General Supervision 3.00

3.01 Supervisory Systems

All FINRA broker/dealers are required to establish and maintain a system to supervise the activities of its registered representatives and associated persons. At a minimum the Firm's internal supervisory system shall include the following:

- Establish and maintain written procedures;
- Designate an appropriate registered principal, with supervisory responsibility, for each type of business conducted by the Firm;
- Designate an Office of Supervisory Jurisdiction (OSJ) for each location which conducts order execution or market making activities; public offering or private placements; maintains custody of customer's funds and or securities; and makes final approval/acceptance of new accounts on behalf of customers;
- Designate an OSJ as necessary to properly supervise all registered persons in accordance with the standards set forth in FINRA Rule 3110;
- Designate one or more properly registered principals in the main office and each OSJ with authority to conduct supervisory responsibilities assigned to the office by the member firm;
- Designate one or more properly registered representatives or principals in each non-OSJ branch office with authority to conduct supervisory responsibilities assigned to the office by the member firm;
- Assign each associated person to an appropriately registered representative(s) or principal(s) who is responsible for supervising such person's activities;
- Make reasonable efforts to ensure that each person with supervisory responsibility is qualified via experience or training to carry out such supervisory duties;
- Ensure participation of each registered representative in annual compliance meetings;
- Designate and specifically identify to the Association the principal(s) who shall review the member firm's supervisory systems, procedures and inspections that are implemented by the member firm pursuant to this rule;
- Designate and specifically identify to FINRA the principal(s) who shall take and or recommend appropriate action to senior management that is designed to achieve compliance with all applicable securities rules and regulations.

FINRA Rule 3110 and Individual Liability

FINRA Rule 3110 sets out a comprehensive set of supervisory obligations for member firms and requires firms to designate individual supervisors and identify their responsibilities. The rule requires each member firm to establish and maintain a system, including written procedures, to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. The rule also requires each member firm to designate an appropriately registered principal or principals with authority to carry out the supervisory responsibilities of the member for each type of broker-dealer business in which it engages, to designate one or more appropriately registered principals in branch offices with authority to carry out the supervisory responsibilities assigned to that office, and to assign each

registered representative to an appropriately registered person who is responsible for supervising that representative's activities. Individual liability under Rule 3110 is predicated upon the firm's express or implied designation of supervisory personnel and the delegation of supervisory responsibility to the designated individuals. Individual supervisors have an additional duty under Rule 3110 to investigate "red flags" that suggest misconduct at the firm may be occurring and to act reasonably upon the results of the investigation. FINRA can bring enforcement actions under Rule 3110 against individual supervisors when they fail to discharge reasonably their supervisory responsibilities.

A firm's supervisory obligations under Rule 3110 rest with the firm and its president (or equivalent officer or individual, *e.g.*, CEO) and flow down by delegation to the firm's designated supervisors. The firm's president (or equivalent officer or individual), not its CCO, "bears ultimate responsibility for compliance with all applicable requirements unless and until he [or she] reasonably delegates particular functions to another person in that firm, and neither knows nor has reason to know that such person's performance is deficient." Accordingly, the president (or equivalent officer or individual) and designated principals are responsible for fulfilling the firm's supervisory obligations under Rule 3110.

The Role of a CCO within a Member Firm

A CCO's role at a member firm, by contrast, is advisory, not supervisory. FINRA recognizes that compliance and supervision are separate, if related, functions. In *Notice to Members 99-45*, FINRA stated that "[i]t is important [to] recognize the distinction between written compliance guidelines and written supervisory procedures." A CCO and the compliance team is, in the normal course, responsible for the former, not the latter. "Compliance guidelines generally set forth the applicable rules and policies that must be adhered to and describe specific practices that are prohibited." By contrast, written supervisory procedures document the supervisory system to ensure that compliance guidelines are being followed.

To fulfill the compliance function, FINRA requires firms to designate one or more appropriately registered principals as a CCO. As set forth in FINRA Rule 3130, Supplementary Material .05, "A [CCO] is a primary advisor to the member on its overall compliance scheme and the particularized rules, policies and procedures that the member adopts." Neither Rule 3110 nor Rule 3130, by themselves, attach supervisory responsibilities to a CCO.

A CCO can and often does occupy another position at a firm, such as CEO. In such circumstances, CCOs likely would fall within the scope of Rule 3110 because of the supervisory authority designated to them based on another non-CCO position they hold within a firm's business management. When an individual's sole position at a firm is that of CCO, a more extensive assessment of liability under Rule 3110 may be needed, as outlined in the following section.

Assessing Liability Under Rule 3110 Against a CCO

Designation of Supervisory Responsibility

A CCO is not subject to liability under Rule 3110 because of the CCO's title or because the CCO has a compliance function at a member firm. A CCO will be subject to liability under Rule 3110 only when—either through the firm's written supervisory procedures or otherwise—the firm designates the CCO as having supervisory responsibility. This designation can occur in several ways. First, the member's written procedures might assign to the CCO the responsibility to establish, maintain and update written supervisory procedures, both generally as well as in specific areas (*e.g.*, electronic communications). Second, the written procedures might assign to the CCO responsibility for enforcing the member's written supervisory procedures or other specific oversight duties usually reserved for line supervisors. Third, apart from the written procedures, a member firm, through its president or some other senior business manager, might also expressly or impliedly designate the CCO as having specific supervisory responsibilities on an ad hoc basis. Or the CCO may be asked

to take on specific supervisory responsibilities as exigencies demand, such as the review of trading activity in customer accounts or oversight of associated persons. Only in circumstances when a firm has expressly or impliedly designated its CCO as having supervisory responsibility will FINRA bring an enforcement action against a CCO for supervisory deficiencies.

Applying the Reasonableness Standard

Even when a CCO has been designated as having supervisory responsibilities, FINRA will bring an action under Rule 3110 against the CCO only if the CCO has failed to discharge those responsibilities in a reasonable manner—as it would with any individual who has supervisory responsibility. Accordingly, once FINRA has found that the CCO has been designated by the firm as having supervisory responsibilities—including responsibility for establishing, maintaining and enforcing the firm's written supervisory procedures that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules—the next question is whether the CCO reasonably discharged his or her designated supervisory responsibilities.

For example, if the CCO is responsible for establishing, maintaining and enforcing the firm's written supervisory procedures, FINRA will ask whether the procedures were reasonably tailored to the firm's business and whether they addressed the specific activities of the firm's personnel. Whether a CCO's performance of these responsibilities was reasonable depends upon the facts and circumstances of a particular situation. When assessing potential liability under Rule 3110, FINRA will evaluate whether the CCO's conduct in performing designated supervisory responsibilities was reasonable in terms of achieving compliance with the federal securities laws, regulations, or FINRA rules.

Factors For and Against Charging a CCO under Rule 3110

Not every violation of a FINRA rule results in a formal disciplinary action, so even when FINRA finds that a CCO failed to reasonably perform a designated supervisory responsibility, FINRA will consider whether charging the CCO under Rule 3110 in a formal disciplinary action is the appropriate regulatory response to address the violation. Factors that might weigh in favor of charging a CCO are the same factors that could apply to any individual who has supervisory responsibility under Rule 3110 and include, but are not limited to, the following: (1) the CCO was aware of multiple red flags or actual misconduct and failed to take steps to address them; (2) the CCO failed to establish, maintain, or enforce a firm's written procedures as they related to the firm's line of business; (3) the CCO's supervisory failure resulted in violative conduct (***e.g.***, a CCO who was designated with responsibility for conducting due diligence failed to do so reasonably on a private offering, resulting in the firm lacking a reasonable basis to recommend the offering to its customers); and (4) whether that violative conduct caused or created a high likelihood of customer harm.

Factors that might weigh against charging the CCO include, but are not limited to, the following: (1) the CCO was given insufficient support in terms of staffing, budget, training, or otherwise to reasonably fulfill his or her designated supervisory responsibilities; (2) the CCO was unduly burdened in light of competing functions and responsibilities; (3) the CCO's supervisory responsibilities, once designated, were poorly defined, or shared by others in a confusing or overlapping way; (4) the firm joined with a new company, adopted a new business line, or made new hires, such that it would be appropriate to allow the CCO a reasonable time to update the firm's systems and procedures; and (5) the CCO attempted in good faith to reasonably discharge his or her designated supervisory responsibilities by, among other things, escalating to firm leadership when any of (1)–(4) were occurring.

In addition to the above factors, FINRA also will consider whether it is more appropriate to charge the firm or its president with failure to reasonably supervise rather than the CCO. Likewise, FINRA will consider whether it is more appropriate to charge another individual at the firm, such as an executive manager or a business line supervisor, who had more direct responsibility for the

supervisory task at issue, or who was more directly involved in the supervisory deficiency. Finally, FINRA also will consider whether, based on the facts and circumstances of a particular case, it is more appropriate to bring informal, as opposed to formal, action against the CCO for failure to supervise. In some cases, it may be more appropriate to issue a Cautionary Action Letter, particularly in cases involving a CCO's first-time violation of Rule 3110. Ref. FINRA Regulatory Notice 22-10; March 17, 2022

Supervisory Control System

In accordance with FINRA Rule 3120 (formerly NASD Rule 3012), the firm is required to designate and specifically identify to FINRA one or more principals who shall establish, maintain, and enforce a system of supervisory control policies and procedures that:

- test and verify that the firm's supervisory procedures are reasonably designed with respect to the activities of the firm and its registered representatives and associated persons, to achieve compliance with applicable securities laws and regulations, and with applicable Rules and

- create additional or amend supervisory procedures where the need is identified by such testing and verification. The designated principal or principals must submit to the firm's senior management no less than annually, a report detailing each firm's system of supervisory controls, the summary of the test results and significant identified exceptions, and any additional or amended supervisory procedures created in response to the test results.

Each report provided to senior management pursuant to paragraph (a) in the calendar year following a calendar year in which a member reported $200 million or more in gross revenue (i.e. total revenue less, if applicable, commodities revenue), must include, to the extent applicable to the member's business:

1. a tabulation of the reports pertaining to customer complaints and internal investigations made to FINRA during the preceding year; and

2. discussion of the preceding year's compliance efforts, including procedures and educational programs, in each of the following areas: trading and market activities; investment banking activities; antifraud and sales practices; finance and operations; supervision; and anti-money laundering (FINRA Notice 14-10; effective December 1, 2014)

The establishment, maintenance, and enforcement of written supervisory control policies and procedures pursuant to FINRA Rule 3120 shall include: (A) procedures that are reasonably designed to review and supervise the customer account activity conducted by the firm's branch office managers, sales managers, regional or district sales managers, or any person performing a similar supervisory function. (i) A person who is either senior to, or otherwise independent of, the producing manager must perform such supervisory reviews.

Note: Please see the Firm's Written Supervisory Control System (WSCS) as a separate set of procedures for further details.

Supervision of Supervisory Personnel

FINRA Rule 3110(b)(6) (Documentation and Supervision of Supervisory Personnel) eliminates NASD Rule 3012's provisions specifying the supervision of a producing manager's customer account activity and heightened supervision when any producing manager's revenues rise above a specific threshold. Instead, a firm must have procedures to prohibit its supervisory personnel from (1) supervising their own activities; and (2) reporting to, or having their compensation or continued employment determined by, a

person the supervisor is supervising. FINRA Rule 3110(b)(6) addresses potential abuses in connection with the supervision of all supervisory personnel, rather than addressing only the supervision of a subset of supervisory personnel and their customer account activity. FINRA believes that addressing the supervision of all supervisory personnel, rather than just producing managers, is better designed to prevent supervisory situations from occurring that would not lead to effective supervision.

Limited Exception

FINRA Rule 3110(b)(6) provides an exception for a firm that determines, with respect to any of its supervisory personnel, that compliance with either of the prohibitions outlined above is not possible because of the firm's size or a supervisory personnel's position within the firm. A firm relying on the exception must document the factors the firm used to reach its determination and how the supervisory arrangement with respect to such supervisory personnel otherwise complies with FINRA Rule 3110(a). FINRA Rule 3110.10 (Supervision of Supervisory Personnel) reflects FINRA's expectation that this exception will be used primarily by a sole proprietor in a single-person firm or where a supervisor holds a very senior executive position within the firm. However, FINRA Rule 3110.10's list of situations is non-exclusive, and a firm may still rely on the exception in other instances where it cannot comply because of its size or the supervisory personnel's position within the firm, provided the firm complies with FINRA Rule 3110(b)(6)'s documentation requirements. A firm is not required to notify FINRA of its reliance on the exception.

Conflicts of Interest

FINRA Rule 3110(b)(6) also requires a firm to have procedures reasonably designed to prevent the standards of supervision required pursuant to FINRA Rule 3110(a) from being compromised due to the conflicts of interest that may be present with respect to the associated person being supervised, such as the supervised person's position, the amount of revenue such person generates for the firm or any compensation that the supervisor may derive from the associated person being supervised. This provision does not impose a strict liability obligation to eliminate all conflicts of interest, but rather requires that the supervisory procedures be reasonably designed despite the firm's conflicts of interest.

Note: Please see the Firm's Written Supervisory Control System (WSCS) as a separate set of procedures for further details

3.02 Written Supervisory Procedures

FINRA Rule 3110(b)(1) requires that each member establish, maintain and enforce written supervisory procedures which are reasonably designed to:

- Supervise the types of business activities a firm conducts;
- Supervise the activities of the associated persons and registered representatives;
- Achieve compliance with all applicable securities laws and regulations.

Review of Investment Banking and Securities Business

In accordance with FINRA Rule 3110(b)(2), to the extent applicable, the supervisory procedures shall include procedures for the review by a registered principal, evidenced in writing, of all transactions relating to the investment banking or securities business of the firm.
FINRA Rule 3110(b)(2) (Review of Member's Investment Banking and Securities Business), based on NASD Rule 3010(d)(1), requires a firm to have supervisory procedures for the review by a registered principal, evidenced in writing, of all transactions relating to the firm's investment banking or securities business. However, FINRA Rule 3110.05 (Risk based Review of Member's Investment Banking and Securities Business) permits a firm to use a risk-based system to review

its transactions. The term ‘‘risk based’’ describes the type of methodology a firm may use to identify and prioritize for review those areas that pose the greatest risk of potential securities laws and self-regulatory organization (SRO) rule violations. In this regard, a firm is not required to conduct detailed reviews of each transaction if the firm is using a reasonably designed risk-based review system that provides the firm with sufficient information to enable the firm to focus on the areas that pose the greatest numbers and risks of violation. If a firm's procedures for the review of its transactions by a registered principal include the use of technology-based review systems with parameters designed to assess which transactions merit further review, a principal must review the parameters and document the review in writing. As is always the case with the exercise of supervision under FINRA rules, a principal using an automated supervisory system, aid or tool for the discharge of supervisory duties remains responsible for the discharge of supervisory responsibilities in compliance with FINRA Rule 3110(b)(2). Also, a principal relying on a risk-based review system is responsible for any deficiency in the system's criteria that would result in the system not being reasonably designed.

