment company and variable annuity securities, shall be excluded.

The definition of a "selling compensation" shall mean any compensation paid directly or indirectly from whatever source in connection with or as a result of the purchase or sale of a security which may include the following:

- Commissions;
- Finder's fees;
- Securities or rights to acquire securities;
- Expense reimbursements;
- Rights of participation in profits, tax benefits, or dissolution proceeds, as a general partner or otherwise

Written Notification Requirements

Prior to participating in any private securities transaction, an associated person shall provide written notice to the Firm describing in detail the proposed transaction and the person's proposed role therein and stating whether he or she may receive selling compensation in connection with the transaction.

Written Notification of Response

Upon receipt of a written notification by an associated person that involves private securities transactions, the Firm will issue a written response clearly stating its position on the proposed transaction. All records of correspondence shall be placed in the respective employee file and/or private securities transaction file for the purpose of documenting and tracking such transactions.

Non-compensated Transactions

Upon receipt of a notification involving private securities transactions in which an associated person has not and will not receive any selling compensation, the Firm will issue a prompt written response acknowledging such notification, and may also place certain requirements and restrictions on such persons in connection with the participation in the transaction. ►►

Note: Please see the Firm's Annual Compliance Questionnaire for further details.

Implementation Strategy

The designated principal will collect and review all Annual Compliance Questionnaires (relating to private securities transactions) from each registered person on an as needed or at least an annual basis. Additionally, the designated principal will review all employee investment account statements, trade confirmations, and subscription documentation associated with private securities transactions as well as other requests for approval of private securities transactions. All reviewed Annual Compliance Questionnaires will be initialed and dated as evidence of review and maintained in each respective employee file/private securities transaction file for accessibility and filing purposes.

2.03 Outside Accounts

An outside account may be defined as any account involving the possession and/or control of general securities or commodities maintained at another firm or other financial institution to include foreign or domestic broker/dealers. Outside accounts may include accounts directly relating to associated persons and immediate relatives of associated persons.

General Requirements

The Firm requires that all registered personnel (and their immediate family) maintain copies of their personal outside brokerage account statements at the Firm. Upon employment with the Firm, each associated person is required to notify the Firm of any existing outside accounts.

Accounts of Associated Persons

Accounts of associated persons may include any account that an associated person maintains a personal or financial interest. The associated person will typically have possession and/or control over the account to include the ability to effect transactions within the account.

Accounts of Non-Associated Persons (Relatives)

Accounts of non-associated persons may include any account relating to a relative or other immediate family member residing with an associated person, or such person who may be directly or indirectly supported by an associate person.

Review of Outside Account Activity (Transactions)

Upon receipt of notification and subsequent approval of outside account activity, the designated supervisor will be responsible for monitoring activity within the account. The monitoring of such accounts will be conducted by receiving and reviewing a sampling of account statements that are sent to the Firm as required and requested. However, some firms may not issue monthly account statements for those periods for which there was no activity.

Note: Please see the Firm's Annual Compliance Questionnaire for further details.

Sharing in Accounts

All associated persons are prohibited from sharing in the profits and/or losses of a transaction relating to a customer's account. Exceptions to this policy may occur if an associated person is an owner of the account and the associated person shares in the profits and/or losses commensurate with the monetary contribution; or if an associated person acts as an investment adviser to receive compensation based on a share in the profits or gains in a customer's account and the conditions specified in Rule 205-3 under the Investment Advisers Act of 1940 are satisfied. When sharing in a customer's account under the provisions of FINRA Rule 2150 (formerly NASD Rule 2330) associated persons must obtain the prior written authorization of the Firm, and the Firm and their associated persons must obtain the prior written authorization of the customer.

Note: The Firm does not currently allow sharing in RIA accounts.

2.04 Prohibited Sales Activities

Introduction

The Firm has established policies and procedures for sales practices that are considered prohibited when conducting a securities business. The following information details some of the Firm's listed prohibited sales activities including, but not limited to, misrepresentation, conversion, unauthorized trading, churning, switching, adjusted trading, and parking.

Misrepresentations/Material Omissions

Misrepresentations/Material Omissions take place when a member firm or registered representative provides a customer with misleading, incomplete, inaccurate, baseless, and/or false statements or information. All registered representatives employed with the Firm are strictly prohibited from distributing any inaccurate and/or misleading information that may be used in the solicitation of a securities transaction.

The following is a summary of some of the main elements of misrepresentation/material omissions:

- False, misleading or inaccurate representations were made to the customer;
- The firm had knowledge or should have had knowledge that false, misleading, or inaccurate representations were made to a customer;
- Oral or written material misrepresentations and/or omissions were made in recommending securities transactions; and
- High-pressure sales techniques using material misrepresentations or omissions. ►►

Implementation Strategy

On a periodic basis, the designated principal will review sales literature and advertising materials, and samples of general correspondence in an effort to ensure that all securities products and services are properly represented. All relevant documentation will be initialed and dated as evidence of review. In the event that some form of misrepresentation and/or material omission is discovered, the Firm's designated principal will be immediately notified of any/all findings.

Conversion, Misappropriation and Misuse

Conversion and misappropriation is the intent by a firm or an associated person to deprive the proper owner of the use of their funds and/or securities. The following information details some of the differences among the three violations of conversion and misappropriation and misuse:

- The term "conversion" refers to actual theft of the funds or securities where a firm or associated person of a firm converts the property for his/her own use or retains possession of the property. Conversion is often used synonymously with embezzlement in a business context;

- The term "misappropriation" is the intentional, illegal or fraudulent treatment of the property or funds of customer for a firm's own use or other unauthorized purpose; and

- The term "misuse" is the misapplication or improper use of customer funds or borrowing of customer funds or securities. ►►

Implementation Strategy

On an as needed basis, the designated principal shall review all relevant documentation such as checks received and forwarded blotter, exception reports, trade blotters, and commission statements, in an attempt to identify any sales practice violations or other potential violations of securities rules and regulations. All relevant documentation will be initialed and dated as evidence of review.

Forgery and Falsification of Customer Records

The following information describes the various violations related to forgery and falsification of customer records:

- The term “forgery” refers to the crime of falsely making or altering a writing by which the legal rights or obligations of another person are apparently affected; simulated signing of another person's name to any such writing whether or not it is also the forger's name;

- The term “falsification of records” refers to making false statements, represent falsely or to alter or make customer records or any documentation relating to customer records false or incorrect, esp. so as to deceive; and

- Although generally not approved, signing on behalf of others as an accommodation *may* be considered under certain circumstances to be determined and approved on a case-by-case basis by the Firm. ►►

Implementation Strategy

No registered or associated person of the Firm is permitted to forge a customer’s signature, falsify or otherwise alter customer records. Additionally, no registered or associated person will be permitted to sign on behalf of others as an accommodation unless specifically authorized to do so by an approved legal power of attorney or other legal and/or formal authorized documentation. On an as needed basis, the designated principal shall review all relevant documentation such as customer new accounts forms, letters of authorizations, and other supporting customer account documentation and statements in an attempt to identify any violations suspected or actual forgery or falsification of customer records. All relevant documentation reviewed by the designated principal in the course of an investigation or inquiry will be initialed and dated as evidence of review.

Excessive Trading

Excessive Trading occurs when any registered representative actively trades securities in an account in order to increase the receipt of trading commissions rather than customer profits. The following is a summary of some of the main elements of Excessive Trading:

- The broker exercised control over the trading account;
- Excessive trading took place in the customer’s account in regards to their objectives; and
- The broker acted with the intent to defraud or with willful and reckless disregard for the interests of their clients. This is commonly known as scienter.