A firm that does not engage in any transactions relating to its investment banking or securities business (*e.g.*, firm conducting only a mutual fund underwriting business that effects no transactions) does not have any review obligations pursuant to FINRA Rule 3110(b)(2). Moreover, the firm may comply with FINRA Rule 3110(b)(2) by acknowledging in its supervisory procedures that it does not engage in any such transactions and that it must have supervisory policies and procedures in place before doing so.

Implementation Strategy

Regarding quantitative suitability risk, each transaction relating to the Firm's investment banking or securities business is reviewed and approved by a qualified registered principal. Documentary evidence of approval may vary and is reflected on either the trade tickets, trade blotter or other related transactional documentation depending on the type of transaction (e.g. private placements, variable annuities, alternative investment products, etc.).

Although the Firm is not required to conduct detailed reviews of each transaction if it's using a reasonably designed risk-based review system that provides sufficient information that focuses on the areas that pose the greatest numbers and risks of violation, the Firm continues to review and approve on a transaction basis in addition to utilizing exception based reports as provided by the clearing firm, NFS. The most frequently used NFS Exception Based Reports include the following: 30 Day Churning; Account Trading Same CUSIP on Same Day; Compliance & Controls Rules Violation; MF Breakpoint Monitoring; MF Tracking Report; Penny Stock Trades; Sales & Earnings Exception Report; and Suitability Report Trade Detail Reports, all of which assist the Firm in focusing on what the Firm has determined to be high-risk transactions and/or areas of focus. Each NFS exception report reviewed is appropriately signed/initialed as documentary evidence of review and approval and is maintained in accordance with books and records requirements.

Documentation and Supervision of Supervisory Personnel

In accordance with FINRA Rule 3110(b)(6), the supervisory procedures will include the following requirements where applicable:

- the titles, registration status, and locations of the required supervisory personnel and the responsibilities of each supervisory person as these relate to the types of business engaged in, applicable securities laws and regulations, and FINRA rules.
- a record, preserved by the member for a period of not less than three years, the first two years in an easily accessible place, of the names of all persons who are designated as supervisory personnel and the dates for which such designation is or was effective.
- procedures prohibiting associated persons who perform a supervisory function from:

- supervising their own activities; and
- reporting to, or having their compensation or continued employment determined by, a person or persons they are supervising.

  Note: If the firm determines, with respect to any of its supervisory personnel, that compliance with subparagraph (i) or (ii) above is not possible because of the member's size or a supervisory personnel's position within the firm, the firm must document: (i) the factors the member used to reach such determination; and (ii) how the supervisory arrangement with respect to such supervisory personnel otherwise complies with paragraph (a) of this Rule.

- procedures reasonably designed to prevent the supervisory system required pursuant to paragraph (a) of this Rule from being compromised due to the conflicts of interest that may be present with respect to the associated person being supervised, including the position of such person, the revenue such person generates for the firm, or any compensation that the associated person conducting the supervision may derive from the associated person being supervised

The member firm will also ensure to maintain an internal record of all supervisory personnel that includes the name(s) and date designation became effective. This record is to be preserved by the Firm for a period of three years, of which the first two are in an easily accessible place pursuant to *SEC Rule 17a-4*.

In accordance with FINRA Rule 3110(b)(7), a copy of a firm's written supervisory procedures, or the relevant portions thereof, shall be kept and maintained in each OSJ and at each location where supervisory activities are conducted. The firm shall promptly amend its written supervisory procedures to reflect changes in applicable securities laws or regulations, including FINRA rules, and as changes occur in its supervisory system. The firm is responsible for promptly communicating its written supervisory procedures and amendments to all associated persons to whom such written supervisory procedures and amendments are relevant based on their activities and responsibilities.►►

Note: Please see the Firm's Compliance and Supervisory Procedures Attestation Statement (Exhibit 3.02) for further details.

Implementation Strategy

The designated principal shall review the Firm's compliance and supervisory procedure manual as needed, to ensure that the manual adequately covers all required areas as stipulated in the Firm's Membership Agreement. Furthermore, the designated principal will ensure each registered and/or associated person receives and reads the Firm's procedures as confirmed by the issuance and subsequent receipt of the *Compliance and Supervisory Procedure Attestation Statement*.

3.03 Supervisory Structure

The Firm has created an internal supervisory structure that details the direct reporting requirements and overall supervisory authority of registered representatives, OSJ Branch Managers and the designated Compliance Officer. Therefore, the following information briefly describes the Firm's internal supervisory structure as set forth herein:

Registered Representatives Assigned to an OSJ

Every individual affiliated with the Firm who is authorized to sell securities to the general public must be registered with FINRA as a registered representative of the Firm. All registered

representatives are assigned to an OSJ and a designated OSJ Branch Manager, who must be additionally registered with FINRA as a General Securities Principal.

An OSJ is registered at a specific location (the OSJ Branch Office), but also encompasses all securities business of each registered representative assigned to the OSJ location. The registered representatives may be located in the OSJ Branch Office or located in any Non-OSJ Branch Office assigned to the OSJ.

The designated OSJ Branch Manager is the direct supervisor for all registered representatives at each specified OSJ location. The OSJ Branch Manager may also be the direct supervisor for all the registered representatives, if any, who are assigned to the OSJ but operating from one or more separate locations in FINRA registered Non-OSJ Branch Offices or non-registered locations.

The OSJ Branch Manager may also be a registered representative with respect to the sale of securities to clients of the OSJ Branch location. FINRA will not accept self-supervision, so the direct supervisor for each OSJ Branch Manager is the designated Compliance Officer of the Firm's main office.

Throughout this Compliance and Supervisory Procedure Manual and any other supplemental policies or procedures as issued by Firm, any practices or procedures defined between a registered representative and OSJ Branch Manager shall also apply between a OSJ Branch Manager and the Firm's designated Compliance Officer. Therefore, the OSJ Branch Manager shall be supervised by and report directly to the Firm's Compliance Officer.

OSJ Branch Managers may have other registered representatives within the OSJ with General Securities Principal, Registered Options Principal and other specialty licenses. While an OSJ Branch Manager may delegate some day-to-day supervisory tasks to such qualified individuals, the OSJ Branch Manager shall remain fully responsible for the supervision of the entire OSJ Branch.

Branches that are also OSJ Managers shall be assigned to the Compliance Officer, while Non-OSJs shall be assigned to an OSJ Branch Manager. The Firm is required to appoint a Registered Principal (successfully completed Series 24 or 26) as the OSJ Supervisor of each OSJ location and to report the name of that OSJ Supervisor to FINRA.

Supervisory Responsibility of the OSJ

The OSJ shall be responsible for the following areas:

- Develop a supervisory structure for the supervisory group in accordance with this Manual;
- Establish procedures to include the review of order tickets, correspondence, Client New Account Application, account updates, applications, auxiliary documents (CDSC, LOA's, trust documents, etc.);
- Establish procedures to include the review of all purchase and sales blotters, checks and securities received blotters and client posting pages;
- Establish other procedures as may be necessary to properly supervise the type of business being done within the branch;
- Inform each member of the supervisory group of the supervisory structure and of the identity of his or her OSJ Supervisor.

The supervisory structure and the procedures will be reviewed during the Branch Office Examination annually and on an as needed basis by the Home Office. Results from inspections are kept in a permanent file.

Role of the OSJ Manager

The OSJ Branch Manager has several critical roles in the Firm as described below:

- The OSJ Manager sets the standard for the sales practices of the registered representatives in accordance with Rules and regulations;
- The OSJ Manager shall inspire both registered and non-registered personnel to adhere to the Firm's internal standards to achieve the Firm's overall goals;
- The OSJ Manager also has a teaching role concerning appropriate sales practices as well as general administration and operational functions;
- As a registered principal, the OSJ Manager has supervisory responsibilities concerning sales practices of all personnel under his/her OSJ.

3.04 Verification of Qualifications

The Firm shall be responsible for investigating the good character, business repute, qualifications, and experience of any person prior to making such a certification in the application of such person for registration with this Association.

Where a potential registered representative employee has previously been registered with FINRA, the Firm shall obtain from the CRD or from the applicant a copy of the Uniform Termination Notice of Securities Industry Registration (Form U-5) filed with FINRA by such person's most recent previous FINRA member employer, together with any required amendments. The Firm shall obtain the Form U-5 as required by this Rule or demonstrate to FINRA that it has made reasonable efforts to comply with the requirement. Any firm receiving a Form U-5 under these circumstances shall review the Form U-5 and any required amendments and shall take such action as may be deemed appropriate.

Any potential registered representative employee of the Firm who receives a request for a copy of his or her Form U-5 shall provide such copy to the member within two (2) business days of the request if the Form U-5 has been provided to such person by his or her former employer. If a former employer has failed to provide the Form U-5 to the potential employee, such person shall promptly request the Form U-5, and shall provide it to the requesting firm within two (2) business days of receipt thereof.

3.05 General Responsibilities of Supervisory Personnel

The Firm regards supervision as a critical focus area for ensuring compliance in broker/dealer business activities and operations. Compliance officers, as well as, any other person(s) responsible for the supervision of others, should take added steps to carefully supervise the activities and individuals under their immediate supervision in accordance with federal, state, self-regulatory organization (SRO) rules and regulations. The Firm acknowledges that supervisors as well as the employer firm may be held liable for failing to supervise any/all employees under their supervision.

Delegation of Responsibilities

If a designated principal is unable to perform certain supervisory or approval obligations, they may delegate such supervisory responsibilities to another person if person is a registered principal. Upon delegation, the designated principal should ensure that each registered principal

understands the recently assigned delegated responsibilities and must review the performance of each person assigned with such a responsibility. All delegation of responsibilities, to include the names, tasks, and dates of delegation will be documented and maintained at each branch office location.

Specific Responsibilities of the Compliance Officer

It is the responsibility of the compliance officer to conduct a periodic review reasonably designed to detect and prevent prohibited activities and violations of the securities rules and regulations.

3.06 Internal Inspections

Frequency of Internal Inspections

FINRA Rule 3110(c)(1) (formerly NASD Rule 3010(c)(1)), requires a firm to review, at least annually, the businesses in which it engages. The review must be reasonably designed to assist the firm in detecting and preventing violations of, and achieving compliance with, applicable securities laws and regulations and FINRA rules. FINRA Rule 3110(c)(1) also retains NASD Rule 3010(c)(1)'s requirement that a firm review the activities of each office, including the periodic examination of customer accounts to detect and prevent irregularities or abuses. Each firm must retain a written record of the date upon which each review and inspection is conducted. The rule requires a firm to inspect OSJs and supervisory branch offices at least annually (on a calendar-year basis), non-supervisory branch offices at least every three years and non-branch locations on a regular periodic schedule.

There is a general presumption that a non-branch location will be inspected at least every three years, even in the absence of any indicator of irregularities or misconduct (i.e., "red flags"). If a firm establishes a periodic inspection schedule longer than three years, the firm must document in its written supervisory and inspection procedures the factors used in determining that a longer periodic inspection cycle is appropriate. A firm also must retain a written record of each review and inspection, reduce a location's inspection to a written report and keep each inspection report on file either for a minimum of three years or, if the location's inspection schedule is longer than three years, until the next inspection report has been written.

As FINRA has previously recognized, a general practice exists where a firm may inspect nonsupervisory branch offices on a more frequent cycle than every three years but target only specified areas of the offices' activities during a particular examination. Consistent with NASD Rule 3010(c)(1), FINRA Rule 3110(c)(1) requires that a firm engaging in this practice must inspect all of the required areas listed in FINRA Rule 3110(c)(2) within the three-year cycle, regardless of the number of times within that cycle a non-supervisory branch office is inspected. Also, a firm must set forth in its written supervisory and inspection procedures the manner in which it will inspect those areas within the three-year cycle. ▶▶

Implementation Strategy

The designated principal or an independent compliance consultant shall conduct an internal review of each of the Firm's designated OSJ/Branch locations to include a review of internal accounts, files and other relevant documentation. All reports referencing internal inspections and/or reviews shall be properly documented as evidence of review.

Note: Please see the Firm's Internal Inspection Frequency Review Cycle or Exhibit 11.02 for further details on the frequency of the Firm's OSJ, Branch and "unregistered" (satellite) office reviews.

In accordance with FINRA Rule 3110(c)(1)(A)-(C) the firm is required to conduct a review, at least annually (on a calendar-year basis), of the businesses in which it engages. The review shall be reasonably designed to assist the firm in detecting and preventing violations of, and achieving compliance

with, applicable securities laws and regulations, and with applicable FINRA rules. The firm is also required to review the activities of each office, which shall include the periodic examination of customer accounts to detect and prevent irregularities or abuses and to retain a written record of the date upon which each review and inspection is conducted. The firm is required to inspect every OSJ and any branch office that supervises one or more non-branch location at least annually (on a calendar-year basis); at least every three years every branch office that does not supervise one or more non-branch locations; and on a regular periodic schedule every non-branch location. (FINRA Notice 14-10; effective December 1, 2014)

Each Branch Office Review Summary Report, to include all relevant findings and /or recommendations, shall be documented in a written report and kept on file at the Firm for a minimum of three years. The written inspection report will also include the testing and verification of the Firm's policies and procedures, including supervisory policies and procedures including but not limited to (i) Safeguarding of customer funds and securities; (ii) Maintaining books and records; (iii) Supervision of customer accounts serviced by branch office managers; (iv) Transmittal of funds between customers and registered representatives and between customers and third parties; (v) Validation of customer address changes; and (vi) Validation of changes in customer account information.

A firm's policies and procedures for transmittals of funds or securities must include a means or method of customer confirmation, notification or follow-up that can be documented. However, a firm may use reasonable risk-based criteria to determine the authenticity of the transmittal instructions.

With respect to the transmittal of funds or securities from customers to third party
A counts, FINRA Rule 3110(c)(2) does not include NASD Rule 3012's parenthetical text ("i.e., a transmittal that would result in a change in beneficial ownership") to clarify that all transmittals to an account where a customer on the original account is not a named account holder are subject to the rule. The rule's follow-up procedures provide an important investor protection function by verifying that the customer was aware of the transfer.

In establishing a schedule for non-branch locations, the firm will consider the nature and complexity of the securities activities for which the location is responsible and the nature and extent of contact with customers. ►►

Implementation Strategy

The designated supervisor shall be responsible for ensuring that each OSJ and any branch office that supervises one or more non-branch location is inspected at least annually (on a calendar-year basis); every branch office that does not supervise one or more non-branch locations is inspected at least every three years; and every non-branch location is inspected on a regular periodic schedule. The frequency of inspection regarding the Firm's branch offices are recorded on a Branch Office Frequency Review Cycle. The following examination frequency shall apply to the following office classifications:

- Each OSJ and any branch office that supervises one or more non-branch locations- at least annually (on a calendar-year basis)
- Each Branch office that does not supervise one or more non-branch locations- at least every three years Each Non-Branch Office- regular periodic schedule (see the *Firm's Internal Inspection Review Cycle for further details)*

Note: An office inspection may not be conducted by the branch office manager or any person within that office who has supervisory responsibilities or by any individual who is directly or indirectly supervised by such person(s). However, if an office is so limited in size and resources that it cannot comply with this limitation (e.g., a member with only one office or a firm has a business model where small or single-person offices report directly to an office of supervisory jurisdiction manager who is also considered the offices' branch office manager), the firm may have a principal who has the requisite knowledge to conduct an office inspection perform the inspections. The firm, however, must document in the office inspection reports the factors it has relied upon in determining that it is so limited in size and resources that it has no other alternative than to comply in this manner.

Associated Persons Conducting Inspections

FINRA Rule 3110(c)(3) replaces NASD Rule 3010(c)(3)'s provision prohibiting branch office managers and supervisors and the persons they directly or indirectly supervise from conducting office inspections. FINRA Rule 3110(c)(3) generally prohibits an associated person from conducting a location's inspection if the person either is assigned to that location or is directly or indirectly supervised by, or otherwise reports to, someone assigned to that location. This restriction does not prohibit firms from using compliance personnel assigned to a firm's separate compliance department and supervised solely by the compliance department to conduct a location's inspections. Such an arrangement helps to protect against the potential conflicts of interest the provision is designed to address.

Limited Exception

FINRA Rule 3110(c)(3) retains, with modifications, NASD Rule 3010(c)(3)'s exception for firms with limited size and resources from the general prohibitions regarding who can conduct a location's inspection. Specifically, if a firm determines that it cannot comply with FINRA Rule 3110(c)(3)'s general prohibitions, the firm must document in the inspection report both the factors the firm used to make its determination and how the inspection otherwise complies with FINRA Rule 3110(c)(1). A firm will generally rely on the exception in instances where the firm has only one office or has a business model where small or single person offices report directly to an OSJ manager who is also considered the offices' branch office manager (*e.g.*, independent contractor business model). However, a firm may still rely on the exception in other instances, provided the firm documents the factors used in making its determination that it needs to rely on the exception.

FINRA Rule 3110(c)(3) does not include NASD Rule 3010(c)(3)'s restriction that a firm relying on the exception must have a principal who has the requisite knowledge to conduct the inspection. Eliminating this restriction provides a firm with flexibility to assign the most appropriate person who has the requisite knowledge, regardless of registration status, to conduct a location's inspection, taking into consideration the requirement under FINRA Rule 3110(c)(1) that a firm's review of its businesses be reasonably designed to assist the firm in detecting and preventing violations of, and achieving compliance with, applicable securities laws and regulations and FINRA rules.

Conflicts of Interest

FINRA Rule 3110(c)(3) eliminates NASD Rule 3010(c)(3)'s heightened office inspection requirements firms must implement if the person conducting the office inspection either reports to the branch office manager's supervisor or works in an office supervised by the branch manager's supervisor and the branch office manager generates 20 percent or more of the revenue of the business units supervised by the branch office manager's supervisor. Instead, firms must have procedures reasonably designed to prevent the effectiveness of the inspections from being compromised due to the conflicts of interest that may be present with respect to the location being inspected, including but not limited to, economic, commercial or financial interests in the associated person and businesses being inspected.

A firm is not required to eliminate all conflicts of interest with respect to a location's inspections. As stated above, however, a firm's review of its businesses must be reasonably designed to assist the firm in detecting and preventing violations of, and achieving compliance with, applicable securities laws and regulations and FINRA rules. To that end, firms should be diligent in identifying potential conflicts of interest and the manner in which they will be addressed to prevent a location's inspection from being compromised.

3.07 Supervision of Transactions

Review of Transactions

Each FINRA member firm is responsible for establishing procedures for the review and approval of all transactions effected by the Firm's registered representatives. The procedures shall ensure that the review and approval is done by a registered principal and is evidenced in writing on an internal record. The Firm shall also establish procedures to ensure that a similar review by a registered principal is conducted for all the incoming and outgoing correspondences. The Firm shall ensure that appropriate samples of written and electronic correspondences between the public and an associated person relating to investment banking and the securities business are reviewed.

The Firm's procedures shall be in writing and developed to provide reasonable supervision. As necessary with all reviews conducted by a firm, it must be evidenced that such procedures were implemented and carried out. These records must be maintained and preserved by the Firm pursuant to *SEC Rule 17a-4*.

Suitability Review

Before a new account is established, the Firm will make a reasonable effort to ensure that any recommended product is suitable for the individual customer. In determining customer suitability, the Firm will evaluate the following customer information before executing a transaction:

- Financial status;
- Tax status;
- Investment objectives;
- Previous investment experience;
- Age and occupation.

General Transaction Approval

The following are the supervisory procedures and approval requirements for the Firm. Registered personnel will seek approval for customer transactions from the Firm's designated compliance officer or other designated principal. ►►

Implementation Strategy

Transactions that generate commissions or transaction-based compensation, with the exception of certain small dollar amount transactions (typically amounts less than $1,000 for initial purchases or amounts less than $5,000 for add-on investments) or client-directed add-on investments, will be reviewed by the designated supervisor for customer suitability issues and overall compliance with applicable securities rules. Relevant transaction information will be initialed as evidence of review. Additionally, all relevant transactions by the designated supervisor (if applicable) will be reviewed by an alternative supervisor.

Low Price Securities Transactions

If applicable, the designated principal will be responsible for reviewing any transactions involving low price securities on a regular basis. For the purposes of this section, the Firm has classified a low price security as any security with a per share price point of less than five U.S. dollars and is not listed on an exchange or NASDAQ. In addition to share price classification, each transaction should be reviewed for customer suitability and overall compliance with all applicable Penny Stock rules as set forth in *SEC Rule 15g-1* through *SEC Rule 15g-9*, and corresponding rules such as *SEC Rule 17a-3*, and *Rule 3110.*

As a means reasonably designed to prevent fraudulent, deceptive, or manipulative acts or practices, it shall be unlawful for a broker/dealer firm to sell a penny stock to, or to effect the purchase of a penny stock by, any person unless: (i) the transaction is exempt under paragraph (c) of this section; or (ii) prior to the transaction the firm has approved the person's account for transactions in penny stocks in accordance with the procedures set forth in paragraph (b) of this section; and the firm has received from the person a written agreement to the transaction setting forth the identity and quantity of the penny stock to be purchased.

In order to approve a person's account for transactions in penny stocks, the firm must:

- obtain from the person information concerning the person's financial situation, investment experience, and investment objectives;

- reasonably determine, based on the information required by paragraph (b)(1) of this section and any other information known by the broker-dealer, that transactions in penny stocks are suitable for the person, and that the person (or the person's independent adviser in these transactions) has sufficient knowledge and experience in financial matters that the person (or the person's independent adviser in these transactions) reasonably may be expected to be capable of evaluating the risks of transactions in penny stocks;

- deliver to the person a written statement:

  (i) setting forth the basis on which the broker or dealer made the determination required by paragraph (b)(2) of this section;

  (ii) stating in a highlighted format that it is unlawful for the broker or dealer to effect a transaction in a penny stock subject to the provisions of paragraph (a)(2) of this section unless the broker or dealer has received, prior to the transaction, a written agreement to the transaction from the person; and

  (iii) stating in a highlighted format immediately preceding the customer signature line that the broker/dealer is required by this section to provide the person with the written statement; and the person should not sign and return the written statement to the broker or dealer if it does not accurately reflect the person's financial situation, investment experience, and investment objectives; and

- obtain from the person a manually signed and dated copy of the written statement required by paragraph (b)(3) of this section.

For purposes of this section, the following transactions shall be exempt:

(1) Transactions that are exempt under 17 CFR 240.15g-1(a), (b), (d), (e), and (f).

(2) Transactions that meet the requirements of 17 CFR 230.505 or 230.506 (including, where applicable, the requirements of 17 CFR 230.501 through 230.503, and 230.507 through 230.508), or transactions with an issuer not involving any public offering pursuant to Section 4(2) of the Securities Act of 1933.

(3) Transactions in which the purchaser is an established customer of the broker or dealer. ►►

Implementation Strategy

If and when appropriate, the designated supervisor will also review all transactions involving securities of less than $5.00 and which are not listed on an exchange or NASDAQ for customer suitability issues and overall compliance with all applicable rules. Before approving an account for transactions in penny stocks, the designated supervisor will ensure that the Firm (i) obtains from the person information concerning the person's financial situation, investment experience, and investment objectives; (ii) reasonably determines, based on the information presented and any other information known by the Firm, that transactions in penny stocks are suitable for the person, and that the person (or the person's independent adviser in these transactions) has sufficient knowledge and experience in financial matters that the person (or the person's independent adviser in these transactions) reasonably may be expected to be capable of evaluating the risks of transactions in penny stocks; (iii) delivers to the person a written statement; and (iv) obtains from the person a manually signed and dated copy of the written statement unless transactions are exempt under 17 CFR 240. All relevant commission reports will be initialed as evidence of review and relevant exception reports will be reviewed on a monthly basis.

Suitability for Senior Investors

FINRA Rule 2111 (formerly NASD Rule 2310) requires that "A member or an associated person must have a reasonable basis to believe that a recommended transaction or investment strategy involving a security or securities is suitable for the customer, based on the information obtained through the reasonable diligence of the member or associated person to ascertain the customer's investment profile." The rule also requires that, before executing a recommended transaction, a firm must make reasonable efforts to obtain information concerning "the customer's age, other investments, financial situation and needs, tax status, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and any other information the customer may disclose to the member or associated person in connection with such recommendation."

Therefore, firms cannot adequately assess the suitability of a product or transaction for a particular customer without making reasonable efforts to obtain information about the customer's age, life stage and liquidity needs. Firms should carefully consider the risk of a product with the age and retirement status of the customer in mind, including its market, inflation and issuer credit risk. Additional questions to consider when dealing with senior investors are as follows:

- Is the customer currently employed? If so, how much longer does he or she plan to work?
- What are the customer's primary expenses? For example, does the customer still have a mortgage?
- What are the customer's sources of income? Is the customer living on a fixed income or anticipate doing so in the future?
- How much income does the customer need to meet fixed or anticipated expenses?
- How much has the customer saved for retirement? How are those assets invested?
- How important is the liquidity of income-generating assets to the customer?
- What are the customer's financial and investment goals? For example, how important is generating income, preserving capital or accumulating assets for heirs?
- What health care insurance does the customer have? Will the customer be relying on investment assets for anticipated and unanticipated health costs? (Ref. Regulatory Notice 07-43; Issued Sept. 10, 2007) ►►

Implementation Strategy

In the event that a transaction involves a senior investor (generally 65 years or older), the designated supervisor will monitor to ensure that that the Firm's registered representatives are making appropriate disclosures to give their customers a fair and balanced picture of the risks, costs and benefits associated with the products or transactions they recommend and recommend only those products that are suitable in light of the customer's financial goals and needs. The Firm will maintain relevant records pertaining to each customer trade and/or account data in accordance with books and records requirements.

Due to an increase in regulatory attention, increased scrutiny will be given to the following selected products to the extent that the Firm conducts such a business:

- Products that have withdrawal penalties or otherwise lack liquidity, such as deferred variable annuities, equity indexed annuities, real estate investments and limited partnerships;
- Variable life settlements;
- Complex structured products, such as collateralized debt obligations (CDOs);
- Mortgaging home equity for investment purposes; and
- Using retirement savings, including early withdrawals from IRAs, to invest in high risk investments.

3.08 Daily Reviews of Transactions

New Customer Accounts

It is the responsibility of the designated principal to review new accounts that are opened. The designated principal should make a reasonable effort to obtain additional information from the registered representative or client if necessary. The following is a list of the items that the designated principal should verify are included in the new account documentation.

General Account Review

- Name of the customer or the account number;
- Information as to if the customer is of legal age;
- Signature of registered rep introducing the account;
- Signature of principal approving the account;
- Name of person(s) authorized to transact activity in the account;
- Customer SSN or Tax ID;
- Customer occupation, employer's name & address;
- Customer's financial status, net income, liquid net worth etc.;
- Customer's tax status;
- Customer's investment objectives;
- Payment for order flow disclosure;
- Other information that is reasonable for recommendations to the customer.

Margin Accounts

- Signed margin agreement;
- Margin disclosure form.

Options Account

- Signed options account agreement;
- Customer's option experience;
- ROP Signature;
- Date options disclosure document was sent to the customer;
- Options account trading limits.

Note: The Firm currently does not allow registered representatives to open option accounts.

Discretionary Accounts

- Name of person authorized with discretionary authority;
- Date discretion granted;
- Relationship between the person with discretionary authority and the customer;
- Signed power of attorney or discretion agreement;
- Discretionary authority limits.

Note: The Firm currently does not allow registered representatives to have discretionary authority on customer accounts. ►►

Implementation Strategy

The designated principal shall review the new customer account form to ensure proper completion and accuracy upon opening of each account prior to such approval. Any/all new customer accounts will be initialed and dated on each account as evidence of review.

Customer Order Tickets

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

- Customer name and/or account number;
- Issuer ID (Symbol or CUSIP #);
- Number of shares;
- Price:
- Buy, sell or short sale indicator;
- Location of securities for a sale, ex. Long in account (all trades assumed long unless specified);
- Special instructions (Limit, All or None, etc.);
- Solicited/unsolicited (all trades assumed unsolicited unless specified);
- Time received;
- Execution time;
- Registered rep ID.

Each designated principal is responsible for reviewing a representative sample of order tickets. The Firm will establish procedures for documenting the review of order tickets. ►►

Implementation Strategy

The designated principal will provide adequate supervision to ensure that all order tickets are properly completed on an ongoing basis. All reviewed customer order tickets shall be initialed as evidence of review.