The determination of excessive trading is based on the level of trading activity in the account. All trades must be consistent with the financial circumstances and investment objectives of the customer. A registered representative must be aware of the customer’s financial situation and trading objectives and have reason to believe that all purchases, solicited and unsolicited, are suitable to the customer’s needs. ►►

Implementation Strategy

On an as needed, or at least monthly basis, the designated principal will review all relevant documentation such as exception reports, trade blotters and commission statements in an effort to detect the presence of churning or excessive trading. All relevant documentation will be initialed as evidence of review.

Unauthorized Trading

Unauthorized trading occurs when a firm's registered representative effects transaction(s) for a customer's account without the prior consent of the customer. With the exception of certain types of discretionary accounts, an associated person does not have the authority to enter trades in a customer account without specific written authorization. Some of the signs of unauthorized trading activity may include a high frequency of transactions, high commission payouts to registered representatives, excessive cancels and rebills, or other similar activity which may appear unusual or suspicious in nature. ►►

Implementation Strategy

On an as needed, or at least monthly basis, the designated principal will review all relevant documentation such as error statements, exception reports, trade blotters, and commission reports in an effort to discover the presence of any potential or actual unauthorized trading. All relevant documentation will be initialed as evidence of review.

Switching

Mutual Fund switching can be defined as the transfer of assets from one mutual fund to another between different fund families. The Firm is responsible for ensuring that designated principals are properly monitoring for switching. All mutual fund switches must be reviewed by a designated supervisor and acknowledged in writing by the customer in the form of an approved *Letter of Acknowledgement Regarding Change in Investment Portfolio Form (LOA)* to be maintained at the Firm's location. ►►

Implementation Strategy

The designated principal will review all relevant documentation such as new account forms, exception reports and LOA's in an effort to detect the presence of any unauthorized or unsuitable switching in customer accounts. Additionally, every switch shall have a corresponding *Letter of Acknowledgement Regarding Change in Investment Portfolio Form (LOA)* that is signed by the customer. All relevant documentation shall be signed as evidence of review and compliance.

Note: Please see the Letter of Acknowledgement Regarding Change in Investment Portfolio form for further details.

Insider Trading

According to the *Insider Trading and Securities Fraud Enforcement Act of 1988* (ITSFEA), every firm is required to establish, maintain, and enforce supervisory procedures that are reasonably designed to prevent the misuse of non-public information. All registered representatives are strictly prohibited from trading on any information that could be construed as material, non-public (insider) information as well as disclosing such information to others. Such trading activity may not occur in any account that is controlled directly or indirectly by the registered person.

Confidential Information and "Chinese Wall" Procedures

All customers of the Firm have a reasonable expectation and belief that all information provided by them or related to the business they conduct with the Firm will be maintained in absolute confidence.

The Firm's designated principal(s) will ensure that all associated persons understand the Firm's policies and procedures regarding the following areas:

- Insider trading policies and procedures;
- Training records for such training, including attendance roster and training materials;
- "Need to Know" policies to ensure information is shared only with authorized personnel;
- "Chinese Wall" policies and procedures; and
- Security and restricted access of sensitive files.

It is the Firm's policy that if any associated person believes that he/she or someone else may have obtained or disclosed inside or proprietary information in a manner not permitted by the Firm, the associated person should immediately contact the designated supervisor and refrain from using or further disclosing such information. ►►

Note: Please see the Firm's Annual Compliance Questionnaire for further details.

Implementation Strategy

In protecting the Firm's confidential or other proprietary documentation, the designated principal shall ensure that every registered representative signs an Annual Compliance Questionnaire upon employment with the Firm, and each year thereafter. Each signed form will be initialed and dated as evidence of receipt and review. All signed forms shall be maintained at the main office for review and retention purposes.

Parking Securities

The "parking" of securities is the manipulative practice used by firms in an attempt to conceal ownership of securities. Some of the main purposes of parking is to avoid certain requirement of the net capital rule (*SEC Rule 15c3-1*) or to conceal market manipulation practices. The Firm will maintain adequate procedures to monitor the opening of new customer accounts and the supervision and compliance review of large dollar transactions and high volume accounts in order to detect such potential activity. Additionally, special attention should be given to trading activity at or near the end of an accounting period for possible signs of parking securities. ►►

Implementation Strategy

On an as needed basis, the designated principal shall review exception reports, error statements, and employee account statements to ensure that the Firm's registered representatives are not engaged in activities such as parking securities in Firm held accounts, or participating in such activities with other outside entities. The designated supervisor will initial all batched documentation as evidence of review.

Adjusted Trading

Adjusted trading is the manipulative practice of executing transactions between parties with the intent to hide losses on securities positions. Adjusted trading transactions are normally between a broker/dealer firm and a customer, financial institution, publicly traded company or another broker/dealer firm. The transaction is usually initiated by the party who owns a security that has suffered a loss. Broker/dealers will then purchase the security for a price that is higher than the

current market value in order to hide the loss. In return, the entity that sold the security will simultaneously purchase another security at a price that is higher than the current market value. Therefore, the broker/dealer does not incur any loss and the selling party can hide the losses on its security position.

During a review of the Firm's trading blotters, order tickets and exception reports, the Firm's designated principal(s) should investigate large transactions or any series of smaller transactions in the same security whose sum would equal a large transaction at or near a calendar or fiscal period end. If there is a subsequent purchase of another security with a like dollar amount, then the designated principal should ensure that both transactions were executed at the market price. The Firm's designated principals should also review the same type of activity for transactions with publicly traded companies and other broker/dealer firms. ►►

Implementation Strategy

On an as needed basis, the designated principal shall review all relevant documentation such as the firm's trading blotters and error statements and approve all adjusted trades to ensure that there are no potential violations of securities rules or regulations. Additionally, the designated supervisor shall also ensure that the customer receives the best price available and or price correction as needed. All appropriate documentation will be documented as evidence of review.

Sharing Commissions/Fees with Non-Registered Persons

All associated persons employed with the Firm are strictly prohibited from sharing any commissions or fees with non-registered persons.

Trading Ahead of Customer Orders

In accordance with FINRA Rule 5320, with certain exceptions (see Supplemental Material), a member that accepts and holds an order in an equity security from its own customer or a customer of another broker-dealer without immediately executing the order is prohibited from trading that security on the same side of the market for its own account at a price that would satisfy the customer order, unless it immediately thereafter executes the customer order up to the size and at the same or better price at which it traded for its own account.

A member must have a written methodology in place governing the execution and priority of all pending orders that is consistent with the requirements of this Rule and Rule 5310. A member also must ensure that this methodology is consistently applied. (Ref. Notice 11-24)

NOTE: The Firm does not currently trade equity securities in its own account.

Front Running

The term "front running" refers to any situation that occurs when a securities or commodities broker/dealer who has private information about the direction of movement of an asset takes a private position in a security in order to take advantage of a large upcoming transaction of which the broker/dealer or associated person is aware.

It shall be considered a violation of just and equitable principles of trade for the Firm or any of its associated persons to conduct the following actions for any customer account, account in which it maintains an interest, or exercises investment discretion:

- to effect an order to buy or sell an option when the Firm or any of its associated persons causing such order to be executed has material, non-public market

information concerning an imminent block transaction in the underlying security, or when a customer has been provided such material non-public market information by the member or any person associated with a member; or

- to effect an order to buy or sell an underlying security when the Firm or any of its associated persons causing such order to be executed has material, non-public market information concerning an imminent block transaction in an option overlying that security, or when a customer has been provided such material, non-public market information by the Firm or any of its associated persons; prior to the time information concerning the block transaction has been made publicly available

  The violative practice noted above may include transactions which are executed based upon knowledge of less than all of the terms of the block transaction, so long as there is knowledge that all of the material terms of the transaction have been or will be agreed upon imminently.