3.09 Review of Registered Representative Transactions

Transaction Review and Reporting

Section 15(g) of the Exchange Act, adopted as part of the Insider Trading and Securities Fraud Enforcement Act of 1988 (ITSFEA), requires every registered broker or dealer to establish, maintain and enforce written policies and procedures reasonably designed to prevent the misuse of material, non-public information by the broker or dealer or any associated person of the broker or dealer. To help firms comply with ITSFEA, NYSE Rule 342.21 required firms to review trades in NYSE-listed securities and related financial instruments effected for the firm's account or for the accounts of the firm's employees and family members and to promptly conduct an internal investigation into any trade the firm identified that may have violated insider trading laws or rules. FINRA Rule 3110(d) extends the requirement beyond NYSE-listed securities and related financial instruments to cover all securities.

In particular, FINRA Rule 3110(d) requires a firm to include in its supervisory procedures a process for reviewing securities transactions that is reasonably designed to identify trades that may violate the provisions of the Exchange Act, its regulations or FINRA rules prohibiting insider trading and manipulative and deceptive devices that are effected for:

- accounts of the firm;
- accounts introduced or carried by the firm in which a person associated with the firm has a beneficial interest or the authority to make investment decisions;
- accounts of a person associated with the firm that are disclosed to the firm pursuant to FINRA Rule 3210 (formerly NASD Rule 3050) or NYSE Rule 407, as applicable; and
- covered accounts (as defined below)

Firms may take a risk-based approach to monitoring transactions that take into account their specific business models, and firms are encouraged to tailor their policies and procedures to their specific business models. There is no implied obligation on firms as to how best to conduct the reviews. For instance, some firms may determine that only specific departments or employees pose a greater risk and examine trading in those accounts accordingly.

Covered Accounts

FINRA Rule 3110(d) defines the term "covered account" to include any account introduced or carried by the firm that is held by (1) the spouse of a person associated with the firm; (2) a child of the person associated with the firm or such person's spouse, provided that the child resides in the same household as or is financially dependent upon the person associated with the firm; (3) any other related individual over whose account the person associated with the firm has control; or (4) any other individual over whose account the associated person of the firm has control and to whose financial support such person materially contributes. Once a firm has identified a potentially violative trade, the firm must conduct promptly an internal investigation into the trade to determine whether a violation of the relevant laws or rules has occurred.

Internal Investigation Reporting

Although all firms must include in their supervisory procedures a process for reviewing transactions that is reasonably designed to identify trades for insider trading, only firms engaging in investment banking services must file with FINRA written reports (signed by a senior officer)

regarding their internal investigations. A firm engages in "investment banking services" if it, without limitation, acts as an underwriter; participates in a selling group in an offering for the issuer or otherwise acts in furtherance of a public offering of the issuer; acts as a financial adviser in a merger or acquisition; or provides venture capital or equity lines of credit or serves as placement agent for the issuer or otherwise acts in furtherance of a private offering of the issuer

Although firms engaged in investment banking services may have special access to information that increases the risk of insider trading by individuals at the firm, FINRA understands that some types of "investment banking services" may present less risk of insider trading than others, and firms should take these risks into account when developing their policies and procedures. As part of implementing a firm's risk-based approach to these requirements, a firm's procedures should include establishing guidelines or criteria for taking reasonable follow-up steps to determine which trades are potentially violative trades and, therefore, merit further review via an internal investigation. FINRA does not expect that every trade highlighted in an exception or other report would require a firm to conduct an internal investigation; however, firms that use such reports should maintain additional written procedures that set forth guidelines or criteria for reasonable follow-up steps for determining which trades initially highlighted merit further review.

Quarterly Reporting

FINRA Rule 3110(d) requires firms engaging in investment banking services to make written reports to FINRA within ten business days of the end of each calendar quarter describing each internal investigation initiated in the previous calendar quarter, including the firm's identity, the commencement date of each internal investigation, the status of each open internal investigation, the resolution of any internal investigation reached during the previous calendar quarter, and, with respect to each internal investigation, the identity of the security, trades, accounts, firm's associated persons or family members of such associated person holding a covered account, under review, and a copy of the firm's insider trading review policies and procedures. If a firm did not have an open internal investigation, or either initiate or complete an internal investigation during a particular calendar quarter, the firm is not required to submit a report for that quarter.

Reporting Insider Trading Violations

In addition, if a firm determines after an internal investigation that a trade has violated provisions of the Exchange Act, its regulations or FINRA rules prohibiting insider trading and manipulative and deceptive devices, the firm must, within five business days of the internal investigation's completion, file a written report with FINRA. The report must detail the completion of the investigation, including the results of the investigation, any internal disciplinary action taken, and any referral of the matter to FINRA, another SRO, the SEC or any other federal, state or international regulatory authority.

Filing Written Reports with FINRA

Firms required to file a written report with FINRA under FINRA Rule 3110(d) must provide the report, either in hard copy or electronically, to their Regulatory Coordinator. FINRA is considering alternative methods for filing such reports and will announce any changes to the filing procedures in a future *Regulatory Notice* (or similar communication).

Employee Brokerage Account Statements

A designated principal will be responsible for reviewing and initialing employee brokerage account statements of registered personnel and any family and/or controlled accounts. All designated principal reviews regarding supervised employee accounts should be reasonable enough be able to identify potential areas of concern such as any unusual trading patterns. ►►

Implementation Strategy

The designated principal shall review a sample of duplicate employee account statements and any account statements from immediate family members and/or otherwise controlled accounts as provided to the Firm, on a periodic basis. The designated principal shall confirm the review of duplicate employee account statements by initialing and dating records as evidence of review. Additionally, relevant employee brokerage account statements as produced by the designated principal will be reviewed by an alternate executive and supervisory principal.

3.10 Customer Trade Confirmations and Disclosures

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

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

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

Capacity (Agency or Principal Status)

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

- The Firm may act as an agent by transacting business on behalf of a customer through another broker/dealer;
- The Firm may act as a dual agent in which the broker/dealer effects a transaction between two customers;
- The broker/dealer may choose to act as a principal by effecting a transaction for a customer through the Firm’s proprietary account;
- The Firm may act in a "riskless principal" capacity if the broker dealer receives a buy or sell order and makes a subsequent purchase or sale as principal from or to another broker/dealer that is used to fill the customers order;

- The broker/dealer can meet the disclosure requirements set forth in *SEC Rule 10b-10* by printing a code on the front of the confirm or by printing the capacity on the front of the confirmation. The code listed on the front of the confirmation may be either alpha or numeric, but must have a corresponding legend that adequately informs the customer of the Firm's capacity.

Agency Transactions

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

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

Principal Transactions

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

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

Commissions

The broker/dealer is responsible for disclosing the amount of fees charged by the Firm to the customer for each transaction.

Source and Amount of Other Remuneration(s)

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

Payment for Order Flow

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

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

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

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

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

Note: The distribution of trade confirms by a third-party entity (clearing firm) does not relieve the introducing broker/dealer from the responsibly to comply with all payment for order flow disclosure requirements.

Bid and Ask Price (Penny Stocks)

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

Broker/Issuer Relationship

A broker/dealer is responsible for disclosing any relationship(s) it may have with a securities issuer. This disclosure must be made to the customer before effecting a transaction in the securities of the issuer (*FINRA Rule 2262 (formerly NASD Rule 2240) and SEC Rule 15c1-5*).

Non-SIPC Membership

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

Odd-lot

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

Debt Securities Yield and Redemption Disclosures

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

Dollar Price and Yield to Maturity

All transactions in debt securities effected exclusively on the basis of a dollar price, the broker/dealer is required to disclose the dollar price at which the transaction was effected and the yield to maturity calculated from the dollar price.

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

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

Asset-Backed Securities

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

Customer Request for Additional Information

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

Implementation Strategy

The designated principal or his designee shall periodically review trade confirmations to ensure that they are properly completed and include all appropriate disclosures.

3.11 Payment for Order Flow Disclosure Requirements

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

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

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

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

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

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

- Broker/dealers are to inform customers in writing, when a new account is opened, about its policies regarding the receipt of payment for order flow, including whether payment for order flow is received and a detailed description of the nature of the compensation received;
- Broker/dealers are to provide information in account opening documents about order-routing decisions, including an explanation of the extent to which unpriced orders can be executed at prices superior to the national best bid or best offer (NBBO) at the time the order is received;
- Broker/dealers are to update and provide this information on an annual basis;
- Broker/dealers are to indicate on confirmations whether the broker/dealer receives payment for order flow, and the availability of further information on request.

Note: The Firm currently does not receive remuneration, compensation or other consideration for directing customer orders for equity securities to particular broker/dealers or market centers for execution.
►►

Implementation Strategy

The Firm's new account forms and confirmations address payment for order flow. Additionally, annual notification is sent by the clearing firm on our behalf.

3.12 Clearing Agreements

All clearing or carrying agreements entered into by the Firm shall specify the respective functions and responsibilities of each party to the agreement and shall, at a minimum, specify the responsibility of each party with respect to each of the following matters:

- opening, approving and monitoring customer accounts;
- extension of credit;
- maintenance of books and records;
- receipt and delivery of funds and securities;
- safeguarding of funds and securities;
- confirmations and statements;
- acceptance of orders and execution of transactions;
- whether, for purposes of the SEC's financial responsibility rules adopted under the Act, and the Securities Investor Protection Act, as amended, customers are customers of the clearing member; and;
- the requirement to provide customer notification under paragraph (g) of this Rule (Each customer whose account is introduced on a fully disclosed basis shall be notified in writing upon the opening of his account of the existence of the clearing or carrying agreement).

Clearing Arrangement Obligations

In order for an introducing firm to carry out its functions and responsibilities under the agreement, each clearing firm must forward promptly any written customer complaint received by the clearing firm regarding its introducing firm or its associated persons relating to functions and responsibilities allocated to the introducing firm under the agreement directly to:

- The introducing firm; and
- The introducing firm's designated examining authority (DEA).

The clearing firm must notify the customer, in writing, that it has received the complaint, and that the complaint has been forwarded to the introducing firm and to the introducing firm's DEA or its appropriate regulatory agency.

Upon entering into a clearing agreement, each clearing firm must immediately, and annually thereafter, provide its introducing firm a list or description of all reports (exception and other types of reports) which it offers to its introducing firm to assist the introducing firm in supervising its

activities, monitoring its customer accounts, and carrying out its functions and responsibilities under the clearing agreement. As a result, the introducing firm must promptly notify its clearing firm, in writing, of those specific reports offered by the clearing firm that the introducing member requires to supervise and monitor its customer accounts.

The clearing firm must retain as part of its books and records required to be maintained under the Act and the Association's rules, copies of the reports requested by or provided to the introducing member.

No later than July 31st of each year, the clearing member must notify in writing the introducing member's chief executive and compliance officers of the reports offered to the introducing member pursuant to paragraph (c)(1) and the reports requested by or supplied to the introducing members of such date. The clearing member must also provide a copy of the notice to the introducing member's DEA (or, if none, to its appropriate regulatory agency or authority).

The clearing or carrying agreement may permit the introducing firm to issue negotiable instruments directly to the introducing firm's customers using instruments for which the clearing member is the maker or drawer. The clearing firm may not grant the introducing firm the authority to issue negotiable instruments until the introducing firm has notified the clearing member in writing that it has established, and will maintain and enforce, supervisory procedures with respect to the issuance of such instruments that are satisfactory to the carrying organization.

Whenever a clearing firm designated to FINRA for oversight amends any of its clearing or carrying agreements, the clearing firm shall submit the agreement to FINRA for review and approval.

Whenever an introducing firm amends its clearing or carrying agreement with a clearing firm designated to another self-regulatory organization for oversight, the introducing firm shall submit the agreement to its local FINRA district office for review. ►►

Implementation Strategy

The designated principal shall periodically review all relevant clearing agreements with the Firm to review for any potential changes and revisions. Each clearing arrangement will be reviewed and properly maintained in an appropriately labeled clearing file.

3.13 Review of Internal Reports

Commission Report Review

The designated principal will review the Firm's commission reports for indication of excessive trading, unauthorized trading, and any other sales practice violations. ►►

Implementation Strategy

The designated principal shall review commission reports for all registered representatives, including reps at OSJ/branch locations, on a monthly basis to review for any potential sales practice violations.

Trade Blotters

The designated principal will also conduct a daily review of the daily trade blotter to ensure compliance with current regulatory requirements and any additional requirements as specified by the Firm. The following is list of some of the target areas for reviewing daily trade blotters:

Target Review of Trade Blotters

- Excessive Trading (review any unusually high trading activity);
- Mark-Ups (review for excessive mark-ups);
- Front-Running (identifying situations of trading ahead of customer orders in proprietary or other accounts);
- Unusual Trading Patterns (review for inconsistent or unusual trading activity);
- Parking/Adjusted Trading (review sales and repurchases between two or more accounts or trades that are away from the market);
- Other Target Reviews (review for activity in employee accounts that is similar to that of customer accounts). ►►

Implementation Strategy

The designated principal will be responsible for reviewing all daily trade blotters to target any potential securities violations. All relevant daily trade blotters shall be initialed as evidence of review.

Restricted Trades Report

If applicable, the designated principal should also conduct a daily review of the Firm's Restricted Trades Report to ensure compliance with current regulatory requirements and any additional requirements as specified by the Firm. The designated principal should match daily securities transactions with any securities transactions specified on the Firm's Restricted List.

Rule 144 Transactions

It is the responsibility of the designated principal to monitor and supervise the Firm's policies and procedures regarding all Rule 144 transactions. The designated principal should be notified before the sale of securities where the customer is a shareholder, director, and/or officer of the company. It is the policy of the Firm that all Rule 144 transactions should be reviewed and approved by a designated principal before execution. ►►

Implementation Strategy

Each Rule 144 trade record will be initialed as evidence of review prior to execution.

Trade Cancels/Corrects

It is the responsibility of the designated principal to approve all trade cancels and corrects that occur at the Firm. In the process of reviewing trade cancels and corrects, the designated principal should look for any unusual patterns of trading activity as well as the frequency and times of trade cancellations. ►►

Implementation Strategy

The designated principal will review trade blotters and error statements for patterns of prohibited activities or any potential violations of securities rules and regulations. All relevant information shall be properly documented as evidence of review.

Exception Reports

The designated principal is responsible for reviewing the following exception reports as part of the routine supervision of the Firm and its activities. ►►

Implementation Strategy

The designated principal will be responsible for reviewing certain exception reports from the Firm's designated clearing firm on a periodic basis. The designated principal will review such reports for patterns of abuse, prohibited activities, or any potential violations of securities rules and regulations. Each exception report shall be reviewed and documented as evidence of review.