Exemptions

These general prohibitions shall not apply to transactions executed by broker/dealers participating in automatic execution systems in those instances where participants must accept automatic executions. These prohibitions also do not include situations in which a broker/dealer or associated person receives a customer's order of block size relating to both an option and the underlying security. In such cases, the broker/dealer and associated persons may position the other side of one or both components of the order. However, in these instances, the broker/dealer and associated persons would not be able to cover any resulting proprietary position(s) by entering an offsetting order until information concerning the block transaction involved has been made publicly available.

Limitations

The application of this front running policy is limited to transactions that are required to be reported on the last sale reporting systems administered by Nasdaq, Consolidated Tape Association (CTA), or Option Price Reporting Authority (OPRA).

Implementation Strategy

Registered representatives are required to annually certify their compliance with the regulations prohibiting front-running. Also, refer to the Firm's implementation strategy under Section 2.03, Outside Accounts, for a detailed outline of the Firm's compliance procedures in this area.

Note: Please see the Firm's Annual Compliance Questionnaire for further details.

Front Running of Block Transactions

No member or person associated with a member shall cause to be executed an order to buy or sell a security or a related financial instrument when such member or person associated with a member causing such order to be executed has material, non-public market information concerning an imminent block transaction in that security, a related financial instrument or a security underlying the related financial instrument prior to the time information concerning the block transaction has been made publicly available or has otherwise become stale or obsolete. This Rule applies to orders caused to be executed for any account in which such member or person associated with the member has an interest, any account with respect to which such member or person associated with a member exercises investment discretion, or for accounts of customers or affiliates of the member when the customer or affiliate has been provided such

material, non-public market information by the member or any person associated with the member.

> Note: For purposes of this Rule, the term "related financial instrument" shall mean any option, derivative, security-based swap, or other financial instrument overlying a security, the value of which is materially related to, or otherwise acts as a substitute for, such security, as well as any contract that is the functional economic equivalent of a position in such security (Ref. Notice 12-52)

Restrictions on the Purchase and Sale of Initial Equity Public Offerings FINRA Rule 5130 (formerly NASD Rule 2790)

A member or a person associated with a member 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.

A member or a person associated with a member may not purchase a new issue in any account in which such member or person associated with a member has a beneficial interest, except as otherwise permitted herein.

A member may not continue to hold new issues acquired by the member 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).

Preconditions for Sale

Before selling a new issue to any account, a member must in good faith have obtained within the twelve months prior to such sale, a representation from: (1) 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 (2) 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.

A member may not rely upon any representation that it believes, or has reason to believe, is inaccurate. A member 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 member's last sale of a new issue to that account. ►►

Implementation Strategy

Before selling a new issue to any account, the designated supervisor must ensure that the Firm meets certain “preconditions for sale,” which generally require the Firm to obtain a representation from the beneficial owner of the account that the account is eligible to purchase new issues in accordance with the Rule. Therefore, the Firm will 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 FINRA Rule 5130. Additionally, the Firm may not rely upon any representation that it believes, or has reason to believe, is inaccurate.

Note: The Firm rarely, if ever, sells new issues.

Guarantees against Loss of Investment

All associated persons of the Firm are prohibited from making any guarantees against the monetary loss of an investment product.

High Pressure Sales Tactics

All associated persons of the Firm are strictly prohibited from using high-pressure sales tactics in the solicitation of a securities transaction. High-pressure sales tactics include, but are not limited to, excessive phone calls and falsely implying sense of urgency or demand for a security.

Borrowing from or Lending to Customers

In accordance with FINRA Rule 3240 (formerly NASD Rule 2370), no person associated with the Firm in any registered capacity may borrow money from or lend money to a customer unless the Firm has written procedures allowing such lending arrangements; the loan falls within one of five prescribed permissible types of lending arrangements as described below; and the member pre-approves the loan in writing:

- The customer is a member of the registered person's immediate family;
- The customer is in the business of lending money;
- The customer and registered person are both registered persons of the same firm;
- The lending arrangement is based on a personal relationship outside of the broker-customer relationship; or;
- The lending arrangement is based on a business relationship outside of the broker-customer relationship.

With the exception of lending arrangements described in (1) and (2) above, Rule 3240 requires that registered persons notify the member firm and the member firm pre-approve in writing the lending arrangements. (Regulatory Notice 19-27; Effective Date: Aug. 9, 2019)

Since FINRA Rule 3240 (formerly NASD Rule 2370), became effective on November 10, 2003, it became apparent that the pre-approval requirement with respect to lending arrangements between registered persons and financial institutions raised recordkeeping and privacy issues. Thus, with respect to lending arrangements with financial institutions regularly engaged in the business of providing credit, financing, or loans, or other entity or person that regularly arranges or extends credit in the ordinary course of business, FINRA Rule 3240 has been amended to provide that a member's written procedures may indicate that registered persons are permitted to enter into such lending arrangements and are not required to notify the member or receive member approval either prior to or subsequent to entering into such lending arrangements, provided that the lending arrangement has been made on commercial terms that the customer generally makes available to members of the general public similarly situated as to need, purpose, and creditworthiness. Such transactions include, but are not limited to, mortgages, personal loans, home equity lines of credit, and credit card accounts, and also include lending arrangements with an affiliate of the customer. (NTM 04-14; Effective Feb. 18, 2004)

Gift and Gratuities

In accordance with FINRA Rule 3220 (formerly NASD Rule 3060), no member or person associated with a member shall, directly or indirectly, give or permit to be given anything of value, including gratuities, in excess of one hundred dollars ($100) per individual per year to any person, principal, proprietor, employee, agent or representative of another person where such payment or gratuity is in relation to the business of the employer of the recipient of the payment or gratuity. A gift of any kind is considered a gratuity.

> This Rule shall not apply to contracts of employment with or to compensation for services rendered by persons enumerated in paragraph (a) provided that there is in existence prior to the time of employment or before the services are rendered, a written agreement between the member and the person who is to be employed to perform such services. Such agreement shall include the nature of the proposed employment, the amount of the proposed compensation, and the written consent of such person's employer or principal.
>
> A separate record of all payments or gratuities in any amount known to the member, the employment agreement and any employment compensation paid as a result thereof shall be retained by the member for the period specified by SEA Rule 17a-4.

Gifts and Business Entertainment (NTM 06-06)

FINRA Rule 3220 prohibits any member or person associated with a member, directly or indirectly, from giving anything of value in excess of $100 per year to any person where such payment is in relation to the business of the recipient's employer. The rule protects against improprieties that may arise when members or their associated persons give gifts or gratuities to employees of a customer.

In accordance with NTM 06-06, a "customer" is a "person that maintains or whose employee receives business entertainment for the purpose of having such person prospectively maintain, an account with a member or is otherwise a customer of the member for the purpose of investment banking or securities business, and has an employee, agent or representative act on behalf of the account in some capacity in respect of such account or customer relationship with the member." This definition recognizes the proposed distinction between business entertainment provided directly to natural person customers (which is not covered by FINRA Rule 3220) and business entertainment provided to employees, agents or representatives of a customer (which is covered by FINRA Rule 3220).

The NTM also defines the term "business entertainment" as entertainment "in the form of any social event, hospitality event, charitable event, sporting event, entertainment event, meal, leisure activity or event of like nature or purpose, as well as any transportation and/or lodging accompanying or related to such activity or event, including such business entertainment offered in connection with an educational event or business conference, in which a person associated with a member accompanies and participates with such employee irrespective of whether any business is conducted during, or is considered attendant to, such event."

Note: This definition codifies FINRA's longstanding position that a member must accompany or participate in an event for it to be deemed business entertainment. Thus, for example, if a member gives tickets to a sporting event but does not accompany the recipient to the event, the tickets are deemed to be a gift rather than business entertainment. In addition, the definition of "business entertainment" expressly includes transportation and lodging expenses provided by a member

The overriding principle of the NTM 06-06 is that a member or its associated persons should not do or give anything of value to an employee of a customer that is intended or designed to cause,

or otherwise would be reasonably judged to have the likely effect of causing, such employee to act in a manner that is inconsistent with the best interests of the customer.

NTM 06-06 requires each member to establish written policies and procedures that:

- determine and define forms of business entertainment that are appropriate and inappropriate, including the appropriate venues, nature, frequency, types and class of accommodation and transportation in connection with business entertainment, and either the dollar amounts of business entertainment or specified dollar thresholds requiring advance written supervisory approval;

- are designed to promote conduct of the member and its associated persons that is consistent with their obligations under FINRA Rule 2010 and does not undermine the performance of an employee's duty to a customer;

- are designed to effectively supervise compliance with a member's written compliance policies and procedures concerning business entertainment;

- maintain detailed records of the nature and expense of business entertainment and make such information available upon written request to a customer in respect of its employees;

- establish standards to ensure that persons designated to supervise, approve and document business entertainment expenses are sufficiently qualified and that periodic monitoring for compliance with the written policies and procedures is conducted (by an independent reviewer, when practicable); and

- require appropriate training and education to all applicable personnel concerning the firm's business entertainment policies and procedures. (Ref. NTM 06-06; Comment Period Expires February 23, 2006)

Specific Considerations

- **Personal Gifts/Exclusions-** The prohibitions in FINRA Rule 3220 generally do not apply to personal gifts such as a wedding gift or a congratulatory gift for the birth of a child, provided that these gifts are not "in relation to the business of the employer of the recipient." In determining whether a gift is "in relation to the business of the employer of the recipient," members should consider a number of factors, including the nature of any pre-existing personal or family relationship between the person giving the gift and the recipient, and whether the registered representative paid for the gift. When a firm bears the cost of a gift, either directly or by reimbursing an employee, FINRA presumes that such gift is in relation to the business of the employer of the recipient. The analysis of whether a gift is "in relation to the business of the employer" is required in connection with all gifts; firms should not treat gifts given during the holiday season or for other life events as personal in nature.

- ***De minimis* and Promotional Items-** FINRA Rule 3220 also does not apply to gifts of *de minimis* value (*e.g.*, pens, notepads or modest desk ornaments) or to promotional items of nominal value that display the firm's logo (*e.g.*, umbrellas, tote bags or shirts). In order for a promotional item to fall within this exclusion, its value must be substantially below the $100 limit. FINRA also generally does not apply the prohibition in FINRA Rule 3220 to customary Lucite tombstones, plaques or other similar solely decorative items commemorating a business transaction, even when such items have a cost of more than $100. FINRA does not believe such gifts are items of value within the scope of FINRA Rule 3220. The restrictions of FINRA Rule 3220 would apply, however, where the item is not solely decorative, irrespective of whether the item was intended to commemorate a business transaction.

- **Aggregation of Gifts-** FINRA Rule 3220 imposes a gift limit of $100 per individual recipient per year. To ensure compliance with this $100 limit, firms must aggregate all gifts given by the member and each associated person of the member to a particular recipient over the course of a year. In addition, each firm must state in its procedures whether it is aggregating all gifts given by the firm and its associated persons on a calendar year, fiscal year, or on a rolling basis beginning with the first gift to any particular recipient.

- **Valuation of Gifts-** In general, gifts should be valued at the higher of cost or market value, exclusive of tax and delivery charges. If gifts are given to multiple recipients, members should record the names of each recipient and calculate and record the value of the gift on a pro rata per recipient basis, for purposes of ensuring compliance with the $100 limit. A gift basket worth $250 delivered to an office of three individuals for the benefit of each individual would be permissible under the Rule.

- **Gifts Incidental to Business Entertainment-** There is no express exclusion from FINRA Rule 3220 for gifts given during the course of business entertainment and conferences. Thus, for example, purchasing an umbrella during a round of golf would be considered a gift. Firms must record these gifts, and include the value of such gifts, as part of their FINRA Rule 3220 compliance procedures.

Restricted, Gray, or other Watch Lists

The Firm will maintain as necessary a list of individuals who are restricted from placing orders or effecting transactions in securities of certain firms. Individuals who have material non-public information will be placed on such lists. A designated supervisor will be responsible for monitoring the list and accounts of individuals on the list on a *weekly* basis to ensure compliance with all applicable rules and regulations. To evidence the review the designated supervisor will keep a ledger detailing:

- All persons on such list;
- Any reviewed documentation;
- Time of review;
- Date of review; and
- Name and signature of person conducting the review.

Amended Non-Cash Compensation in Response to Reg BI

FINRA Rules 2310 (Direct Participation Programs), 2320 (Variable Contracts of an Insurance Company), 2341 (Investment Company Securities), and 5110 (Corporate Financing Rule – Underwriting Terms and Arrangements) each includes provisions restricting the payment and receipt of non-cash compensation in connection with the sale and distribution of securities governed by those rules.

Reg BI's Conflict of Interest Obligation requires broker-dealers to establish, maintain, and enforce written policies and procedures reasonably designed to identify and eliminate any sales contests, sales quotas, bonuses, and non-cash compensation that are based on the sales of specific securities or specific types of securities within a limited time period. To avoid any potential inconsistency between the FINRA non-cash compensation rules and Reg BI's limitations in this area, FINRA has amended its rules to ensure that the arrangements addressed must also be consistent with the applicable requirements of Reg BI.

As a general matter, these rules limit non-cash compensation arrangements to: (1) gifts that do not exceed $100 in value and that are not preconditioned on the achievement of a sales target; (2) an occasional meal, a ticket to a sporting event or the theater, or other comparable entertainment that does not raise any question of propriety and is not preconditioned on the achievement of a sales target; (3) payment or receipt by "offerors" (generally product sponsors and their affiliates) in connection with training or education meetings, subject to specified conditions, including that the payment of such

compensation is not conditioned on achieving a sales target; and (4) internal non-cash compensation arrangements between a member and its associated persons, subject to specified conditions. If the internal noncash compensation arrangement is in the form of a contest in connection with the sale and distribution of variable insurance contracts or investment company securities, the contest must be based on the total production of associated persons with respect to all securities within those product categories, and credit for those sales must be equally weighted. See FINRA Rules 2320(g)(4)(D) and 2341(l)(5)(D). Rules 2310(c)(2)(D) and 5110(h)(2)(D) do not require internal non-cash compensation arrangements in connection with the sale and distribution of direct participation programs or public offerings of securities to be based on total production and equal weighting of securities sales. (Ref. Regulatory Notice 20-18; June 19, 2020)

2.05 Regulation Best Interest (Reg. BI)

On June 5, 2019, the SEC adopted Regulation Best Interest ("Reg BI"), which establishes a new standard of conduct under the Securities Exchange Act of 1934 for broker-dealers and natural persons who are associated persons of a broker-dealer when making a recommendation of any securities transaction or investment strategy involving securities (including account recommendations) to a retail customer. Firms must comply with Reg BI and Form CRS by June 30, 2020.