3.14 Reserve Formula Exemptions

Checks Received and Forwarded

The Firm's designated principal will be responsible for reviewing all checks received as a result of transactions conducted at the branch office location. The Firm relies on the following Reserve Formula Exemption under *SEC Rule 15c3-3(k)*:

(k)(2)(ii) Exemption

The (k)(2)(ii) exemption is the most commonly used exemption to *SEC Rule 15c3-3*. The exemption usually applies to introducing broker/dealers that clear their transactions on a fully disclosed basis through a clearing firm. Firms operating under this exemption are prohibited from holding customer funds or securities, and receiving checks from customers made payable to any entity other than the clearing firm, or in the case of direct purchases, the appropriate product sponsor (mutual fund, insurance, DPP company, etc.).

Occasionally, introducing broker/dealers will receive checks from customers that are either made payable to the introducing firm or some other party other than the clearing firm or product sponsor. The introducing firm is required to have procedures in place to handle this type of situation.

Limited Relief Regarding Requirement to Promptly Transmit Funds in Connection With Sales of Securities on a Subscription-Way Basis for the Purpose of Completing Suitability Reviews Under Identified Conditions

Recently, the staff of the SEC Division of Trading and Markets issued a no-action letter (See No Action Letter- Mark M. Attar, Senior Special Counsel, Division of Trading and Markets, SEC, to Christopher M. Salter, Allen & Overy LLP, counsel to NYLIFE Securities LLC (March 12, 2015) providing relief from the requirement to promptly transmit customer funds received in connection with sales of securities on a subscription-way basis. If the no-action letter's conditions are met, a firm is permitted to hold a customer check payable to an issuer for up to seven business days from the date that the firm's OSJ receives a complete and correct application package in order for a principal to complete a suitability review of each sale of a recommended subscription-way security.

Prior to the issuance of the no-action letter, a firm was required to send a check a registered representative received in connection with the sale of securities on a subscription-way basis to the issuer of such securities by noon local time on the business day following receipt regardless of the location at which the check was received. In providing no-action relief, SEC staff considered that a firm's obligation to supervise customer subscription-way transactions under FINRA Rules 2111 and 3110 to ensure, among other things, that the recommended transactions were suitable may conflict with the firm's obligation to promptly transmit funds to issuers under SEA Rule 15c3-3.

To alleviate any potential conflict between the relief provided by SEC staff in the no-action letter and FINRA rules, FINRA is providing limited relief, as described below, to firms from the requirements of FINRA Rule 2150(a) and NASD Rule 2830(m) regarding the obligation to promptly transmit customer funds to an issuer in connection with sales of securities on a subscription-way basis. FINRA Rule 2150(a) generally prohibits firms from making improper use of customer funds. NASD Rule 2830(m) requires firms that engage in direct retail transactions for investment company shares to transmit payments received from customers for such shares to the appropriate third-party payee (*e.g.*, the investment company or its agent) by: (i) the end of the third business day following a receipt of a customer's order to purchase such shares; or (ii) the end of one business day following receipt of a customer's payment for such shares, whichever is the later date.

Without violating either FINRA Rule 2150(a) or NASD Rule 2830(m), a firm may hold a customer check payable to an issuer for up to seven business days from the date that an OSJ receives a complete and correct application package for the sale of securities on a subscription-way basis provided that all seven conditions delineated below are present.

1. The reason that the firm is holding the application for the securities and a customer's non-negotiated check payable to a third party is to allow completion of principal review of the transaction pursuant to FINRA Rules 2111 and 3110.
2. The associated person who recommended the purchase of the securities makes reasonable efforts to safeguard the check and, after receiving information necessary to prepare a complete and correct application package, promptly prepares and forwards the complete and correct copy of the application package to an OSJ.
3. The firm has policies and procedures in place that are reasonably designed to ensure compliance with condition number 2 above.
4. A principal reviews and makes a determination of whether to approve or reject the purchase of the securities in accordance with the provisions of FINRA Rules 2111 and 3110.
5. The firm holds the application and check no longer than seven business days from the date an OSJ receives a complete and correct copy of the application package.
6. The firm maintains a copy of each such check and creates a record of the date the check was received from the customer and the date the check was transmitted to the issuer or returned to the customer.
7. The firm creates a record of the date when the OSJ receives a complete and correct copy of the application package.

If any of these seven conditions are not present, FINRA's limited relief will not apply and it will enforce FINRA Rule 2150(a) and NASD Rule 2830(m), as appropriate (Regulatory Notice 15-23; June 2015) ►►

Implementation Strategy

The Firm will operate under a (k)(2)(ii) exemption. As such, the designated principal will ensure that the Firm will refrain from holding customer funds or receiving customer securities at all times unless acting in accordance with FINRA's limited relief as discussed above. In the event that the Firm receives checks made payable to the clearing firm or a product sponsor, the Firm will promptly forward all customer funds to its designated clearing firm or the appropriate product sponsor for processing. If the Firm receives a check intended for the clearing firm, but

made payable to the Firm, the Firm will endorse the check to the clearing firm, promptly forward it to them for deposit and notify the customer that future checks are to only be payable to the clearing firm. If a subsequent check is received made payable to the Firm from the same customer, the check will promptly be returned to the customer. If the Firm receives a check intended for a direct business product sponsor made payable to the Firm, in most instances the check will promptly be returned to the customer due to the fact that these sponsors typically do not accept third-party (endorsed) checks. The Firm will maintain a checks received and forwarded blotter.

3.15 Review of Sales Literature and Correspondence

Each member firm is responsible for developing written procedures for reviewing incoming and outgoing correspondence, both written and electronic, with the public that relate to investment banking or securities business. These procedures should include the business activities, size, structure, and customer base of the Firm.

A firm should structure their procedures to ensure that correspondence directed to a particular associated person or the member firm's securities business is reviewed. The review process should properly identify and handle customer complaints and ensure that customer funds and or securities are processed pursuant to the Firms procedures.

All communications with the public should meet the minimum criteria of both *general* and *specific* standards as set forth in *Rule 2210(d).* The following is an overview of some of the general standards as they apply to *Rule 2210:*

General Standards *Rule 2210(d)(1)*

- All communications should be based on "principles of fair dealing and good faith;"
- Any dissemination of false, misleading, exaggerated, and/or unwarranted statements to the public is prohibited;
- Consideration should be given to certain risks, volatility, and uncertainty associated with the securities industry and general market conditions;
- Members and Associated Persons should comply with both general and specific standards of *Rule 2210(d)* when sponsoring and/or participating in any event which may or may not be considered as an advertisement;
- Any omission of material facts which could *mislead* the public is prohibited;
- All communication should be tailored to the size, scope, and level of investment experience of the audience for a clear understanding of the content of the message.

Record keeping Requirements

For the purposes of maintaining record-keeping requirements as they relate to *Rule 2210 Communications with the Public*, all branch offices will maintain a separate file for all correspondence, advertisements, and sales literature, for a period of three years from the date of use, with the first two years maintained in an easily accessible location.

Approval/ Evidencing Procedures

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

Implementation Strategy

On an ongoing basis, the designated principal will review and approve an appropriate sample of correspondence. All advertising and sales literature will be reviewed and approved prior to use. All items of review will be recorded and/or filed in a central log with the date of review, type of advertising material, name of registered representative preparing such material, and the designated principal's signature or initial of approval. If necessary, such information will be submitted to the main office for forwarding to FINRA's Advertising Department ten (10) days prior to first use pursuant to Rule 2210. Each review of correspondence, advertising and sales literature will be initialed and dated as evidence of review.

Email Supervision

As part of the designated principal's supervisory responsibility, the designated supervisor will adhere to the foregoing procedures regarding the supervision of registered personnel's email.

Preservation of Correspondence

The Firm shall ensure proper preservation of all correspondence of registered representatives that relate to investment banking and securities business, pursuant to *Rule 3110*. The Firm will also ensure that the names of the persons who prepared the outgoing correspondence and those who reviewed the correspondence are ascertainable from all retained records and documentation.

In accordance with Supplemental Material 3110.06 Risk-based Review of Correspondence and Internal Communications, by employing risk-based principles, FINRA member firms must decide the extent to which additional policies and procedures for the review of: (a) incoming and outgoing written (including electronic) correspondence that fall outside of the subject matters listed in Rule 3110(b)(4) are necessary for its business and structure. If a FINRA member firm's procedures do not require that all correspondence be reviewed before use or distribution, the procedures must provide for: (1) the education and training of associated persons regarding the firm's procedures governing correspondence; (2) the documentation of such education and training; and (3) surveillance and follow-up to ensure that such procedures are implemented and followed. (b) internal communications that are not of a subject matter that require review under FINRA rules and federal securities laws are necessary for its business and structure. ►►

Implementation Strategy

The Firm is maintaining incoming and outgoing hardcopy and electronic correspondence (e-mail) at the main office. The designated principal conducts a sample review of such hardcopy and e-mail correspondence in compliance with these policies and procedures. The Firm also will ensure that each associated person receives appropriate education and training regarding the Firm's procedures governing correspondence and that the documentation of such education and training is maintained at the Firm's main office. Additionally, the Firm's designated supervisor will provide ongoing monitoring and follow-up to ensure that such procedures are implemented and followed. Documentary evidence of the e-mail correspondence review will be maintained on the Firm's email archiving vendor

3.16 Fees Charged to Customers

In accordance with *Rule 2430,* any charges for services performed by the Firm or clearing firm, including miscellaneous services such as collection of moneys due for principal, dividends, or interest; exchange or transfer of securities; appraisals, safe-keeping or custody of securities, and other services, shall be reasonable and not unfairly discriminatory between customers. ►►

Implementation Strategy

The designated supervisor will monitor the Firm's books and records for any excessive or unreasonable charges for any services performed by the Firm (if applicable).

3.17 Customer Complaints

The Firm acknowledges that in the course of business, some firms may receive periodic complaints on various issues related to the business practices of the Firm and/or securities industry. As such, the Firm has established a policy on the receipt and processing of complaints received by any registered and/or associated person employed by the Firm. In order to prevent and/or reduce future complaints from occurring, it is the Firm's policy to conduct all business with the observance of "high standards of commercial honor and just and equitable principles of trade."

Definition

The definition of a complaint can be any written statement by a customer, or any person acting on behalf of a customer, who alleges wrongdoing by a person acting under a broker/dealer's control in connection with a securities transaction of that customer.

Review of Customer Complaints

FINRA Rule 3110(b)(5) (Review of Customer Complaints) requires a firm to have supervisory procedures to capture, acknowledge and respond to all written (including electronic) customer complaints. The rule does not include oral complaints because they are difficult to capture and assess and may raise competing views as to the substance of the complaint being alleged. However, FINRA encourages firms to provide customers with a form or other format that will allow customers to communicate their complaints in writing. FINRA also reminds firms that the failure to address any customer complaint, written or oral, may be a violation of FINRA Rule 2010 (Standards of Commercial Honor and Principles of Trade).

Receipt and Processing of Complaints

It is the Firm's policy that any recipient of a *written* complaint, who is employed by the Firm, should forward all such documentation to the compliance department and/or designated supervisor for immediate review. Any *oral* complaints made by customers will be immediately forwarded to the appropriate compliance department and/or designated supervisor for research and review. It shall be the responsibility of the designated supervisor to determine whether each complaint can be considered an operational issue (such as a late check or dividend, or other minor issue) or a sales practices issue (such as unauthorized trading, misrepresentation, etc.) for the proper handling of all complaints. All complaints will be maintained in a separate complaint file for further research and review purposes.

Internal Investigation of Customer Complaints

Once a customer complaint is received by the Firm, the designated supervisor must immediately review any and all relevant supporting documentation involving such allegations to determine the accuracy and facts surrounding of each complaint received by a client. As previously stated, each complaint must be reviewed to determine if such complaint can be considered an *operational* issue (such as a late check or dividend, or other minor issue, etc.), or a *sales practice* issue (such as unauthorized trading, misrepresentation, etc.). Once the customer complaint is reviewed and a proper conclusion as to the status and merits of each complaint are determined, it shall be the responsibility of the designated supervisor to contact the complainant (either verbally

and/or in writing, but at least in writing). It will be the Firm's goal and objective to attempt to immediately correct any operational issue and resolve any sales practice issue in compliance with federal, state and SRO securities rules and regulations, and within a manner that shall be considered reasonable under normal circumstances by the Firm and the complainant. If such issues cannot be resolved by the Firm, the designated supervisor will periodically monitor the status of the complaint as to the status and outcome. Any/all existing and follow-up correspondence with the complainant and/or appropriate regulatory agency will be documented and maintained in chronological order in a customer complaint file. Additional notifications will be made pursuant to FINRA Rule 4530 and the required standards for filing quarterly customer complaint data and reportable events.

Record of Written Customer Complaints

Consistent with existing requirements, FINRA Rule 4513 (formerly NASD Rule 3110(d)-(e)) addresses a member's obligation to preserve records of written customer complaints at each office of supervisory jurisdiction (OSJ) and defines the term "customer complaint" for purposes of this requirement. The new rule clarifies that the obligation to keep customer complaint records in each OSJ applies only to complaints that relate to that office, including complaints that relate to activities supervised from that office, and provides that firms may maintain the required records at the OSJ or make them promptly available at such office upon FINRA's request. Lastly, to take into account FINRA's four-year routine examination cycle for certain member firms, FINRA Rule 4513 requires that firms preserve the customer complaint records for a period of at least four years. (Ref. Notice 11-19)

Reporting Requirements

In accordance with Regulatory Notice 11-06 and effective July 1, 2011, the SEC approved FINRA's proposal to adopt a rule governing reporting requirements for the consolidated FINRA rulebook. The new rule, FINRA Rule 4530, is based in large part on former NASD Rule 3070, taking into account certain requirements under NYSE Rule 351.

FINRA Rule 4530, which is modeled after former NASD Rule 3070 and NYSE Rule 351, requires member firms to: (1) report to FINRA certain specified events and quarterly statistical and summary information regarding written customer complaints; and (2) file with FINRA copies of certain criminal actions, civil complaints and arbitration claims.

FINRA Rule 4530(b) requires a member firm to report to FINRA within 30 calendar days after the firm has concluded, or reasonably should have concluded, on its own that the firm or an associated person of the firm has violated any securities-, insurance-, commodities-, financial- or investment-related laws, rules, regulations or standards of conduct of any domestic or foreign regulatory body or self-regulatory organization (SRO).

The new rule does not require firms to report every instance of noncompliant conduct. With respect to violative conduct by a firm, this provision requires the firm to report only conduct that has widespread or potential widespread impact to the firm, its customers or the markets, or conduct that arises from a material failure of the firm's systems, policies or practices involving numerous customers, multiple errors or significant dollar amounts. Regarding violative conduct by an associated person, the provision requires a firm to report only conduct that has widespread or potential widespread impact to the firm, its customers or the markets; conduct that has a significant monetary result on a member firm(s), customer(s) or market(s); or multiple instances of any violative conduct.

For purposes of compliance with the "reasonably should have concluded" standard, FINRA will rely on a firm's good faith reasonable determination. If a reasonable person would have concluded that a violation occurred, then the matter is reportable; if a reasonable person would

not have concluded that a violation occurred, then the matter is not reportable. Additionally, a firm determines the person(s) within the firm responsible for reaching such conclusions, including the person's required level of seniority. However, stating that a violation was of a nature that did not merit consideration by a person of such seniority is not a defense to a failure to report such conduct. Further, it may be possible that a department within a firm reaches a conclusion of violation, but on review senior management reaches a different conclusion. Nothing in the rule prohibits a firm from relying on senior management's determination, provided such determination is reasonable as described above.

Technical Changes to Reporting Application

Member firms should continue to report specified events and quarterly statistical and summary information on written customer complaints via the Regulatory Filings Application on the FINRA Firm Gateway. Beginning July 1, 2011, the application will be renamed the Rule 4530 Application.

Firms must use new event codes for batch reporting specified events on or after July 1, 2011. The new codes are 11 through 20, and are described in detail in Attachment B. The old event codes, 01 through 10, will continue to be available for amending batch events that were reported prior to July 1, 2011, pursuant to FINRA Rule 4530 (formerly NASD Rule 3070) or NYSE Rule 351. There are no changes to the codes for reporting quarterly statistical and summary information regarding written customer complaints.

Beginning June 6, 2011, firms will have an opportunity to test the new event codes for batch reporting through FINRA's test site at: https://regfilingtest.finra.org.

FINRA is adding a new Rule 4530 Problem Code to address changes the United States Department of Labor (DOL) has made to its fiduciary rule. The DOL has stated that certain provisions of the fiduciary rule and the related exemptions will become applicable on June 9, 2017. FINRA is also adding new fields to the Rule 4530 Filing Application Form, amending the existing Rule 4530 Product and Problem Codes and adding a new Problem Code, to address changes made by the Municipal Securities Rulemaking Board (MSRB) to extend the MSRB customer complaint and related recordkeeping rules to municipal advisors. The changes to the MSRB rules will become effective on October 13, 2017.

In addition, FINRA is making other non-substantive technical and stylistic changes to the Product and Problem Codes and modifying the Rule 4530 system to limit the period during which firms can amend their submissions.

Starting on October 1, 2017, the Rule 4530 Filing Application Form will include two new fields ("Non-Registered Rep Associated Person" and "Municipal Advisory Services") in the "Related To" subsection of the form. Firms can use these new fields when submitting information relating to associated persons who are not registered or relating to municipal advisory services. In addition, also starting on October 1, 2017, firms can use the amended and new Rule 4530 Product and Problem Codes relating to municipal advisory activities, including new Problem Code 15 – Municipal Advisor Conflict of Interest, when applicable, to report customer complaint information and information relating to required documents filed under Rules 4530(f) and (g). *Ref. FINRA Regulatory Notice 17-21; May 31, 2017.*

Effective Date

Any matter that becomes subject to reporting or filing prior to July 1, 2011, must be reported or filed in accordance with the requirements of FINRA Rule 4530 (formerly NASD Rule 3070) and NYSE Rule 351, as applicable, including the reporting and filing deadlines of those rules. Any matter that becomes subject to reporting or filing on or after July 1, 2011, must be reported or filed in accordance with the requirements of FINRA Rule 4530.

For purposes of compliance with FINRA Rule 4530(d) (quarterly statistical and summary complaint information), starting on July 1, 2011, the beginning of the third calendar quarter, firms must report such information in accordance with the requirements of the new rule. The first report based on the requirements of FINRA Rule 4530(d) is due by October 15, 2011, which is the reporting deadline for customer complaints received during the third calendar quarter.

Revised Rule 4530 Problem Codes for Reg BI, Form CRS & Suitability

To address issues that may arise in connection with a firm's compliance with Reg BI and Form CRS, FINRA is adding new Problem Code 16–Reg BI and new Problem Code 17–Form CRS to the current Rule 4530 Problem Codes. Firms should use Problem Code 16–Reg BI when a reportable matter involves allegations concerning possible violations of Reg BI. This encompasses allegations that recommendations of securities or investment strategies involving securities, including recommendations of account type, made to retail customers were not in the best interest of the retail customer. It also covers allegations of possible violations of Reg BI's four component obligations (Care, Disclosure, Conflict of Interest, and Compliance). Firms should use Problem Code 17–Form CRS when a reportable matter involves allegations concerning the firm's Form CRS or issues regarding delivery of Form CRS to retail investors

FINRA also is making related revisions to the description of Problem Code 04–Suitability to help guide member firms' use of that code after the Reg BI compliance date, especially considering that the reporting obligation under FINRA Rule 4530(d) and the choice of problem code are based on the alleged activity in the complaint. The revised description of Problem Code 04–Suitability explains that, for allegations concerning activity that occurred after the Reg BI compliance date of June 30, 2020, firms should consider whether to use Problem Code 16–Reg BI, even if the allegations contain suitability terminology. Problem Codes 16 and 17 will be available for Rule 4530 reporting purposes starting on July 18, 2020. (Ref. Regulatory Notice 20-17; June 10, 2020)

Tracking and Classification

FINRA Rule 4530 was developed to assist member firms track and properly report their customer complaints. The data is processed into two types of regulatory information that are:

- Quarterly customer complaint data;
- Reportable events.

Quarterly Customer Complaint/4530 Filing Requirements

Period Ending	Due Dates
1st quarter 2022	April 15, 2022
2nd quarter 2022	July 15, 2022
3rd quarter 2022	October 17, 2022
4th quarter 2022	January 16, 2023

Quarterly Customer Complaint Data

The quarterly customer complaint data should contain all written customer complaints received by the member firm or associated persons during the previous quarter. No report is required by the member firm if no customer complaints are received during such period.

FINRA Rule 4530(d) retains the requirement of the NASD and NYSE rules that firms report quarterly statistical and summary written customer complaint information, with the following modification. If a firm *has engaged in securities activities* with a person (other than a broker or dealer), the firm is required to report *any written grievance* by such person involving the firm or an associated person. If a firm *has sought to engage in securities activities* with a person (other than a broker or dealer), the firm is only required to report *any securities-related written grievance* by such prospective customer involving the firm or an associated person or any written complaints alleging theft or misappropriation of funds or securities or forgery.

FINRA Rule 4530(f) keeps the requirement of the NASD rule that firms promptly file with FINRA copies of certain: (1) criminal complaints and plea agreements; (2) civil complaints; and (3) arbitration claims. FINRA Rule 4530 extends this filing requirement to any financial-related insurance civil complaint filed against the firm or any financial-related insurance arbitration claim against the firm. FINRA Rule 4530(g) retains the exception for any arbitration claim that is originally filed in the FINRA Dispute Resolution forum and for those documents that have already been requested by FINRA's Registration and Disclosure (RAD) staff, provided that the firm produces those requested documents to RAD staff within 30 days after receipt of such request.

The rule outlines certain reportable events that are considered of significant importance where a registered representative must report such occurrences to the Firm in a prompt manner. If the member firm is notified of the existence of such conditions, it must report these incidences to FINRA within the required time period.

1. If a member firm or associated person of the Firm has been found to have violated any securities-, insurance-, commodities-, financial- or investment-related laws, rules, regulations or standards of conduct of any domestic or foreign regulatory body, self-regulatory organization or business or professional organization.
2. If a member firm or associated person of the Firm is subject of a written customer complaint that alleges theft, misappropriation of funds/securities, or forgery.
3. If a member firm or associated person of the Firm is named as a defendant or respondent in any proceeding brought by a domestic or foreign regulatory body or self-regulatory organization alleging the violation of any provision of the Exchange Act, or of any other federal, state or foreign securities, insurance or commodities statute, or of any rule or regulation thereunder, or of any provision of the by-laws, rules or similar governing instruments of any securities, insurance or commodities domestic or foreign regulatory body or self-regulatory organization.
4. If a member firm or associated person of the Firm is denied registration, expelled, enjoined, directed to cease and desist, suspended or otherwise disciplined by any securities, insurance or commodities industry domestic or foreign regulatory body or self-regulatory organization or is denied membership or continued membership in any such self-regulatory organization; or is barred from becoming associated with any member of any such self-regulatory organization.
5. If a member firm or associated person of the Firm is indicted, or convicted of, or pleads guilty to, or pleads no contest to, any felony; or any misdemeanor that involves the purchase or sale of any security, the taking of a false oath, the making of a false report, bribery, perjury, burglary, larceny, theft, robbery, extortion, forgery, counterfeiting, fraudulent concealment, embezzlement, fraudulent conversion, or misappropriation of funds, or securities, or a conspiracy to commit any of these offenses, or substantially equivalent activity in a domestic, military or foreign court.
6. If a member firm or associated person of the Firm is a director, controlling stockholder, partner, officer or sole proprietor of, or an associated person with, a broker, dealer, investment company, investment advisor, underwriter or insurance company that was

suspended, expelled or had its registration denied or revoked by any domestic or foreign regulatory body, jurisdiction or organization or is associated in such a capacity with a bank, trust company or other financial institution that was convicted of or pleaded no contest to, any felony or misdemeanor in a domestic or foreign court.

7. If an associated person of the Firm is a defendant or respondent in any securities- or commodities-related civil litigation or arbitration, is a defendant or respondent in any financial-related insurance civil litigation or arbitration, or is the subject of any claim for damages by a customer, broker or dealer that relates to the provision of financial services or relates to a financial transaction, and such civil litigation, arbitration or claim for damages has been disposed of by judgment, award or settlement for an amount exceeding $15,000. However, when the member is the defendant or respondent or is the subject of any claim for damages by a customer, broker or dealer, then the reporting to FINRA shall be required only when such judgment, award or settlement is for an amount exceeding $25,000.
8. If a member firm or associated person of the Firm is involved in the sale of any financial instrument, the provision of any investment advice or the financing of any such activities with any person who is, subject to a “statutory disqualification” as that term is defined in the Exchange Act. The report shall include the name of the person subject to the statutory disqualification and details concerning the disqualification.
9. If an associated person of the member is the subject of any disciplinary action taken by the member involving suspension, termination, the withholding of compensation or of any other remuneration in excess of $2,500, the imposition of fines in excess of $2,500 or is otherwise disciplined in any manner that would have a significant limitation on the individual’s activities on a temporary or permanent basis.

Reporting Obligations

Each member shall promptly report to FINRA, but in any event not later than 30 calendar days, after the member has concluded or reasonably should have concluded that an associated person of the member or the member itself has violated any securities-, insurance-, commodities-, financial- or investment-related laws, rules, regulations or standards of conduct of any domestic or foreign regulatory body or self-regulatory organization.

Each person associated with a member shall promptly report to the member the existence of any of the events set forth above.

Each member shall report to FINRA statistical and summary information regarding written customer complaints in such detail as FINRA shall specify by the 15th day of the month following the calendar quarter in which customer complaints are received by the member.
Each member shall promptly file with FINRA copies of:

1. any indictment, information or other criminal complaint or plea agreement for conduct reportable under paragraph (a)(1)(E) of this Rule;
2. any complaint in which a member is named as a defendant or respondent in any securities- or commodities-related private civil litigation, or is named as a defendant or respondent in any financial-related insurance private civil litigation;
3. any securities- or commodities-related arbitration claim, or financial-related insurance arbitration claim, filed against a member in any forum other than the FINRA Dispute Resolution forum;
4. any indictment, information or other criminal complaint, any plea agreement, or any private civil complaint or arbitration claim against a person associated with a member that is reportable under question 14 on Form U4, irrespective of any dollar thresholds Form U4 imposes for notification, unless, in the case of an arbitration claim, the claim has been filed in the FINRA Dispute Resolution forum. (Ref. Notice 11-06; effective July 1, 2011)

Reporting to Form U-4 and U-5

All member firms or associated persons are required to promptly file, with full disclosure, all amendments to Form BD, Form U-4 and Form U-5 or all other required filings. No sections or content of *Rule 3070* shall eliminate or reduce the reporting responsibilities of the member firm or the associated person.

The SEC has announced the immediate effectiveness of amendments to Section 4 of Schedule A to FINRA By-Laws establishing a late fee of $10 dollars per day, up to a maximum of $300, to be assessed by FINRA against firms that fail timely to report a new disclosure event or a change in the status of a disclosure event previously reported on an initial Form U5, an amendment to a Form U5, or an amendment to a Form U4. FINRA will assess this fee starting on the day following the last date on which the event was required to be reported under Rules.

In this context, disclosure events generally refer to events that require affirmative answers to the questions on Forms U4 and U5 that elicit information about criminal actions, regulatory disciplinary actions, civil judicial actions, customer complaints, terminations, and financial matters (currently, Questions 14A-M on the Form U4 and Questions 7A-F on the Form U5). Disclosure events must be reported either 30 days or 10 days after the triggering event, depending on the type of information to be reported.

Article V, Section 2(c) of FINRA By-Laws requires that every application for registration (Form U4) filed with FINRA be kept current at all times by supplementary amendments that must be filed with FINRA not later than 30 days after learning of the facts or circumstances giving rise to a reporting obligation. If such filing involves a statutory disqualification as defined in Section 3(a)(39) and Section 15(b)(4) of the Securities Exchange Act of 1934, such amendment must be filed not later than 10 days after such disqualification occurs. Article V, Section 3(a) of the By-Laws requires a member, not later than 30 days following the termination of the association with a member of a person who is registered with it, to give notice of the termination of such association to FINRA (Form U5). Article V, Section 3(b) of the By-Laws requires members to file an amendment to the Form U5 in the event that the member learns of facts or circumstances causing any information in the Form U5 to become inaccurate or incomplete, not later than 30 days after the member learns of the facts or circumstances giving rise to the amendment. Under the amended schedule, when a member submits a late disclosure filing, FINRA, through CRD, will calculate the late fee and debit the firm's CRD account $10 per day, up to a maximum charge of $300. (NTM 04-09; Effective Mar. 8, 2004)

Exemptions

Under certain circumstances, a member firm may be exempt from the reporting requirements of *Rule 3070*. In order to qualify for an exemption from the provisions of the rule member firms must be a member of another Self-Regulatory Organization. A member firm must be subject to a reporting system with substantially similar reporting requirements, as FINRA.