When making such a recommendation to a retail customer, broker-dealers must act in the best interest of the retail customer at the time the recommendation is made, without placing your financial or other interest ahead of the retail customer's interests.

Covered Recommendations

Regulation Best Interest applies to recommendations of any securities transaction or investment strategy involving securities (including account recommendations).

- ***What is a recommendation?*** The determination of whether a broker-dealer has made a recommendation that triggers application of Regulation Best Interest turns on the facts and circumstances of a particular situation, and therefore, whether a recommendation has been made is not susceptible to a bright line definition. Factors considered in determining whether a recommendation has taken place include whether the communication "reasonably could be viewed as a 'call to action'" and "reasonably would influence an investor to trade a particular security or group of securities." The more individually tailored the communication to a specific customer or targeted group of customers about a security or group of securities, the greater the likelihood that the communication may be viewed as a "recommendation."

  Regulation Best Interest does not apply to investment advice provided to a retail customer by a dual-registrant when acting in the capacity of an investment adviser, even if the retail customer has a brokerage relationship with the dual-registrant or the dual-registrant executes the transaction in a brokerage capacity.

- ***Account recommendations*** include recommendations of securities account types generally (e.g., to open an IRA or other brokerage account), as well as recommendations to roll over or transfer assets from one type of account to another (e.g., a workplace retirement plan account to an IRA). As discussed more below, special considerations exist where the financial professional making the recommendation is dually-registered.

- ***Any securities transaction or investment strategy involving securities*** **includes:**

  - explicit hold recommendations; and

- implicit hold recommendations that are the result of agreed-upon account monitoring between the broker-dealer and retail customer.

Account type recommendations under Dual Registrant Status

Dually registered financial professionals: If a financial professional is dually registered (i.e., an associated person of a broker-dealer and a supervised person of an investment adviser (regardless of whether such financial professional works for a dual-registrant, affiliated firm, or unaffiliated firm)) making an account recommendation to a retail customer, whether Regulation Best Interest or the Advisers Act applies will depend on the capacity in which such financial professional is acting when making the recommendation. If the financial professional is acting as a broker-dealer or associated person thereof, such financial professional must comply with Regulation Best Interest and will need to take into consideration all types of accounts that you offer (i.e., both brokerage and advisory accounts) when making the recommendation of an account that is in the retail customer's best interest.

Individuals registered only as broker-dealers or associated persons: If a financial professional is only registered as an associated person of a broker-dealer (regardless of whether that broker-dealer entity is a dual-registrant or affiliated with an investment adviser), Regulation Best Interest will apply to that account recommendation, but such financial professional will need to take into consideration only the brokerage accounts available. The financial professional can only recommend a brokerage account that the broker-dealer offers if such financial professional has a reasonable basis to believe that the recommended brokerage account is in the best interest of the retail customer, and the broker-dealer otherwise complies with Regulation Best Interest.

Special considerations for agreed-upon account monitoring

Firms may agree with a retail customer to take on additional obligations beyond those imposed by Regulation Best Interest. For example, a firm may agree with a retail customer to provide monitoring of a retail customer's investments on a periodic basis for purposes of recommending changes in investments.

When a firm agrees with a retail customer to monitor that customer's account: (1) the firm is required to disclose the terms of such account monitoring services (including the scope and frequency of such services) pursuant to the Disclosure Obligation; and (2) such agreed-upon monitoring involves an implicit recommendation to hold (i.e., recommendation not to buy, sell, or exchange assets pursuant to that securities account review) at the time the agreed-upon monitoring occurs.

Scope of monitoring: Regulation Best Interest does not impose a duty to monitor a retail customer's account. In addition, it does not change the scope of account monitoring that a firm may agree to provide.

Regulation Best Interest also does not change the scope of activities that would come within the "solely incidental" prong of the broker-dealer exclusion to the definition of "investment adviser" in the Advisers Act. A firm may choose to adopt policies and procedures that, if followed, would help demonstrate that any agreed-upon monitoring is in connection with and reasonably related to your primary business of effecting securities transactions.

Agreed-upon monitoring: If a firm agrees with a retail customer to perform account monitoring services, it is taking on an obligation to review and make recommendations with respect to that account (e.g., to buy, sell or hold) on the specified, periodic basis that it has agreed to with the retail customer. For example, if a firm agrees to monitor a retail customer's account on a quarterly basis, the quarterly review and each resulting recommendation to purchase, sell, or hold will be a recommendation subject to Regulation Best Interest.

Implicit hold recommendations: If a firm has agreed to perform account monitoring services, then Regulation Best Interest applies even where the firm remains silent (i.e., an implicit hold recommendation).

Voluntary account review: A firm may voluntarily, and without any agreement with a customer, review the holdings in the retail customer's account for the purposes of determining whether to provide a recommendation to the customer. This voluntary review is not considered to be "account monitoring," nor would it in itself create an implied agreement with the retail customer to monitor the customer's account.

Any explicit recommendation made to a retail customer as a result of any such voluntary review would be subject to Regulation Best Interest

Definition of a Retail Customer

A "retail customer" is a natural person, or the legal representative of such person, who:

- receives a recommendation of any securities transaction or investment strategy involving securities from a broker-dealer; and

- uses the recommendation primarily for personal, family, or household purposes.

Legal representative: A "legal representative" of such person includes the non-professional legal representatives of such a natural person, for example, a non-professional trustee that represents the assets of a natural person.

A retail customer "uses" a recommendation of a securities transaction or investment strategy involving securities when, as a result of the recommendation:

- the retail customer opens a brokerage account with the broker-dealer, regardless of whether the broker-dealer receives compensation;

- the retail customer has an existing account with the broker-dealer and receives a recommendation from the broker-dealer, regardless of whether the broker-dealer receives or will receive compensation, directly or indirectly, as a result of that recommendation; or

- the broker-dealer receives or will receive compensation, directly or indirectly as a result of that recommendation, even if that retail customer does not have an account at the broker-dealer.

***Personal, family, or household purposes*:** A retail customer who uses the recommendation primarily for "personal, family or household purposes" means *any* recommendation to a natural person for his or her account would be subject to Regulation Best Interest, other than recommendations to natural persons seeking these services for commercial or business purposes.

Implementation Strategy

When appropriate and in the best interest of the client, the Firm's financial professionals will make recommendations to retail customers in the normal course of business as broker-dealer representatives. However, neither Firm, nor its financial professionals engage in any agreed-upon monitoring of retail client accounts other than voluntary account reviews (for the purposes of determining whether to provide a recommendation to the customer) unless otherwise stated and disclosed.

General Obligation Requirements

This ***general obligation*** is satisfied only if firms comply with four (4) specified ***component obligations*:**

1. ***Disclosure Obligation*:** provide certain required disclosure before or at the time of the recommendation, about the recommendation and the relationship between firms and their retail customer;

   Firms must, prior to or at the time of the recommendation, provide the retail customer, in writing, full and fair disclosure of:

   - all material facts relating to the ***scope and terms of the relationship with the retail customer***; and

   - all material facts relating to ***conflicts of interest that are associated with the recommendation***.