The designated supervisor is responsible for reviewing all customer complaints and reporting them to FINRA as required by *Rule 3070*.
It should be noted that complaints received via email fall under the category of “written customer complaints” and are fully subject to *Rule 3070*. ►►

Note: Please see the Firm’s Customer Complaint Folder for further details.

Implementation Strategy

In the event that a customer complaint is received by the Firm, the designated supervisor must immediately review any and all relevant supporting documentation

involving such allegations to determine the accuracy and facts surrounding of each complaint received by a client. As previously stated, each complaint must be reviewed to determine if such complaint can be considered an *operational* issue (such as a late check or dividend, or other minor issue, etc.), or a *sales practice* issue (such as unauthorized trading, misrepresentation, etc.). Once the customer complaint is reviewed, discussed with the representative involved (if deemed appropriate) and a proper conclusion as to the status and merits of each complaint are determined and documented, it shall be the responsibility of the designated supervisor to contact the complainant (either verbally and/or in writing). It will be the Firm's goal and objective to attempt to immediately correct any operational issue and resolve any sales practice issue in compliance with federal, state and SRO securities rules and regulations, and within a manner that shall be considered reasonable under normal circumstances by the Firm and the complainant. If such issues cannot be resolved by the Firm, the designated supervisor will periodically monitor the status of the complaint as to the status and outcome. Any/all existing and follow-up correspondence with the complainant and/or appropriate regulatory agency will be documented and maintained in chronological order in a customer complaint file.

Additionally, the designated principal will review each customer complaint and determine if the complaint meets the criteria of one of the 10 reportable items requiring notification to FINRA through the 3070 system within 10 business days of receipt. If the complaint meets the criteria of a reportable event, the designated principal will report the complaint through the 3070 system within 10 business days of receipt. If the compliant does not meet the criteria of one of the 10 reportable items, the designated principal will file the complaint in the quarterly filing as prescribed in Rule 3070. The designated principal will also report all applicable disclosure information relating to customer complaints on the registered person's Form U-4 or Form U-5. A review of each customer complaint will be evidenced by the date and initials of the designated principal, and subsequently placed in the Customer Complaint file for future reference.

Regulatory Inquiries

In the event of a formal or informal inquiry made by any federal, state, self-regulatory organization (SRO) or other regulatory authority, the designated principal will be responsible for forwarding all calls or other requests to the Compliance Department or other appropriate department or responsible personnel for further review.

In accordance with Notice 10-59 and effective December 29, 2010, the SEC recently approved amendments to FINRA Rule 8210 (Provision of Information and Testimony and Inspection and Copying of Books) that require information provided via a portable media device pursuant to a request under the rule be encrypted. Data security issues regarding personal information have become increasingly important in recent years. In this regard, FINRA believes that requiring persons to encrypt information on portable media devices provided to FINRA in response to Rule 8210 requests will help ensure that personal information is protected from improper use by unauthorized third parties.

As amended, the rule requires that when information responsive to a request pursuant to Rule 8210 is provided on a portable media device, it must be "encrypted"—*i.e.,* the data must be encoded into a form in which meaning cannot be assigned without the use of a confidential process or key. To help ensure that encrypted information is secure, persons providing encrypted information to FINRA via a portable media device are required:

1. to use an encryption method that meets industry standards for strong encryption; and
2. to provide FINRA staff with the confidential process or key regarding the encryption in a communication separate from the encrypted information itself (*e.g.,* a separate email, fax or letter).

Currently, FINRA views industry standards for strong encryption to be 256-bit or higher encryption. Encryption software meeting this standard is widely available as embedded options in desktop applications and through various vendors via the Internet at no cost or minimal cost to the user. (Ref. Notice 10-59; effective December 29, 2010) ►►

Implementation Strategy

In the event that the Firm receives a request from FINRA pursuant to Rule 8210, the Firm's designated supervisor will ensure that any documentation sent to FINRA via a portable media device is properly encrypted with strong encryption (256-bit or higher encryption) and to provide FINRA staff with a confidential process or key regarding the encryption in a communication separate from the encrypted information itself (*e.g.,* a separate email, fax or letter).

Inappropriate Activity

The designated compliance officer will notify the appropriate member of senior management at any time there is an indication that any associated person at the OSJ or branch office is involved in any activity that is not consistent with fair and equitable practices of trade. This includes, but is not limited to, any evidence of securities manipulation, fraud, inappropriate conduct, harassment, or any other activity that violates any federal, state, statutory, or regulatory law, rule, or regulation.

Internal Investigations

It is the responsibility of the designated compliance officer to promptly report any unusual or suspicious branch office activity to the appropriate department or executive management responsible for further review.

3.18 Review and Update of Executive Representative Contact Information

Firms must appoint and certify to FINRA one executive representative to represent, vote, and act on behalf of the broker/dealer in all affairs of FINRA. The executive representative must be a member of senior management and a registered principal of the firm. In addition, the executive representative is required to maintain an Internet electronic e-mail account for communication with FINRA and must update firm contact information.

Given the important role of the executive representative in representing, voting, and acting for the member, as well as receiving communications from FINRA, FINRA believes that members should review and update the executive representative designation and contact information periodically to ensure its accuracy. Based on recommendations made by its Small Firm Rules Impact Task Force, FINRA has decided to eliminate previous quarterly review requirements and replace them with Rule 1160, which provides for a more comprehensive approach for verifying and updating all contact information required to be reported. Specifically, Rule 1160 requires firms to provide the required contact information via FCS or such other means as FINRA may specify. Rule 1160 also requires firms to update the contact information promptly, but in any event not later than 30 days following any change in such information, as well as to review and, if necessary, update the information within 17 business days after the end of each calendar year. In addition, the rule requires firms to comply with any FINRA request for such information promptly, but in any event not later than 15 days following the request, or such longer period that may be agreed to by FINRA staff. (Ref. Regulatory Notice 07-42; Effective Dec. 31, 2007) ►►

Implementation Strategy

The Firm's designated Executive Representative, or his/her designee, will ensure that all information concerning the executive representative is current and up-to-date as filed through the FCS system. In the event of a material change to key

personnel as reflected through FCS, the designated supervisor will ensure that the required disclosures are filed promptly, but in any event not later than 30 days following any change in such information, as well as to review and, if necessary, update the information within 17 business days after the end of each calendar year. In addition, the Firm will comply with any FINRA request for such information promptly, but in any event not later than 15 days following the request, or such longer period that may be agreed to by FINRA staff.

3.19 Business Continuity Planning and Emergency Contact Information

In accordance with FINRA Rule 4370 (formerly NASD Rule 3510), each FINRA member firm must create and maintain a written business continuity plan identifying procedures relating to an emergency or significant business disruption. Such procedures must be reasonably designed to enable the member to meet its existing obligations to customers. In addition, such procedures must address the member's existing relationships with other broker-dealers and counter-parties. The business continuity plan must be made available promptly upon request to FINRA staff.

Each member must update its plan in the event of any material change to the member's operations, structure, business or location. Each member must also conduct an annual review of its business continuity plan to determine whether any modifications are necessary in light of changes to the member's operations, structure, business, or location.

The elements that comprise a business continuity plan are flexible and may be tailored to the size and needs of a member. Each plan, however, must at a minimum, address:

- Data back-up and recovery (hard copy and electronic);
- All mission critical systems;
- Financial and operational assessments;
- Alternate communications between customers and the member;
- Alternate communications between the member and its employees;
- Alternate physical location of employees;
- Critical business constituent, bank, and counter-party impact;
- Regulatory reporting;
- Communications with regulators; and
- How the member will assure customers' prompt access to their funds and securities in the event that the member determines that it is unable to continue its business.

If a member relies on another entity for any one of the above-listed categories or any mission critical system, the member's business continuity plan must address this relationship

Disclosure Requirement. Each member must disclose to its customers how its business continuity plan addresses the possibility of a future significant business disruption and how the member plans to respond to events of varying scope. At a minimum, such disclosure must be made in writing to customers at account opening, posted on the member's Web site (if the member maintains a Web site), and mailed to customers upon request.

Emergency Contact Information. Each member shall report to FINRA, via such electronic or other means as FINRA may specify, prescribed emergency contact information for the member. The emergency contact information for the member includes designation of two associated persons as emergency contact persons. At least one emergency contact person shall be a member of senior management and a registered principal of the member. If a member designates a second emergency contact person who is not a registered principal, such person shall be a member of senior management who has knowledge of the member's business operations. A member with only one associated person shall designate as a second emergency contact person an individual, either registered with another firm or nonregistered, who

has knowledge of the member's business operations (e.g., the member's attorney, accountant, or clearing firm contact).

Annual Review. Members must designate a member of senior management to approve the plan and he or she shall be responsible for conducting the required annual review. The member of senior management must also be a registered principal. An annual review of its business continuity plan shall determine whether any modifications are necessary in light of changes to the firm's operations, structure, business and/or location.

Electronic Reporting Requirement. Each member must promptly update its emergency contact information, via such electronic or other means as FINRA may specify, in the event of any material change. With respect to the designated emergency contact persons, each member must identify, review, and, if necessary, update such designations in the manner prescribed by Rule 1160. ►►

Note: Please see the Firm's Business Continuity Plan (BCP) as a separate set of procedures for further details.

As required by SEC Regulation Systems Compliance and Integrity (Regulation SCI), FINRA adopted Rule 4380 requiring member firm participation in business continuity and disaster recovery (BC/DR) testing. The rule authorizes FINRA to designate firms that must participate in FINRA's annual BC/DR test based on established standards, which FINRA first published in Regulatory Notice 15-43 and updated in Regulatory Notice 18-09. This Notice consolidates FINRA's designation criteria (related to FINRA TRFs, ORF, TRACE, TRACE for Treasuries, CAT, ADF, OTCBB), as previously announced in Notices 15-43 and 18-09, without change.

Regulation SCI requires that FINRA, as an SCI entity, establish, maintain and enforce written policies and procedures that address, among other things, "business continuity and disaster recovery plans that include maintaining backup and recovery capabilities sufficiently resilient and geographically diverse…." In addition, Regulation SCI requires each SCI entity, including FINRA, to designate firms that must participate in the testing of the entity's BC/DR plans.

To comply with these Regulation SCI requirements, FINRA adopted Rule 4380. The rule authorizes FINRA to designate member firms that must participate in annual BC/DR testing according to established criteria designed to ensure participation by firms FINRA reasonably determines are, taken as a whole, the minimum necessary for maintaining fair and orderly markets in the event of the activation of its BC/DR plan.

Rule 4380(c) states the obligations of member firms that are designated for mandatory participation in FINRA's BC/DR testing according to the standards specified. Specifically, designated firms would be required to fulfill, within the time frames established by FINRA, certain testing requirements that FINRA determines are necessary and appropriate. These requirements could include, for example, bringing up their systems on the designated testing day and processing test scripts to simulate trading activity. Designated firms may also be required to satisfy related reporting requirements; for example, reporting the firm's testing results, so that FINRA may evaluate the efficacy of the test and, correspondingly, its BC/DR plan.

FINRA will notify firms that meet these criteria individually by email in or around April of each year. FINRA will include in the notification email the date of the annual test, which typically is in October of each year; information about the voluntary connectivity pre-test, which typically occurs several weeks before the annual test date; and the contact information for FINRA staff that coordinates testing activity. (Ref. Regulatory Notice 19-15; April 19, 2019)

Implementation Strategy

The designated supervisory principal and member of senior management will review the Firm's Business Continuity Plan to ensure that the Plan, at a

minimum, addresses all relevant key elements as referenced above and any proposed changes thereto before approving the Plan. Additionally, the designated supervisor will also conduct a periodic and annual review of its Plan for any required updating in the event of any material changes in its operations, structure, business, and/or location.

The designated Executive Representative, or his/her designee, will ensure that the Firm properly designates two emergency contact persons (primary and secondary) who shall be registered principals and members of senior management. Each designation shall be reviewed and updated promptly, but in any event not later than 30 days following any change in such information, as well as to review and, if necessary, update the information within 17 business days after the end of each calendar year. In addition, the Firm will comply with any FINRA request for such information promptly, but in any event not later than 15 days following the request, or such longer period that may be agreed to by FINRA staff.

Review of BCP for Pandemic Preparedness

A pandemic occurs when there is a widespread disease outbreak. While a pandemic may vary in severity and duration, it may present significant financial or operational risks for a member firm for its duration and beyond. A member firm may conduct its own analysis to determine whether a pandemic or any other event constitutes an emergency or significant business disruption for the firm and, thereby, causes the firm to activate its BCP.

Member firms are encouraged to review their BCPs to consider pandemic preparedness, including whether the BCPs are sufficiently flexible to address a wide range of possible effects in the event of a pandemic in the United States. These effects may include staff absenteeism, use of remote offices or telework arrangements, travel or transportation limitations and technology interruptions or slowdowns.

Remote Offices or Telework Arrangements

Member firms may consider employing methods such as social distancing, travel restrictions, revised sick leave policies, special pandemic leave time, or specialized seating plans for densely populated floors or buildings. These methods may also involve remote offices or telework arrangements (*e.g.*, working from home or a backup or recovery location) for a broad range of employees.

FINRA expects member firms to establish and maintain a supervisory system that is reasonably designed to supervise the activities of each associated person while working from an alternative or remote location during the pandemic. With respect to oversight obligations, a member firm's scheduled on-site inspections of branch offices may need to be temporarily postponed during the pandemic, with FINRA understanding that the ability to complete this annual regulatory obligation in 2020 may need to be re-evaluated depending on the duration and severity of the pandemic.

Member firms may find it helpful to test broad use of remote offices or telework arrangements by associated persons prior to activating its BCP, including regarding the ability to connect to critical firm systems, the adequacy of remote connectivity via residential internet access networks and any potential need to secure premium or dedicated service for connectivity.

Cybersecurity

Member firms should consider the increased risk of cyber events (*e.g.*, systems being compromised through phishing attacks) as part of pandemic-related preparedness. The risk of cyber events may be increased due to use of remote offices or telework arrangements, heightened anxiety among associated persons and confusion about the virus. It is important that member firms remain vigilant in their surveillance against cyber threats and take steps to reduce

the risk of cyber events. These steps may include: (1) ensuring that virtual private networks (VPN) and other remote access systems are properly patched with available security updates; (2) checking that system entitlements are current; (3) employing the use of multi-factor authentication for associated persons who access systems remotely; and (4) reminding associated persons of cyber risks through education and other exercises that promote heightened vigilance.