   Material facts that must be disclosed relating to the scope and terms of the relationship with the retail customer

   - Material facts relating to the ***scope and terms of the relationship*** with the retail customer include:

     - that the broker, dealer, or such natural person is acting as a broker, dealer, or an associated person of a broker-dealer with respect to the recommendation;

     - ***material fees and costs*** that apply to the retail customer's ***transactions, holdings, and accounts***; and

     - the ***type and scope of the services*** to be provided to the retail customer, ***including any material limitations*** on the securities or investment strategies that may be recommended to the retail customer.

   - Other material facts relating to the ***type and scope of services*** provided to the retail customer, and that must be disclosed, include:

     - whether or not firms will ***monitor*** the retail customer's account and the ***scope and frequency*** of any account monitoring services that they agree to provide; and

     - whether firms have any ***requirements*** for retail customers to open or maintain an account or establish a relationship, such as a minimum account size.

   - Other material facts relating to the ***scope and terms of the relationship*** with the retail customer that must be disclosed include:

     - ***general basis*** for firm issued recommendations (i.e., what might commonly be described as a firm's investment approach, philosophy, or strategy); and

     - ***risks*** associated with firm issued recommendations in standardized terms.

   - Additionally, firms must consider, based on the facts and circumstances, whether there are other material facts relating to the scope and terms of the relationship with the retail customer that need to be disclosed.

Material facts must be disclosed relating to conflicts of interest associated with a recommendation

For purposes of Regulation Best Interest a *"**conflict of interest**"* is defined to mean "an interest that might incline a broker, dealer, or a natural person who is an associated person of a broker or dealer – consciously or unconsciously – to make a recommendation that is not disinterested."

- Such conflicts include, for example: conflicts associated with proprietary products, payments from third parties, and compensation arrangements.

- Broker-dealers must disclose all ***material facts*** relating to conflicts of interest associated with the recommendation.

For purposes of Regulation Best Interest, "material facts" is interpreted consistent with the standard articulated in *Basic v. Levinson*. Accordingly, information is material if there is a "substantial likelihood that a reasonable shareholder would consider it important." In the context of Regulation Best Interest, the standard is the retail customer, as defined in the rule.

Required "full and fair" disclosure

A firm's obligation to provide full and fair disclosure should give sufficient information to enable a retail investor to make an informed decision with regard to the recommendation

Required fees and costs that must be disclosed

The Disclosure Obligation requires disclosure of material fees and costs relating to a retail customer's transactions, holding, and accounts. This obligation would not require individualized disclosure for each retail customer. Rather, the use of standardized numerical or other non-individualized disclosure (e.g., reasonable dollar or percentage ranges) is permissible.

Fees and costs are material and must be disclosed if there is a "substantial likelihood that a reasonable shareholder would consider it important."

Firms should build upon the material fees and costs identified in the Form CRS (Relationship Summary), providing additional detail as appropriate.

Required disclosures that need to be in writing, before or at the time of the recommendation

Oral Disclosures: Although the disclosures necessary to satisfy the Disclosure Obligation must be in writing, in certain circumstances, firms may satisfy their Disclosure Obligation by making supplemental oral disclosure not later than the time of the recommendation, provided that firms maintain a record of the fact that oral disclosure was provided to the retail customer.

Disclosure After the Recommendation: In addition, in the limited instances where existing regulations permit disclosure after the recommendation is made (e.g., trade confirmation, prospectus delivery), firms may satisfy their Disclosure Obligation regarding the information contained in the applicable disclosure document by providing such document to the retail customer after the recommendation is made.

Initial written disclosure: Before supplementing, clarifying or updating written disclosures in the limited circumstances described above, firms must provide an initial disclosure in writing that identifies the material fact and describes the process through which such fact may be supplemented, clarified or updated. For example:

- **Product-level fees:** With regard to product-level fees, firms could make available a standardized disclosure of product-level fees generally (e.g., reasonable dollar or percentage ranges), noting that further specifics for particular products appear in the product prospectus, which will be delivered after a transaction.

- **Capacity**: Similarly, with regard to the disclosure of a broker-dealer's capacity, a dual-registrant could disclose that recommendations will be made in a broker-dealer capacity unless otherwise expressly stated at the time of the recommendation, and that any such statement will be made orally

- **Associated Person Conflicts of Interest**: firms could disclose that their associated persons may have conflicts of interest beyond than those disclosed by the firms, and that associated persons will disclose, where appropriate, any additional material conflicts of interest not later than the time of a recommendation, and that any such disclosure will be made orally.

Disclosure Obligation Requirements through Form CRS (Relationship Summary) or other disclosures

Although firms may use a Relationship Summary and other standardized disclosures about its products and services to help satisfy the Disclosure Obligation, these disclosures may not be sufficient to satisfy the Disclosure Obligation.

Whether the Relationship Summary standing alone, or any additional or existing disclosures, satisfy any of these required disclosures in full would depend on the facts and circumstances.

In most instances, firms will need to provide additional information beyond that contained in the Relationship Summary in order to satisfy the Disclosure Obligation.

Restricting the use of the term "advisor" or "adviser"

The SEC presumes that the use of the terms "adviser" and "advisor" in a name or title by (i) a broker-dealer that is not also registered as an investment adviser or (ii) an associated person that is not also a supervised person of an investment adviser to be a violation of the capacity disclosure requirement under Regulation Best Interest.

Implementation Strategy

To meet the Disclosure Obligation, prior to or at the time a recommendation is made, the Firm's financial professionals will provide to the retail customer full and fair disclosure, in writing, as to the scope and terms of the relationship such as his capacity as a broker-dealer representative (avoiding the use of the term "advisor" or "adviser"), the general basis for the recommendation and associated risks, fees and costs and any corresponding material limitations and conflicts of interest. The Firm's financial professionals will also disclose whether there are any agreed-upon ongoing monitoring services and any minimum account requirements. These disclosures will include issuing a copy of the Firm's Form CRS in additional to relevant product-specific disclosure materials before and after the transaction.

Note: The Firm's financial professionals generally do not monitor investments unless otherwise stated in writing.

2. ***Care Obligation*****:** exercise reasonable diligence, care, and skill in making the recommendation;

   Under the Care Obligation, firms must exercise **reasonable diligence, care, and skill** when making a recommendation to a retail customer to:

- understand potential risks, rewards, and costs associated with recommendation, and have a reasonable basis to believe that the recommendation could be in the best interest of at least some retail customers**;**

- have a reasonable basis to believe the recommendation is in the best interest of a particular retail customer based on that retail customer's investment profile and the potential risks, rewards, and costs associated with the recommendation and does not place the interest of the broker-dealer ahead of the interest of the retail customer; and

- have a reasonable basis to believe that a series of recommended transactions, even if in the retail customer's best interest when viewed in isolation, is not excessive and is in the retail customer's best interest when taken together in light of the retail customer's investment profile.

Whether firms have complied with the Care Obligation will be evaluated as of the time of the recommendation (and not in hindsight).

First component of the Care Obligation requirement

Firms must exercise reasonable diligence, care, and skill to understand the potential risks, rewards, and costs associated with the recommendation.

What would constitute reasonable diligence, care, and skill will vary depending on, among other things, the complexity of and risks associated with the recommended security or investment strategy and the broker-dealer's familiarity with the recommended security or investment strategy.

While every inquiry will be specific to the particular broker-dealer and the recommended security or investment strategy,firms generally should consider ***important factors*** such as:

- the security's or investment strategy's:
    - investment objectives;
    - characteristics (including any special or unusual features);
    - liquidity;
    - volatility; an
    - likely performance in a variety of market and economic conditions;
- the expected return of the security or investment strategy; and
- any financial incentives to recommend the security or investment strategy.

Together, this inquiry should allow firms to develop a sufficient understanding of the security or investment strategy and to be able to reasonably believe that it could be in the best interest of at least some retail customers.

Second component of the Care Obligation requirement

Firms must consider the risks, rewards, and costs in light of the retail customer's investment profile and have a reasonable basis to believe that the recommendation is in that particular customer's best interest and does not place the firm's interest ahead of the customer's interest.

The ***retail customer's investment profile*** is defined to include, but is not limited to the retail 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 retail customer may disclose to the broker in connection with a recommendation

Third component of the Care Obligation requirement

When recommending a series of transactions, firms must have a reasonable basis to believe that the transactions taken together are not excessive, even if each is in the customer's best interest when viewed in isolation. The requirement applies irrespective of whether firms exercise actual or *de facto* control over a customer's account.

What would constitute a "series" of recommended transactions would depend on the facts and circumstances and would need to be evaluated with respect to a particular retail customer.

Requirement for considering possible alternatives when making a recommendation

Firms should consider reasonably available alternatives, if any, offered by the firm in determining whether the firm has a reasonable basis for making the recommendation.

This exercise would require firms to conduct a review of such reasonably available alternatives that is reasonable under the circumstances, which will depend on the facts and circumstances at the time of the recommendation.

Specific factors to consider when making account type recommendations, or recommendations to open an IRA, or to roll over assets into an IRA

- With respect to ***account type recommendations***, firms should generally consider:
    - the services and products provided in the account;
    - the projected cost to the retail customer of the account;
    - alternative account types available;

- the services requested by the retail customer; and
- the retail customer's investment profile.

- When making ***recommendations to open an IRA, or to roll over assets into an IRA***, firms should consider a variety of factors including, but not limited to:
  - fees and expenses;
  - level of services available;
  - available investment options;
  - ability to take penalty-free withdrawals;
  - application of required minimum distributions;
  - protections from creditors and legal judgments;
  - holdings of employer stock; and
  - any special features of the existing account.

Special considerations when recommending securities or investment strategies that are complex or risky

When recommending securities or investment strategies that are complex, such as inverse or leveraged exchange-traded products, firms should take particular care to make sure its registered persons understand the terms, features, and risks – as with the potential risks, rewards, and costs of any security or investment strategy – in order to establish a reasonable basis to recommend the product to retail customers. Further, firms must weigh the potential risks, rewards, and costs of the particular product or investment strategy, in light of the particular retail customer's investment profile.

Thus, when recommending such products, firms should understand that inverse and leveraged exchange-traded products that are reset daily may not be in the best interest of retail customers who plan to hold them for longer than one trading session, particularly in volatile markets. Further, these products may not be in the best interest of a retail customer absent an identified, short-term, customer-specific trading objective.

Similarly, when recommending potentially-high risk products, such as penny stocks or other thinly-traded securities,firms should generally apply heightened scrutiny to whether such investments are in their retail customer's best interest.

No Requirement to recommend the lowest-cost security or investment strategy

While firms must understand and consider costs when making a recommendation, it is only one important factor among many factors. Thus, firms would not satisfy the Care Obligation by simply recommending the least expensive or least remunerative security without any further analysis of the other factors and the retail customer's investment profile.

For example, depending on the facts and circumstances, firms may be able to recommend a more expensive security or investment strategy if there are other factors about the product or strategy

that reasonably allow firms to believe it is in the best interest of their retail customer, based on that retail customer's investment profile.

Implementation Strategy

To meet the Care Obligation, before making a recommendation, the Firm will ensure that financial professionals understand the potential risks, rewards, and costs associated with recommendations and that the recommendations are appropriate and in the best interest of a particular retail customer. Factors determining this are based on the overall investment strategy of the recommended product and the retail customer's investment profile, and that it does not place the Firm's interest ahead of those of the retail customer. Additionally, the Firm's financial professionals must have a reasonable basis to believe that a series of recommended transactions, even if in the retail customer's best interest when viewed in isolation, is not excessive and is in the retail customer's best interest when taken together in light of the retail customer's investment profile.

3. ***Conflict of Interest Obligation***: establish, maintain, and enforce written policies and procedures reasonably designed to address conflicts of interest;

   Under the Conflict of Interest Obligation, a broker-dealer must establish, maintain, and enforce written policies and procedures reasonably designed to address conflicts of interest associated with its recommendations to retail customers.

   Specifically, the ***written policies and procedures*** must be reasonably designed to:

   - ***Identify and at a minimum disclose, pursuant to the Disclosure Obligation, or eliminate all conflicts of interest associated with such recommendations***;

   - ***Identify and mitigate any conflicts of interest associated with such recommendations that create an incentive for the broker-dealer's associated persons*** to place their interest or the interest of the broker-dealer ahead of the retail customer's interest;

   - ***Identify and disclose*** any ***material limitations***, such as ***a limited product menu*** or ***offering only proprietary products***, placed on the securities or investment strategies involving securities that may be recommended to a retail customer and any conflicts of interest associated with such limitations, and prevent such limitations and associated conflicts of interest from causing the broker-dealer or the associated person to place the interest of the broker-dealer or the associated person ahead of the retail customer's interest; and

   - ***Identify and eliminate sales contests, sales quotas, bonuses, and non-cash compensation that are based on the sale of specific securities or specific types of securities within a limited period of time***.

   Developing policies and procedures to mitigate certain incentives to associated persons

   A firm's policies and procedures must be reasonably designed to reduce the potential effect such conflicts may have on a recommendation given to a retail customer.

   Firms have flexibility to develop and tailor reasonably designed policies and procedures that include conflict mitigation measures, based on their circumstances, such as the size, retail customer base (for example, the diversity of investment experience and financial needs), and the complexity of the security or investment strategy involving securities that is being recommended, some of which may be weighed more heavily than others.

Policies and procedures may be reasonably designed at the outset but may later cease to be reasonably designed based on subsequent events or information obtained, for example, through supervision (e.g., exception testing) of associated person recommendations. A firm's actual experience should be used to revise its measures as appropriate.

Different incentives requiring different mitigation measures

There are a number of different kinds of incentives and, depending on the specific characteristics of an incentive, different levels and types of mitigation measures may be necessary.

For example, incentives tied to asset accumulation generally would present a different risk and require a different level or kind of mitigation, than variable compensation for similar securities, which in turn may present a different level or kind of risk and may require different mitigation methods than differential or variable compensation or financial incentives tied to broker-dealer revenues.

In certain instances, compliance with existing supervisory requirements and disclosure may be sufficient, for example, where a broker-dealer may develop a surveillance program to monitor sales activity near compensation thresholds.

Potential mitigation measures

The following ***non-exhaustive list of practices could be used as potential mitigation methods*** for broker-dealers to comply with the mitigation requirement:

- avoiding compensation thresholds that disproportionately increase compensation through incremental increases in sales;

- minimizing compensation incentives for employees to favor one type of account over another; or to favor one type of product over another, proprietary or preferred provider products, or comparable products sold on a principal basis, for example, by establishing differential compensation based on neutral factors;

- eliminating compensation incentives within comparable product lines by, for example, capping the credit that an associated person may receive across mutual funds or other comparable products across providers;

- implementing supervisory procedures to monitor recommendations that are:

    - near compensation thresholds;

    - near thresholds for broker-dealer recognition;

    - involve higher compensating products, proprietary products or transactions in a principal capacity; or,

    - involve the roll over or transfer of assets from one type of account to another (such as recommendations to roll over or transfer assets in an ERISA account to an IRA) or from one product class to another;

- adjusting compensation for associated persons who fail to adequately manage conflicts of interest; and

- limiting the types of retail customer to whom a product, transaction or strategy may be recommended.