Form U4/Form BR

FINRA is temporarily suspending the requirement to maintain updated Form U4 information regarding office of employment address for registered persons who temporarily relocate due to COVID-19. In addition, member firms are not required to submit branch office applications on Form BR for any newly opened temporary office locations or space-sharing arrangements established as a result of recent events.

Emergency Office Relocations

If a member firm relocates personnel to a temporary location that is not currently registered as a branch office or identified as a regular non-branch location, the firm should use its best efforts to provide written notification to its FINRA Risk Monitoring Analyst as soon as possible after establishing a new temporary office or space-sharing arrangement, to include at a minimum the office address, the names of each member firm involved, the names of registered personnel, a contact telephone number and, if possible, the expected duration. The notification should also indicate whether the member firm's personnel will be sharing space with another entity, and if so, the type of business in which it is engaged (*e.g.*, an affiliated investment adviser or an organization in the securities business). FINRA reminds member firms that while a pandemic may create exigent circumstances that result in emergency relocations, firms should take into account the risks associated with sharing office space with another entity (*e.g.*, customer privacy, information security or recordkeeping considerations) and take steps to mitigate the risks during the emergency relocation.

In addition, in instances where a non-branch location or branch office has been relocated, or customer calls are being rerouted to another office, member firms must exercise diligence in validating the identity of the customer (*e.g.*, when accepting orders and request for disbursement of funds) as well as provide heightened supervision of the affected customer accounts.

Communicating With Customers

FINRA understands that member firms may experience significantly increased customer call volumes or online account usage during a pandemic (*e.g.*, due to significant market movements), which may cause temporary operational challenges. Member firms are encouraged to review their BCPs regarding communicating with customers and ensuring customer access to funds and securities during a significant business disruption.

If registered representatives are unavailable to service their customers, member firms are encouraged to promptly place a notice on their websites indicating to affected customers who they may contact concerning the execution of trades, their accounts, and access to funds or securities. Supervisory control policies and procedures should be considered that will mitigate risks that may arise due to the reduced ability to communicate with customers, inability to rely on mail or other disruption to the existing controls over communications with customers.

Communicating With FINRA

Member firms are required to provide FINRA with emergency contact information pursuant to Rule 4370. Member firms are encouraged to review their emergency contacts to ensure that FINRA has a reliable means of contacting each member.

Regulatory Filings and Responses to FINRA Inquiries, Matters and Investigations

In the event of a pandemic, member firms may have difficulty making timely regulatory filings (*e.g.*, FOCUS filings, Form Custody filings and supplemental FOCUS information pursuant to FINRA Rule 4524 (Supplemental FOCUS Information)) and responding to regulatory inquiries or investigations. Member firms that require extra time to respond to open inquiries, investigations or upcoming filings should contact their Risk Monitoring Analysts or the relevant FINRA department to seek extensions.

Qualification Examinations and Regulatory Element Continuing Education

Any affected person who has a qualifications examination or continuing education window that is due to expire is encouraged to contact FINRA regarding an extension.

Military Personnel and National Guard

The declaration of an emergency in a specified area due to COVID-19 may result in some persons volunteering or being called into active military duty. FINRA Rule 1210 (Registration Requirements) provides specific relief to persons registered with FINRA who volunteer or are called into active military duty. (Ref. Regulatory Notice 20-08; March 9, 2020)

3.20 Securing Records and Information

Our internal security procedures include physical, electronic and procedural safeguards to protect nonpublic personal information. Considering the size and scope of the firm's activities, appropriate safeguards relating to administrative, technical, and physical safeguards are implemented. They are designed to insure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records, and protect against unauthorized access to or use of such records or information which could result in substantial harm or inconvenience to any customer. The firm will evaluate and adjust the program in light of changes in the firm's business arrangements or operations. ►►

Implementation Strategy

The designated supervisory will ensure that associated persons are notified and properly trained to take basic steps to maintain the security, confidentiality, and integrity of client information, including:

- locking rooms where records are kept;
- using password-activated screensavers or main system access;
- not posting passwords near employees' computers;
- confirming customer identity before discussing any account information;
- recognizing any fraudulent attempt to obtain client information and reporting it to management and appropriate law enforcement agencies.

It is the Firm's responsibility and legal obligation to keep client information secure and confidential. Therefore, the Firm will also limit access to client information to employees who have a business reason for seeing it and impose disciplinary measures for any breaches. ►►

Implementation Strategy

In order to maintain security throughout the lifecycle of client information, it is the Firm's policy to:

- Store records in a secure area and make sure only authorized employees have access to the area. It is our practice to (i) store paper records in an office/suite that is locked when unattended; (ii) store electronic client information on a secure server that is accessible only with a password – or has other security protections – and is kept in a physically-secure area; (iii) designate only fingerprinted employees for the review and distribution of mail; (iv) designate an employee to process deposits (normally not applicable); (v) maintain secure backup media and keep archived data secure by storing off-line or in a physically secure area.
- Provide for secure data transmission if we collect or transmit client information.
- Dispose of client information in a secure manner. It is our practice to: (i) shred or recycle client information recorded on paper and store it in a secure area until a disposal or recycling service picks it up; (ii) erase all data when disposing of computers, diskettes, magnetic tapes, hard drives or any other electronic media that contains client information, and effectively destroy the hardware.
- Maintain a close inventory of our computers.

Effective security management includes the implementation of effective preventative measure, prompt detection and resolution to various matters concerning security issues within the firm. ►►

Implementation Strategy

To implement appropriate security measures, the designated supervisor will ensure that the Firm' implements the following actions:

- Maintain up-to-date and appropriate programs and controls by (i) checking with software vendors regularly to obtain and install patches that resolves software vulnerabilities; (ii) using anti-virus software that updates automatically; (iii) post our privacy policy and any other disclosures on our website; (iv) maintaining up-to-date firewalls, using secure browsers and (v) passing along information about any security risks or breaches to employees.
- Take steps to preserve the security, confidentiality and integrity of client information in the event of a computer failure by backing up all necessary data regularly.
- Maintain systems and procedures to ensure that access to client information is granted only to legitimate and valid users.
- Notify clients promptly if their nonpublic personal information is subject to loss, damage or unauthorized access. The firm will also make the appropriate notification or referral to the SEC and FTC for instances of suspected identity theft.

Cybersecurity Measures During a Pandemic (COVID-19)

FINRA has observed that firms have taken a number of steps to protect associated persons from the risks relating to COVID-19. In many cases, these measures include associated persons working in remote offices or using telework arrangements. The risk of cyber events may be increased due to use of remote offices or telework arrangements, heightened anxiety among associated persons and confusion about the virus. It is important that member firms remain vigilant in their surveillance against cyber threats and take steps to reduce the risk of cyber events. The following outlines measures that firms and associated persons may take to address these risks.

Measures for Associated Persons

Office and Home Networks

- Use a secure network connection to access the firm's work environment (*e.g.*, through a company-provided Virtual Private Network (VPN) or through a secure firm or third-party website (which begin with "https").
- Secure Wi-Fi connections using a stringent security protocol (*g.*, WPA2).
- Check for and apply software updates and patches to routers on a timely basis.
- Change the default user names and passwords on home networking equipment, such as Wi-Fi routers.

Computers and Mobile Devices

- Check for and apply updates and patches to the operating system and any applications on a timely basis.
- Install and operate anti-virus (AV) and anti-malware software.
- For any files on a personal device, check your firm's policy about file storage and back-up, especially if the files contain customer personally identifiable information (PII).
- Lock your screen if you work in a shared space and plan to be away from your computer.

Common Attacks

- Be sensitive to the growing variety of scams and attacks that fraudsters are using to exploit the current situation, such as:
    - phishing scams that reference COVID-19, the coronavirus or related matters;
    - fake, unsolicited calls from a "Helpdesk" requesting passwords or wanting to walk you through your home preparedness; and
    - malicious links in emails, online sites and unofficial download sides, especially those offering "free software."

Incident Response

- Understand each person's role in the firm's incident response plan and whom to contact in the event of a cybersecurity incident (*e.g.*, data breach, loss or exposure of customer PII, successful email attack, ransomware, lost or stolen mobile device).

Measures for Firms

Network Security Controls

- Provide staff with a secure connection to the work environment or sensitive applications (*e.g.*, VPN, secure sessions remote desktop with multi-factor authentication).
- Evaluate privileges to access sensitive systems and data.

Training and Awareness

- Trai Staff on:
    - how to connect securely to the office environment or office applications from a remote location; and
    - potential scams and other attacks described above.
- Alert the firm's IT support staff, or others involved in managing or supporting staff using the firm's systems, to be diligent in vetting incoming calls because fraudsters may use the increase in

remote work to engage in social engineering schemes, such as making bogus calls requesting password resets or reporting lost phones or equipment.

Contact Information

- Provide staff with important IT support staff contact information (*e.g.*, whom to call, how to contact them, when to contact them and how to handle emergency situations). (Ref. Information Notice-03/26/20)

3.21 Annual Certification of Compliance and Supervisory Processes

Designation of Chief Compliance Officer

Each Firm shall designate and specifically identify to FINRA on Schedule A of Form BD a principal to serve as chief compliance officer (CCO).

Annual Certification

Each Firm shall have its chief executive officer (CEO) (or equivalent officer) certify annually, as set forth in FINRA Rule 3130 (formerly NASD IM-3013), that the Firm has in place processes to establish, maintain, review, test and modify written compliance policies and written supervisory procedures reasonably designed to achieve compliance with applicable Rules, MSRB rules and federal securities laws and regulations, and that the CEO has conducted one or more meetings with the CCO in the preceding 12 months to discuss such processes. (NTM 04-79; Effective December 1, 2004)

Note: Please see the Firm's Written Supervisory Control System (WSCS) for further details.

3.22 Outsourcing Activities to Third-Party Service Providers

Accountability and Supervisory Responsibility for Outsourced Functions

FINRA Rule 3110 (Supervision) requires member firms to establish and maintain a system to supervise the activities of their associated persons that is reasonably designed to achieve compliance with federal securities laws and regulations, as well as FINRA rules, including maintaining written procedures to supervise the types of business in which it engages and the activities of its associated persons. This supervisory obligation extends to member firms' outsourcing of certain "covered activities"—activities or functions that, if performed directly by a member firm, would be required to be the subject of a supervisory system and WSPs pursuant to FINRA Rule 3110.

Notice 05-48 reminds member firms that "outsourcing an activity or function to … [a Vendor] does not relieve members of their ultimate responsibility for compliance with all applicable federal securities laws and regulations and [FINRA] and MSRB rules regarding the outsourced activity or function."
Further, *Notice* 05-48 states that if a member outsources certain activities, "the member's supervisory system and [WSPs] must include procedures regarding its outsourcing practices to ensure compliance with applicable securities laws and regulations and [FINRA] rules."

FINRA expects member firms to develop reasonably designed supervisory systems appropriate to their business model and scale of operations that address technology governance-related risks, such as those inherent in firms' change and problem-management practices. (Ref. Regulatory Notice 21-29; August 13, 2021). ►►

Implementation Strategy

The designated CCO of the Firm, or his designee, is responsible for selecting and approving any outsourced functions on behalf of the Firm. As such, upon selection of a third-party service

provider to perform one or more functions on behalf of the Firm, the CCO will be responsible for overseeing any/all functions that are performed by the service provider as well as directly supervising and monitoring the specific services. The necessary steps for outsourcing specific tasks include the following:

1. Review scope of services to determine whether such third-party services are appropriate for outsourcing and are a value added service which would ultimately benefit the Firm;
2. Conduct adequate due diligence on each selected third-service provider to assess skills and competency level required for outsourced task(s);
3. Approve for initial selection and provide ongoing direct supervision and monitoring of the service provider's work product;
4. On a periodic basis, CCO will conduct an analysis to determine whether to continue services if meeting and complying with existing services; or cancel/end services if not meeting stipulated terms and conditions or overall stated objectives;
5. The CCO will ensure that upon request by a regulatory agency, any work product that is prepared by a third-party service provider in connection with the requested services of the Firm will be made available for inspection;
6. All relevant and supporting documentation pertaining to the third-party service provider will be maintained in accordance with books and records requirements of SEC Rule 17a-3 & 4.

Note: As a matter of policy, the designated CCO of the Firm understands outsourcing certain activities in no way diminishes the Firm's responsibility for either its performance or its full compliance with all applicable federal securities laws and regulations, and FINRA and MSRB rules.

3.23 Notification to FINRA for Activities Related to Digital Assets

As the area of digital assets continues to evolve and present unique regulatory challenges, FINRA encourages firms to continue to keep FINRA up to date on the firm's new activities and planned activities relating to digital assets including cryptocurrencies and other virtual coins and tokens (whether or not they meet the definition of "security" for the purposes of the federal securities laws and FINRA rules) not previously disclosed. Therefore, as was the case under *Regulatory Notices 18-20, 19-24* and *20-23*, FINRA asks that each firm promptly notify its risk monitoring analyst if it, or its associated persons (including activities under Rules 3270 and 3280), or affiliates, currently engages, or intends to engage, in any activities related to digital assets. (Ref. Regulatory Notice 21-25; July 8, 2021)

As a reminder, the types of activities of interest to FINRA if undertaken (or planned) by a member, its associated persons or affiliates, include, but are not limited to:

- purchases, sales or executions of transactions in digital assets;
- purchases, sales or executions of transactions in a pooled fund investing in digital assets;
- creation of, management of, or provision of advisory services for, a pooled fund related to digital assets;
- purchases, sales or executions of transactions in derivatives (e.g., futures, options) tied to digital assets;
- participation in an initial or secondary offering of digital assets (e.g., ICO, pre-ICO);
- creation or management of a platform for the secondary trading of digital assets;
- custody or similar arrangement of digital assets;
- acceptance of cryptocurrencies (e.g., bitcoin) from customers;
- mining of cryptocurrencies;
- recommend, solicit or accept orders in cryptocurrencies and other virtual coins and tokens;

- display indications of interest or quotations in cryptocurrencies and other virtual coins and tokens;
- provide or facilitate clearance and settlement services for cryptocurrencies and other virtual coins and tokens; or
- recording cryptocurrencies and other virtual coins and tokens using distributed ledger technology or any other use of blockchain technology

Until July 31, 2020, FINRA encourages firms to promptly notify their Risk Analyst in writing (including email) of these activities. If a firm already has submitted a continuing membership application (CMA) regarding its involvement in activities related to digital assets, or has otherwise provided this information to FINRA, additional notice is not requested unless a change has occurred. (Ref. Regulatory Notice 20-23; July 9, 2020)