“Material limitations” on recommendations

A “material limitation” placed on the securities or investment strategies involving securities that may be recommended would include, for example, recommending only:

- proprietary products, that is, any product that is managed, issued, or sponsored by the financial institution or any of its affiliates;

- a specific asset class;

- or products with third-party arrangements, that is, revenue sharing.

In addition, the fact that firms recommend only products from a select group of issuers could also be a material limitation.

As a practical matter, almost all broker-dealers limit their offerings of securities and investment strategies to some degree and disclosing the fact that a broker-dealer does not offer the entire possible range of securities and investment strategies would not necessarily convey useful information to a retail customer, and therefore would not be considered, standing alone, to constitute a material limitation. Rather, consistent with the examples of a “material limitation” provided above, whether the limitation is material will depend on the facts and circumstances of the extent of the limitation.

Mitigating material limitations on recommendations to retail customers

Firms have flexibility to develop and tailor reasonably designed policies and procedures to prevent such limitations and the associated conflicts from causing the broker-dealer or an associated person from placing their interest ahead of the retail customer’s interest.

In developing such policies and procedures, firms should, for example, consider establishing product review processes for products that may be recommended, including establishing procedures for identifying and mitigating the conflicts of interests associated with the product, or declining to recommend a product where firms cannot effectively mitigate the conflict, and identifying which retail customers would qualify for recommendations from this product menu.

As part of this process, firms may consider:

- evaluating the use of “preferred lists;”

- restricting the retail customers to whom a product may be sold;

- prescribing minimum knowledge requirements for associated persons who may recommend certain products; and

- conducting periodic product reviews to identify potential conflicts of interest, whether the measures addressing conflicts are working as intended, and to modify the mitigation measures or product selection accordingly.

Eliminating certain conflicts of interest

Firms must develop written policies and procedures reasonably designed to eliminate sales contests, sales quotas, bonuses, and non-cash compensation that are based on the sales of specific securities and specific types of securities within a limited period of time. These practices, when coupled with a time limitation, create high-pressure situations for associated persons to engage in sales conduct contrary to the best interest of retail customers.

This requirement does not apply to compensation practices based on, for example, total products sold, or asset growth or accumulation, and customer satisfaction.

This elimination requirement would not prevent a broker-dealer from offering only proprietary products, placing material limitations on the menu of products, or incentivizing the sale of such products through its compensation practices, so long as the incentive is not based on the sale of specific securities or types of securities within a limited period of time.

The elimination requirement is not intended to prohibit:

- Training or education meetings, provided that these meetings are not based on the sale of specific securities or types of securities within a limited period of time;

- Receipt of certain employee benefits by statutory employees, as we do not consider these benefits to be non-cash compensation for purposes of Regulation best Interest

Implementation Strategy

To meet the Conflict of Interest Obligation, the Firm's business practice is continuously reviewed to effectively Identify and at a minimum disclose, pursuant to the Disclosure Obligation, or eliminate all conflicts of interest associated with such recommendations.

The Firm's financial professionals must act in the best interests of the retail customer and will not make recommendations on the basis of product-specific or other incentives. The Firm will Identify and disclose any material limitations, such as a limited product menu or offering only proprietary products, placed on the securities or investment strategies involving securities that may be recommended to a retail customer and any conflicts of interest associated with such limitations, and prevent such limitations and associated conflicts of interest from causing the Firm or its financial professionals to place the interest of the Firm or its financial professionals ahead of the retail customer's interest.

The Firm maintains a product review process for products that may be recommended and ultimately placed on the Firm's an approved product list. As part of the review process, the Firm considers important factors such as product strategies, benefits, fees and associated risks to determine whether such products align with the interests of its clients.

The Firm does not have any proprietary product and does not engage in sales contests, sales quotas, bonuses, and non-cash compensation that are based on the sale of specific securities within a limited period of time.

The Firm will consider the following actions to mitigate risk of potential violations:

- avoiding compensation thresholds that disproportionately increase compensation through incremental increases in sales;

- minimizing compensation incentives for employees to favor one type of account over another; or to favor one type of product over another, proprietary

or preferred provider products, or comparable products sold on a principal basis, for example, by establishing differential compensation based on neutral factors;

- eliminating compensation incentives within comparable product lines;
- monitoring recommendations that are: (i) near breakpoint thresholds; (ii) near thresholds for broker-dealer recognition; (iii) involve higher compensating products, proprietary products or transactions in a principal capacity; or, (iv) involve the roll over or transfer of assets from one type of account to another (such as recommendations to roll over or transfer assets in an ERISA account to an IRA) or from one product class to another;
- adjusting compensation for associated persons who fail to adequately manage conflicts of interest; and
- limiting the types of retail customer to whom a product, transaction or strategy may be recommended

4. ***Compliance Obligation*****:** establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Regulation Best Interest

   Firms must ***establish, maintain and enforce written policies and procedures reasonably designed to achieve compliance with Regulation Best Interest***.

   This is an affirmative obligation with respect to the rule as a whole and provides flexibility to allow firms to establish compliance policies and procedures that accommodate a firm's business model.

   Whether policies and procedures are reasonably designed will depend on the facts and circumstances of a given situation. Firms should consider, when adopting policies and procedures, the nature of their operations and how to design such policies and procedures to prevent violations from occurring, detect violations that have occurred, and to correct promptly any violations that have occurred.

   A firm's compliance policies and procedures should be reasonably designed to address and be proportionate to the scope, size, and risks associated with its operations and the types of business in which it engages.

   In addition to the required policies and procedures, depending on a firm's size and complexity, a reasonably designed compliance program generally would also include:

   - controls;
   - remediation of non-compliance;
   - training; and
   - periodic review and testing

Record-making and Recordkeeping: Firms must also comply with new record-making and recordkeeping requirements.

Firms must meet new record-making and recordkeeping requirements with respect to certain information collected from or provided to retail customers in connection with Regulation Best Interest. This builds upon existing record-making and recordkeeping obligations.

- For each retail customer to whom a recommendation of any securities transaction or investment strategy involving securities is or will be provided, firms must keep a record of all information collected from and provided to the retail customer pursuant to Regulation Best Interest, as well as the identity of each natural person who is an associated person, if any, responsible for the account.

- Firms must retain all records of the information collected from or provided to each retail customer for at least six years after the earlier of the date the account was closed or the date on which the information was replaced or updated.

Implementation Strategy

To meet the Compliance Obligation, the Firm's policies and procedures are reasonably designed to prevent violations from occurring, detect violations that have occurred, and to promptly correct any violations that have occurred in addition to those under Reg BI. In terms of preventing violations, the Firm's nature of operations in additional to its current internal controls, remediation of non-compliance, training, and periodic testing are under constant review to identify and correct potential violations at the Firm. For example, the Firm conducts annual compliance reviews, independent AML tests and Annual Tests & Certifications pursuant to Rule 3120 & 3130 to assess its internal controls and weaknesses. Any findings and/or recommendation resulting from such reviews include follow-up corrective actions. The Firm also conduct Firm Element training as well as an annual compliance meeting to review new rules and material changes to existing rules that may impact the Firm's business to include Reg BI requirements.